



## ***“Access to Financial Services by those on the Margins of Banking”***

### **A discussion of policy implications arising from the BMRB research project commissioned by the Financial Inclusion Taskforce**

#### ***Introduction***

The Financial Inclusion Taskforce has commissioned research from BMRB to investigate how people who are living with specific elements of financial exclusion access cash, transfer money, make payments, and use financial services, in order to enhance understanding of this population sector and to help inform policy. The elements of financial exclusion of relevance to this research related to lack of ownership of, or lack of full transactional use of, a bank account.

Two groups of interest were therefore identified: the “**unbanked**” (those without any form of transactional bank account) and the “**underbanked**” (those who have a bank account but do not use it regularly to manage their money).<sup>1</sup> For the purposes of this research these two groups in combination are defined and referred to using the term “**marginally banked**.”<sup>2</sup>

The research project’s final report is published today on the Financial Inclusion Taskforce website (<http://www.financialinclusion-taskforce.org.uk/research.htm>). This brief discussion paper draws on the conclusions of this report, and presents the Taskforce’s view of the main implications for policy towards tackling financial inclusion.

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<sup>1</sup> The term “underbanked” is not a broadly recognised definition, but one that has been developed for the purposes of identifying part of the target group for this research. The other definition used for identifying the target group (“unbanked”) is more widely used.

<sup>2</sup> The term “marginally banked” is used generally to describe those on the margins of mainstream banking. For the purposes of this research, the term is used to define the combined target group of “unbanked” and “underbanked” survey respondents.

## **Discussion of Policy Implications**

### **1. Who are the marginally banked?**

- Survey and qualitative data show that most marginally banked respondents have chosen to be unbanked or underbanked. The choice to remain marginally banked is often arrived at rationally, given people's perceptions of the costs and benefits of owning and using bank accounts (although it should also be noted that other research commissioned by the Taskforce<sup>3</sup> has shown that many of these perceptions are mistaken).
  - 70% of unbanked individuals choose not to own an account, preferring to operate in cash, or relying on a partner's account.
  - The underbanked have, by definition, chosen not to use their bank account for day-to-day money management. Qualitative study showed that this was due to a preference for cash, or fears about bank charges or debt.
- Marginally banked respondents were more likely to be represented amongst the following demographic groups: pensioners; households with low incomes; renting from a social landlord; not in work or retired; in receipt of state benefits; lacking any qualifications; and living in the most deprived areas.

#### Policy implications:

- Supply side initiatives will not by themselves be sufficient to address exclusion problems around banking services.
- Demand stimulation will be needed to make people more aware of the benefits of banking, so that they choose to make use of banking facilities which they already have access to, or to take up access opportunities.
- This will need to go beyond making generic information and advice available – many people need to be supported through the process of opening an account by local contacts who are aware of locally-available services, and how they can be accessed. Such support is frequently not available.
- This supports the case for the “facilitating access” campaign, which will work through trusted intermediaries to reach out to and support financially excluded people into mainstream financial services.
- More generally, these findings, raise the question of what can be done about demand-side barriers in areas beyond the reach of the campaign, and highlights the importance of appropriate targeting of the campaign.

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<sup>3</sup> “Financial Inclusion Deliberative Workshops”

([http://www.financialinclusion-taskforce.org.uk/PDFs/deliberative\\_workshops\\_finalreport\\_p1.pdf](http://www.financialinclusion-taskforce.org.uk/PDFs/deliberative_workshops_finalreport_p1.pdf))

## **2. Basic Bank Accounts and Post Office Card Account**

- Half of unbanked individuals (49%) had heard of the basic bank account, although only one third (33%) said they would be interested in opening one.
- Basic bank accounts were more highly concentrated amongst respondents in groups which tend to be marginally banked, including: social housing renters, households on very low incomes, residents of deprived areas, those in receipt of benefits and people not in work.
- Consistent with DWP research, 73% of POCA-holding households also had access to at least one bank account.

### Policy implications:

- The findings suggest that basic bank accounts are being taken up by the target group of previously unbanked (or underbanked) individuals.
- These findings raise the question of whether more needs to be done to publicise, at a generic level, the existence of the basic bank account.
- As supported by findings from the Taskforce's deliberative workshops, such publicity could make more of the features of the account which are attractive to marginally banked people – e.g. Post Office access, and lack of chequebook or overdraft.
- However, generic publicity or advice on the availability of basic bank accounts and their features will not be sufficient to increase their uptake amongst the most excluded groups. As noted above, financially excluded people need active support if they are to be moved into mainstream financial services. Once again, this supports the case for the campaign.

## **3. Methods and Patterns of Access to Cash**

- Amongst fully banked respondents, ATMs were the most common method of cash withdrawal, with 8 in 10 bank account holders using ATMs.
- Respondents with basic bank accounts were equally likely to use ATMs, with 81% having done so in the previous three months. Basic bank account holders in the survey also reported significant use of the Post Office to access their cash.
- The POCA (43%) was the most widely-used form of cash access by unbanked respondents, followed by using a partner's account (20%)
- Patterns of cash access varied between marginally and fully banked respondents. The former still predominantly use cash to budget, withdrawing their income in one or two (mainly weekly) lump sums. The latter are more likely to withdraw cash as and when they need it.

Policy implications:

- The differing approaches to budgeting and cash management by fully and marginally banked groups support the Taskforce’s conclusions about the important role of initiatives to:
  - stimulate demand for financial services;
  - increase awareness amongst excluded groups of the range of services (including basic bank accounts) available; and
  - wherever possible, provide people with support to help them access these services.
- The basic bank account clearly has a role to play in promoting access to cash, integration into the financial mainstream, and wider financial inclusion. Basic bank accounts:
  - are being taken up disproportionately by groups that tend to be marginally banked;
  - are as likely to be accessed via ATMs as other bank accounts (although usage patterns may vary);;
  - offer the opportunity for additional cash access methods (e.g. through Post Offices) for which excluded groups have indicated a preference .
- The high usage of the POCA amongst the unbanked is significant. The limited functionality of the POCA means that it does little for inclusion. Successor arrangements to the POCA should aim to maximise inclusion, especially by moving more unbanked individuals into full transactional banking.

#### **4. ATM usage and charges**

- Of banked respondents, 62% solely used fee-free ATMs. 16% used charging machines some of the time, and only 2% solely used charging ATMs (the remaining 20% did not use ATMs to access their cash).
- Fee-charging ATMs, when used, were used sporadically, primarily for convenience or in “emergencies”.
- There was no evidence of those on lower incomes making disproportionate use of charging ATMs, with usage being disproportionately represented amongst the following respondents: higher household income, private renters, the young, and those living or working in close proximity to a charging machine.
- Those from low-income groups were more likely, however, to use charging ATMs on a “little and often” basis, defined as two or more transactions of £20 or less.
- Attitudes to ATM charges were mostly consistent across all groups of respondents:
  - The majority of respondents across all demographic groups expressed dissatisfaction with paying ATM charges;

- The majority of respondents across all demographic groups agreed that they paid ATM charges only because no other service was available (this finding is interpreted as referring to specific instances where fee-charging ATMs are used out of necessity, rather than a generic finding about the availability of free ATMs);
- The one area relating to attitudes to charges which showed demographic variation was on the issue of whether respondents felt that they could afford ATM charges:
  - At aggregate level, a majority of respondents felt that they could afford ATM charges;
  - However, in a number of demographic groups, including many which correlate with high levels of financial exclusion and marginally banked status, respondents reported that ATM charges were difficult to afford. These groups included: low income groups; those renting from social landlords; and those in receipt of benefits.
- In addition to concerns about the affordability of charges, the marginally banked also reported higher levels of concerns about personal safety, security and privacy, and ease-of-use in relation to ATMs.

Policy implications:

- While the finding that respondents on low incomes were not disproportionately using fee-charging ATMs is welcome, this research nevertheless contains a number of cautionary warnings.
- First the finding of a higher propensity towards “little and often” ATM usage amongst low income respondents using charging machines indicates that ATM charges fall relatively more heavily on those on low incomes.
- Secondly, the increased likelihood of usage of fee-charging ATMs amongst respondents living or working near such a machine suggests that any future patterns of ATM deployment which saw free machines being replaced with fee-charging machines in deprived areas would be of concern.
- Third, it is clear that respondents across all demographic groups have negative attitudes towards ATM charges, despite the finding that they are used sporadically and primarily for convenience or in an emergency. Those most likely to be marginally banked are also, unsurprisingly, likely to report that they find it difficult to afford ATM charges.
- In this context, recent announcements by a number of banks that they will be deploying new fee-free ATMs in areas of deprivation is welcome, as is the analysis into this issue being conducted by the ATM working group chaired by John McFall, MP.
- Concerns about charging, as well as other aspects of ATM use, may act as a barrier to increasing uptake of banking services. This is an issue with which the “facilitating access” campaign should aim to engage.

## **5. Making payments**

- Payment methods used by respondents varied with income. Those on higher incomes were more likely to use banking-based payment methods such as direct debit, debit card and electronic transfer. Lower income respondents were more likely to use cash-based methods such as Post Offices, PayPoint, or pre-payment meters.
- By definition, the marginally banked tend to use cash methods, particularly pre-payment methods. While users enjoyed the convenience and control conveyed by this method, the majority (65%) were unaware of the higher tariffs charged for pre-payment.
- A further third of marginally banked respondents had been denied services they wanted because of their lack of access to banking-based payment methods.

### Policy implications:

- Payment of bills is clearly a significant issue for those on the margins of banking, whether they have access to a bank account or not. The Financial Inclusion Taskforce is currently in discussions with banks and with utilities to consider ways of addressing this problem, and will make recommendations in due course.

## **6. Access to other products and services: credit**

- Marginally banked respondents (20%) were less likely than the fully banked (35%) to have entered into a credit or loan agreement. Where they had done so, they were far *more* likely to have borrowed from either the Social Fund budgeting loan scheme, or from door-to-door home credit providers; conversely, they were far *less* likely to have borrowed from a mainstream credit provider such as a bank or building society (including credit cards and overdrafts) or finance company (including store cards).
- One quarter of unbanked individuals reported having been rejected for mainstream credit because of their lack of a bank account.
- Despite the high levels of interest paid, home credit and other sources of alternative credit (such as “black boxes” used to collect cash towards appliance purchases) was viewed favourable by marginally banked respondents in the qualitative survey. This was due to tailored features of these products, such as the convenience of repayment via home collection, and flexibility around missed payments. Often, respondents were unaware of how much interest they were paying for these services.

Policy implications:

- The findings confirm that those without access to a bank account find it hard to access mainstream credit. They also confirm that alternative sources of credit are nevertheless available to marginally banked households.
- While these alternative forms of credit may be very expensive when compared to mainstream products in APR terms, they are nevertheless often favourably viewed by those who use them.
- This finding informs the Taskforce’s view that “affordable credit” as defined for the purposes of the Government’s Financial Inclusion Strategy, needs to incorporate the product features which financially excluded users of credit are looking for, in addition to simple price considerations.
- The Taskforce’s deliberative workshops research has shown that financially excluded individuals responded well to descriptions of loans from third sector organisations, appreciating the fact that these are small value, short-term loans provided locally, often with a single individual point of contact. This supports the strategy of funding third sector lenders through the Growth Fund; the Taskforce will continue to evaluate the effectiveness of the Growth Fund as it moves into the delivery phase.
- The deliberative workshops also revealed low levels of awareness of third sector lenders, which suggests that information and support in accessing the loans provided by such organisations will be a further key role of the forthcoming campaign.
- The Taskforce will also continue to engage with mainstream lenders to investigate options for their involvement in the market for credit products which fit with the needs of financially excluded individuals, with a cost-reflective pricing structure to ensure that the cost of credit is more affordable than is currently the case.

**7. Access to other products and services: advice/information**

- Marginally banked respondents in the research were, unsurprisingly, less likely than the fully banked to rely on banks, building societies or the internet for advice on how to manage their money, and more likely to go to a Citizens Advice Bureaux or rely on informal sources such as friends and family.

Policy implications:

- This finding supports the focus of the Government’s strategy for increasing access to advice on free face-to-face advice provided through organisations such as Citizens Advice, as well as independent, bureaux.
- The Taskforce has responsibility for monitoring and evaluating progress of the Department of Trade and Industry’s face-to-face money advice projects, and the

advice outreach pilots being conducted by the Legal Services Commission, and will report back on progress in due course.