

## Second Annual Report on Progress Towards the Shared Goal for Banking

September 2007

### **Background and summary findings**

1. The Financial Inclusion Taskforce was established by HM Treasury in April 2005, following the publication of the Government's first financial inclusion strategy, *Promoting financial inclusion*.<sup>1</sup>

2. The Taskforce's remit covers the Government's strategic priorities to improve access to banking, affordable credit and free face-to-face money advice. In addition to these areas, the Taskforce has advised on options for stimulating demand for financial services amongst hard-to-reach groups, and has recently been tasked with consideration of issues relating to exclusion from insurance.

3. With regard to banking, the Taskforce's formal terms of reference are as follows:

- To report to HM Treasury and the banking industry on progress towards the shared goal of halving the number of adults in households without a bank account and of having made significant progress in that direction within two years;
- To monitor provision of banking services to the financially excluded, including access, and report to the banks and HM Treasury on findings.

4. The shared goal was agreed by the Government and the banking industry in December 2004. The baseline for the goal was the 2002-03 Family Resources Survey (FRS) finding of 2.8 million adults living in 1.9 million households without access to a bank account (defined as a current account, basic bank account or saving account). This baseline has now been restated, to take into account revised statistical methods used by the FRS in 2005-06, as 2.8 million adults in 1.8 million households.<sup>2</sup>

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<sup>1</sup> HM Treasury, December 2004. Available online at:  
[http://www.hm-treasury.gov.uk/documents/financial\\_services/financial\\_inclusion/](http://www.hm-treasury.gov.uk/documents/financial_services/financial_inclusion/)

<sup>2</sup> The 2005-06 FRS figures were calculated using a revised grossing methodology. To allow appropriate comparison with the 2005-06 data, the 2002-03 figures have been restated using the revised grossing factors. The only necessary restatement of the figures (to one decimal place) is for

5. In its first annual report on the shared goal,<sup>3</sup> published in March 2006, the Financial Inclusion Taskforce reported that direct measurement of progress had not been possible due to data collection difficulties with the 2003-04 and 2004-05 editions of the FRS. However, based on its own survey data (commissioned from the Office of National Statistics), and other evidence gathered through its engagement with banks, trade bodies and Government departments, the Taskforce was able to conclude that steady progress towards achieving the shared goal had been made.

6. This second annual report is able to make a more definitive judgement, based on the findings of the 2005-06 FRS, and other supporting evidence. The summary findings of the Taskforce are that:

- In 2005-06, **2 million adults living in 1.3 million households** did not have access to a bank account;
- Progress towards the shared goal means that, between 2002-03 and 2005-06, **800,000 adults living in 500,000 households** gained access to a bank account;
- These figures represent **60% of the progress required to reach the shared goal**. Other available evidence strongly suggests that further progress will have been made since 2005-06;
- **1.6 million people gained access to a transactional account** (current or basic bank account) between 2002-03 and 2005-06. In 2002-03, those who lacked access to a transactional account numbered 4.5 million in 3 million households. By 2005-06, this measure had fallen to **2.9 million in 1.9 million households**.
- Socio-economic and demographic breakdowns of the latest FRS data reveal that the progress towards the shared goal is being made particularly amongst those groups worst affected by financial exclusion:
  - low-income households (the three lowest income deciles);
  - women and lone-parents;
  - benefit recipients; and
  - those living in rented social accommodation.
- Latest findings from the Banking Code Standards Board show that progress is being made by the banks in removing the obstacles that may deter financially excluded customers from opening bank accounts, particularly the basic bank account.

### **Progress towards the shared goal – latest FRS data**

7. FRS data for 2005-06 were released at the end of March 2007. Preliminary analysis of the survey data was presented in the Government's strategy document

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the number of households without access to a bank account, which is restated as 1.8 million, compared to 1.9 million in the original FRS.

<sup>3</sup> Available online at [http://www.financialinclusion-taskforce.org.uk/taskforce\\_papers.htm](http://www.financialinclusion-taskforce.org.uk/taskforce_papers.htm)

*Financial inclusion: the way forward.*<sup>4</sup> The following section presents further findings, based on supplementary analysis of the FRS data and other supporting evidence.

*The number of people with no access to a bank account*

8. According to the most recent FRS data, in 2005-06 there were **2.0 million adults living in 1.3 million households** without access to a bank account (defined as a current account, basic bank account or saving account). This compares to the restated baseline of 2.8 million adults living in 1.8 million households in 2002-03.

9. The table below compares these two sets of figures, 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**.

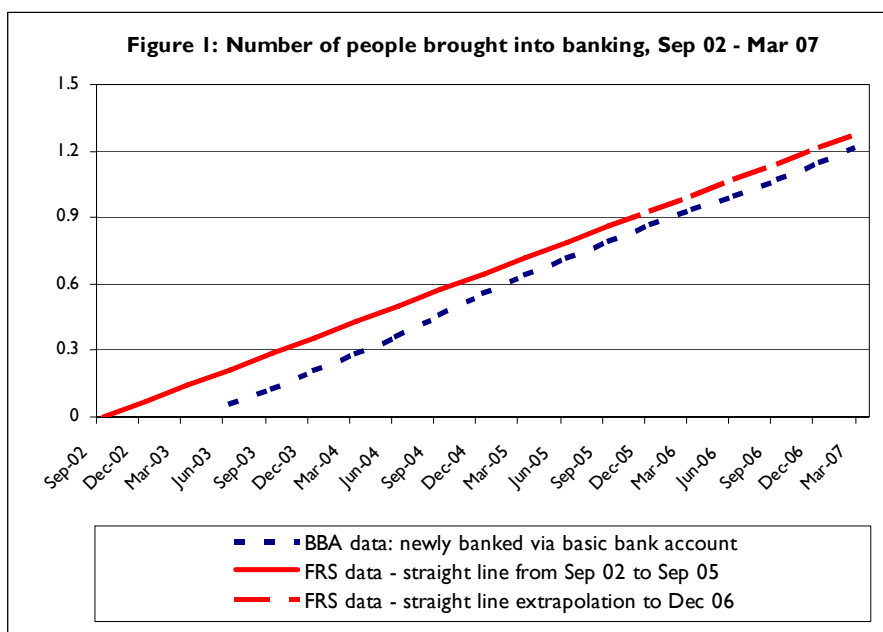
FRS Year	Unbanked households	Adults in unbanked households
2002-03 (restated)	1.84 million	2.83 million
2005-06	1.30 million	1.97 million
% Change	29.3%	30.4%

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

11. Data for the position in 2006-07 will not be available until the next FRS release in spring 2008. However, on the basis that 60% of the progress required was made between 2002-03 and 2005-06, and assuming that further progress will have been made since 2005-06, it appears likely that the Taskforce will be able to report that significant progress was 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 have been received.

12. The chart below supports the assumption that further progress will have been made since 2005-06. The chart 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 accurate, would represent approximately 85% of the progress needed to meet the shared goal.

<sup>4</sup> HM Treasury, March 2007. Available online at: [http://www.hm-treasury.gov.uk/documents/financial\\_services/financial\\_inclusion/](http://www.hm-treasury.gov.uk/documents/financial_services/financial_inclusion/)



13. Straight-line extrapolation using only two data points is a crude predictive technique. The chart therefore also overlays publicly available British Bankers’ Association (BBA) 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,<sup>5</sup> and its use in this way itself relies on the assumption that this proportion has remained constant over time. Subject to these caveats, 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.

*The number of people with no access to a transactional account*

14. The Taskforce has also sought to track the number of adults in households without access to current accounts (including basic bank accounts), which provide consumers with access to transactional facilities such as direct debits.

15. The baseline for this measure from the 2002-03 FRS was a figure of **4.5 million adults living in 3 million households**.<sup>6</sup> By 2005-06, the figure had declined to **2.9 million adults living in 1.9 million households**, meaning that a total of **1.6 million adults** gained access to transactional bank accounts over the period. This figure considerably exceeds the 800,000 people who are reported as becoming banked for the first time by analysis of the shared goal. This will be due to the fact that many of the 1.6 million who opened transactional bank accounts between 2002-03 and 2005-06 would already have had access to a saving account, and so would not have been included in the baseline of unbanked adults. This finding is encouraging, because it

<sup>5</sup> BBA data and research is available at [www.bba.org.uk](http://www.bba.org.uk)

<sup>6</sup> This figure remains unchanged after being restated using the new grossing methodology.

suggests that further progress is being made with bringing people into transactional banking than that which is measured by the shared goal alone.

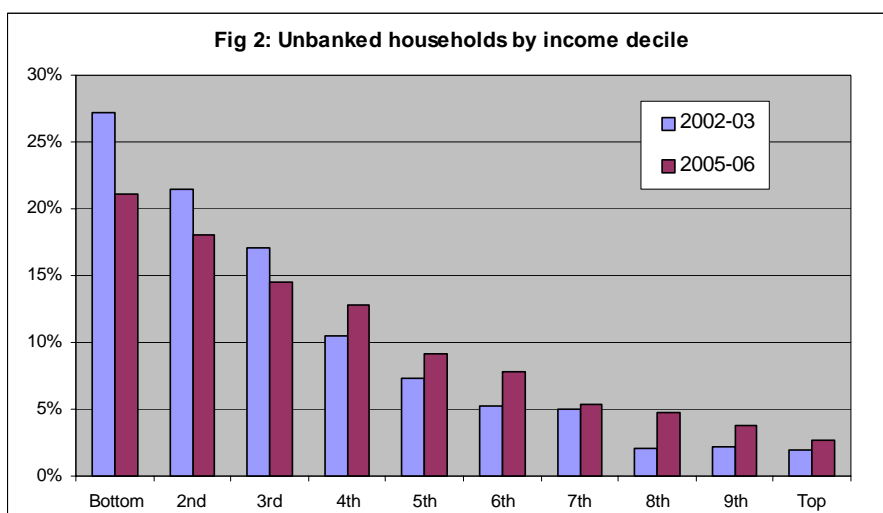
*Distributional and other breakdown of FRS data*

16. *Promoting Financial Inclusion* reported the breakdown of FRS data for 2002-03 by a variety of demographic and socio-economic factors, including income, household composition and economic status. The following section provides these breakdowns for 2005-06, alongside comparisons with 2002-03 data (restated using the revised grossing methodology). Additional breakdowns that were not reported in *Promoting Financial Inclusion* are also presented.

17. It is important to note that the following data show the *relative* contribution made by different demographic and socio-economic groups to the total population of unbanked households. A decline in the contribution of any one group must therefore be balanced by an increase in the relative contribution of at least one other group.

18. For example, the proportion of unbanked households with a female “reference person” (owner of the household property, or household member with the highest income) fell from 52% in 2002-03 to 45% in 2005-06. This decline was necessarily matched by a rise in the proportion of unbanked households with a male reference person, from 48% to 55%. This finding reveals that the decline in unbanked households has been more significant in households with a female reference person.

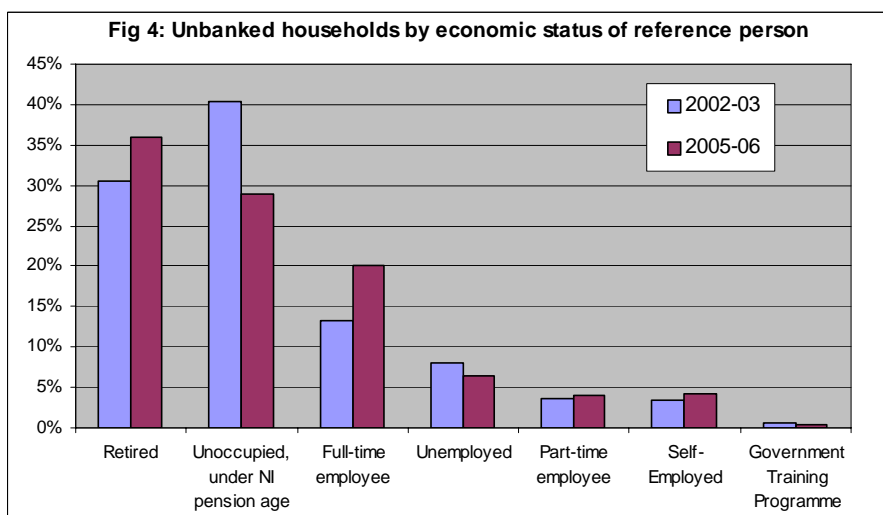
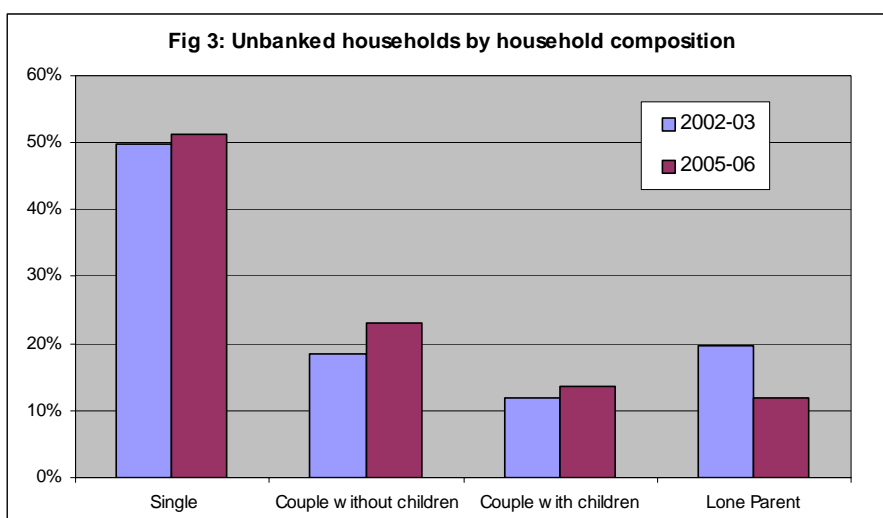
19. However, the Taskforce has also analysed *absolute* levels of unbanked status within each group. In all but one case (the exception is discussed in detail below), increases in the relative contribution of a group to the unbanked household population were not accompanied by a statistically significant increase in the absolute level of unbanked status within that group. To illustrate this point using the example cited above, while the share of unbanked households with a male reference person increased from 48% to 55% between 2002-03 and 2005-06, the proportion of male-referenced households that were unbanked actually fell, from 6% to 5%. This finding confirms that the decline in unbanked status across the board does not conceal any absolute increases within specific demographic or socio-economic groups.



20. Figure 2 above shows that the distribution of unbanked households has shifted away from those on the very lowest incomes. In 2002-03, 66% of unbanked households were in the bottom three income deciles. By 2005-06, this proportion had decreased to 54%. This finding shows that:

- first, the impact of measures to increase bank account take-up is most significant amongst the lowest income groups; and
- second, that lack of access to a bank account nevertheless remains a problem concentrated in households with low income levels.

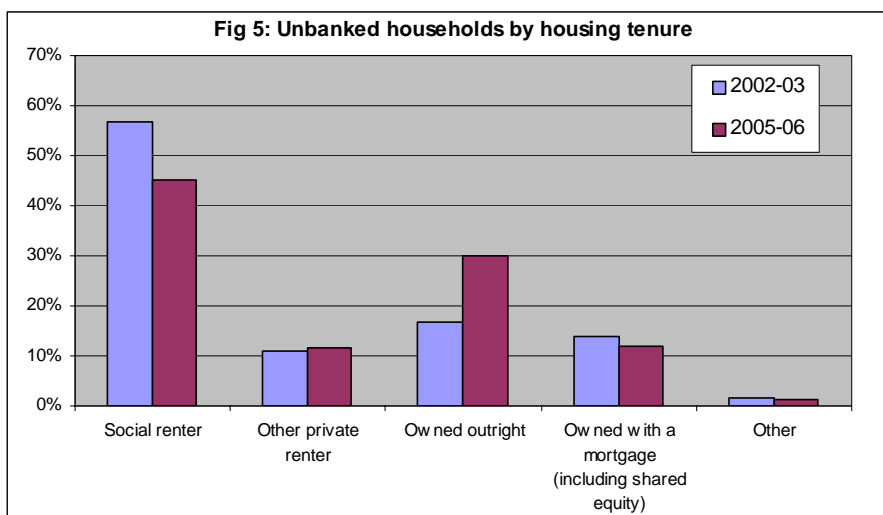
21. Figures 3 and 4 present the analysis for different household types, defined by composition and by the economic status of the household reference person. Figure 3 shows the relative contribution of lone parent households to the unbanked population declined significantly, from 20% to 12%, over the period 2002-03 to 2005-06.



22. Figure 4 shows a corresponding decline (from 40% to 29%) in the contribution of households in which the reference person is below pension age, but economically inactive. This type of economic status is often associated with people with childcare responsibilities. Taken together, therefore, the findings from Figures 3 and 4 clearly indicate that lone parent households have disproportionately been reached by efforts

to increase access to banking, and that these efforts are being effectively targeted at this important group of people susceptible to financial exclusion.

23. As shown by Figure 5 below, the housing tenure of unbanked households shows a pattern consistent with the findings on income distribution. Figure 5 shows a shift in the distribution of unbanked households away from rented social accommodation (from 57% to 45%) – towards those who own their homes outright.

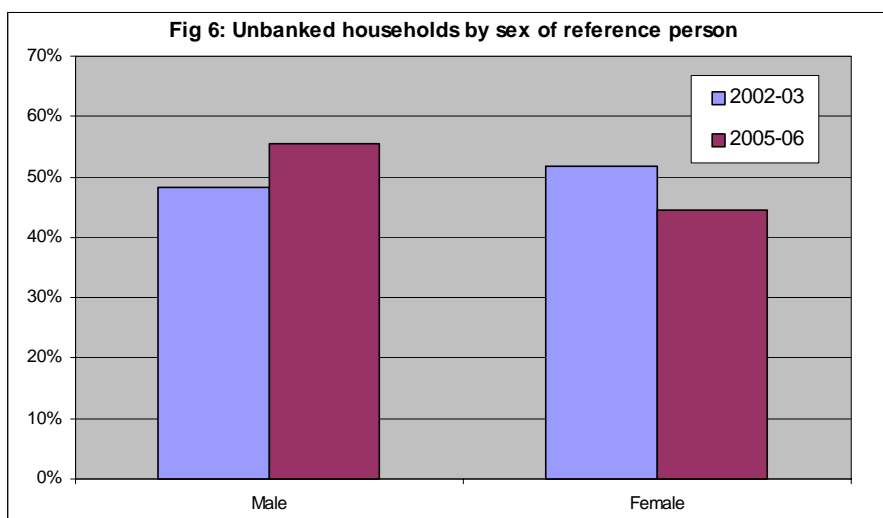


24. *Promoting Financial Inclusion* also reported absolute levels of benefit receipt for unbanked households. The comparative data are presented in the table below, and show a consistent decrease in the proportion of unbanked households in receipt of various types of benefits. The table shows that unbanked households were far less likely in 2005-06 to be in receipt of benefits than in 2002-03, and suggests a significant increase in banked status amongst benefit recipients. This finding is consistent with the income findings above, but can also be explained by the Government’s benefit payments modernisation programme, which has seen benefit recipients migrated from order books to direct payment into bank accounts or the POCA.

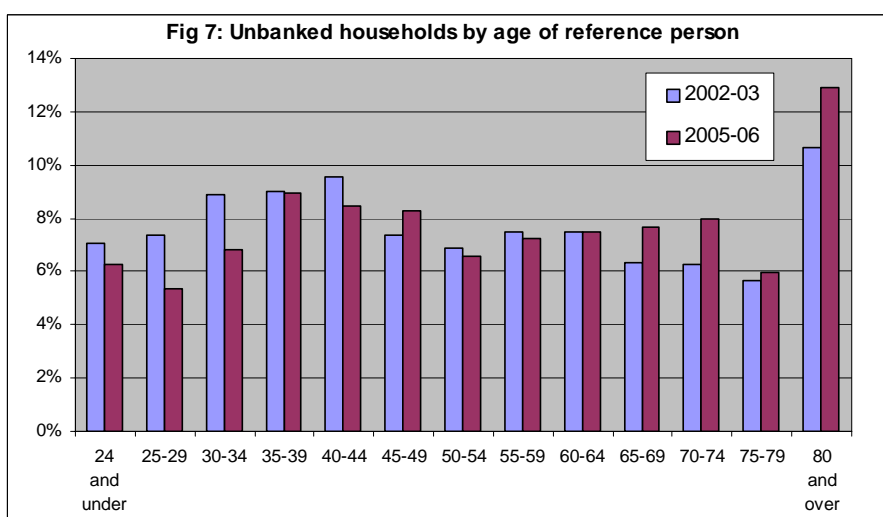
Type of benefit	% unbanked households, 2002-03	% unbanked households, 2005-06
Council tax benefit	60%	45%
Housing benefit	59%	42%
Income support / MIG	51%	34%
Jobseekers’ Allowance	9%	6%

25. The distribution of unbanked households can also be examined with respect to a number of additional variables that were not reported in *Promoting Financial Inclusion*. These include: sex, age, ethnicity and region.

26. Figure 6 below shows the gender distribution of unbanked households. As reported above, and consistent with the finding regarding effective targeting of lone-parent households, the graph shows that more progress, in increasing access to banking, was made amongst women than men.



27. Figure 7 shows the distribution of unbanked households by age. From 2002-03 to 2005-06 there was a general shift in concentration of unbanked households away from younger households (those in which the reference person was under 34) and towards older households (with a reference person above age 65). The impact of this effect was most marked at the top end (80+) of the age scale. This finding is consistent with much of the research into financial exclusion, including that conducted for the Taskforce.<sup>7</sup> This research has repeatedly found that older people, particularly those who live alone, are more likely to be excluded from financial services, and that this is likely to be a result of a preference for managing in cash.

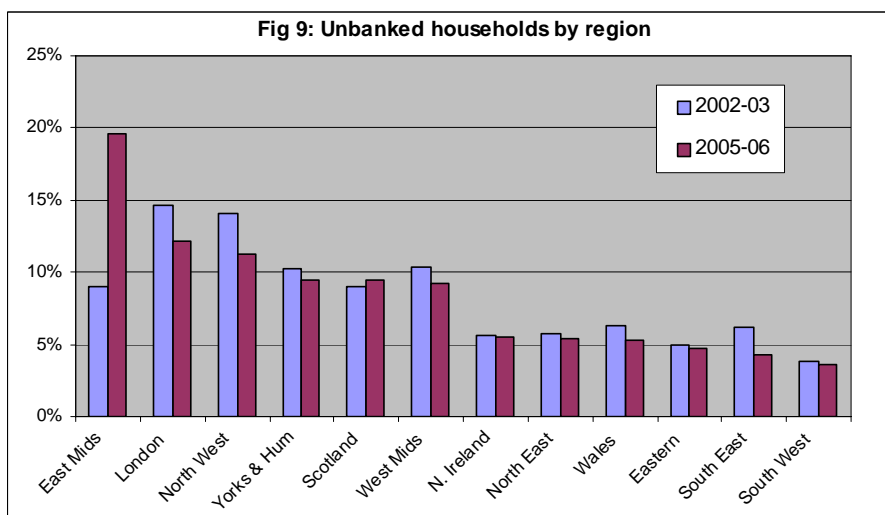
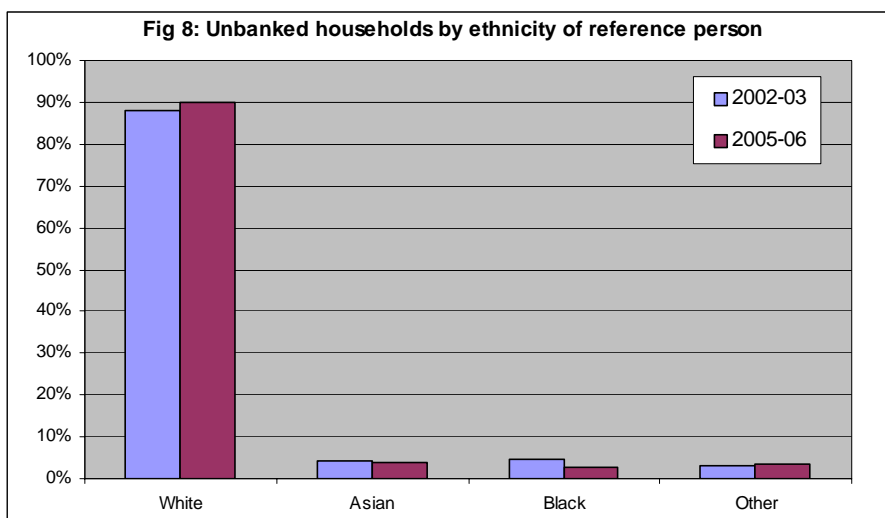


28. However, while the relative contribution to the population of unbanked households rose for all age groups from 65-69 upwards, these groups also displayed

<sup>7</sup> Access to financial services by those on the margins of banking, BMRB research, November 2006

a small but consistent reduction in absolute levels of unbanked status of around 1-2%, suggesting that some older people are prepared to take up banking services.

29. Figure 8 shows distribution by ethnicity. The primary shift has been away from black households (down 2% from a base of 7%) to white households (up 2% from a base of 88%), suggesting that black and Afro-Caribbean households may have been effectively reached. However this conclusion should be qualified with two statistical caveats. First, the shifts displayed are small, and could be within the margin of error. Second, ethnic groups other than “white” are subject to relatively small sample sizes, and so subject to potential statistical volatility from year to year. These data would need to be tracked for more than one year before the above conclusion can confidently be asserted.



30. Finally, Figure 9 shows the regional distribution across the UK. The findings here are skewed by a very significant shift towards the East Midlands in the regional share of unbanked households. This relative shift is accompanied by an absolute increase, from 9% to 14%, in the proportion of East Midlands households that are unbanked. As discussed above, this is the only case in which unbanked levels rose significantly within a demographic group. In the absence of any obvious external factor to explain this large and anomalous variation, statisticians have advised that it

is most likely to be due to a sampling issue with the survey. The Taskforce will track these data next year, to determine if there is a genuine effect at work, or simply a statistical anomaly.

### **Obstacles to bank account opening**

31. The 2005 independent review of the Banking Codes led to the requirement that subscribers to the Code:

- assess whether an applicant's needs are suited to a basic bank account and if they are, to offer one; and
- offer a basic bank account if specifically requested by someone meeting the qualifying conditions.

32. In its last report, the Taskforce noted the work of the Banking Code Standards Board (BCSB) in identifying and addressing obstacles consumers may face in attempting to open basic bank accounts. Following its 2005 mystery shopping exercise, the BCSB had identified a number of barriers for customers wishing to open basic bank accounts:<sup>8</sup>

- lack of availability of account literature;
- staff awareness of product features;
- identification and address verification procedures;
- account opening timescales; and
- the use of credit searches.

33. During 2006, the BCSB amended its guidance to the Banking Code to address some of these issues. Subscribers to the Code are now required:

- to make reference to the availability of the subscriber's Basic Bank Account and how to get further information where subscribers provide front of house literature for their current account range;
- normally to carry out identification in branches so that there is no need to send personal documents to a centralised opening unit;
- ensure that accounts are operational no more than 10 working days from completion of necessary identification and address validation checks.

34. The BCSB has since conducted a further review in 2007, involving mystery shopping and subscriber file sampling to identify whether subscribers are complying with the Code's present requirements.<sup>9</sup>

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<sup>8</sup> *Survey of subscribers providing basic bank accounts*, BCSB, November 2005

<sup>9</sup> *Mystery shopping review of the provision of basic bank accounts*, BCSB, June 2007

### Summary of latest BCSB findings

35. The table below shows headline findings for 2007 (and, where available, 2005) from the BSCB review. Based on these findings, the BCSB has concluded that:

“This research has identified that applicants who want a BBA can usually obtain one although the literature is not always easy to identify or to find. This reflects an improvement overall compared with previous years’ surveys, and lends support to the view expressed by some commentators that problems in BBA take-up are now probably more on the demand side than the supply side.

It is evident that the new requirements of the Code introduced in 2006 have improved the identification and address verification processes and accounts are being opened within the timescales laid down. The availability of literature has improved to some extent and in general staff are more likely to identify a basic account as appropriate.”

Measure	2007 finding*	2005 finding
Staff recognised appropriateness of basic bank account for customers	81%	74%
Basic bank account literature clearly displayed	58%	38%
Applicants felt pressurised to open alternative to basic bank account	9% <sup>†</sup>	22%
Staff provided information on acceptable forms of ID	86%	—
Staff offered helpful alternatives where traditional ID a problem	80%	—
Staff advised applicants that a credit check would be undertaken	51%	—
Applicants correctly informed of 10 working day deadline for opening**	75% <sup>††</sup>	—
<p><i>Notes</i></p> <p>* The 2007 findings are based on a sample of 1,436 mystery shops. The 2005 exercise included 434 mystery shops.</p> <p><sup>†</sup> In 25% of cases, applicants were offered a different account, but only in 9% of cases did they feel pressurised to accept it.</p> <p>** File sampling by the BCSB showed that basic bank accounts were “almost always” opened within the required 10 working days from the completion of ID formalities.</p> <p><sup>††</sup> In not all cases was time to open the account discussed. This statistic refers only to those cases where time to open an account was discussed.</p>		

36. The Taskforce broadly concurs with these conclusions, and is encouraged to note that the indicators for which comparative data are available are all moving in the

right direction. This suggests that progress is being made, although the Taskforce believes that more evidence is needed before a definitive conclusion on the relative impact of supply- and demand-side barriers to access to banking can be reached.

37. However, the Taskforce does note with some concern that the availability of literature on basic bank accounts, whilst improving, is still considerably far from the optimum. The Taskforce will continue to engage with the banks to encourage them to make basic bank account literature ubiquitously available.

38. The Taskforce also notes the BCSB interprets its findings on the use of credit checks for basic bank account applicants – 51% of applicants being informed that they would be credit checked, when only a third of providers report to the BCSB implementing such checks – as evidence of “confusion”. The Taskforce has made a submission to the ongoing 2007 review of the Banking Codes, requesting that the Code guidelines be amended to require that where credit checks are used for basic bank account applicants:

- they should be limited to a “quotation” search, which will not leave a footprint on the applicant’s credit history;
- they should only be used to verify identity and risk of identity fraud, and should not be used to disqualify an applicant on the basis of a negative credit history; and
- potential applicants should be fully informed of these facts so that the use of a credit check does not deter them from applying for a basic bank account.

39. The Taskforce believes that the BCSB’s findings highlight the need for clear guidance on the use of credit checks in basic bank account applications, and awaits the results of the 2007 Banking Code review.

### **Next steps**

40. This paper is the Taskforce’s second annual report on banking. As announced in *Financial inclusion: the way forward*, the Taskforce has been extended to last the duration of the next spending period, until March 2011. Subject to confirmation of its ongoing terms of reference, the Taskforce will continue to monitor progress being made with take-up of banking services, and will report again next year once updated FRS data is available and supplementary analysis has been conducted.

41. Looking further ahead, the Taskforce will continue to engage with the banks on issues relating to accessible supply of appropriate banking services. On the demand side, the Taskforce is pleased to note that its recommendation of an intermediary-led campaign to promote financial inclusion has been accepted by the Government, and is being implemented by DWP. The Taskforce will continue to work with DWP and related campaign stakeholders to ensure that demand for banking services remains a priority for this important initiative, to complement the progress that is being made on the supply side.

42. Looking forward to the short-term, as set out in *Financial inclusion: the way forward*, the Taskforce is now taking forward various banking-related issues for inclusion in the Government’s financial inclusion action plan for 2008-11. The

Taskforce will work with the banks to gather evidence on, and consider appropriate responses to, the following issues:

- whether people who are opening bank accounts for the first time, particularly basic bank accounts, are making use of them in a way that ensures optimum benefit; and
- the extent to which basic bank account customers' relationship with their bank is leading to wider engagement with financial services, including those offered by their bank.

43. The Taskforce will also be conducting two further studies into banking, including a mapping of supply of and demand for banking services (alongside other financial services) and a study of strategic developments in the banking market with a potential impact on financial inclusion.