The Scottish Government

Financial Inclusion

A Topic Report from the Scottish Household Survey

Social Justice

social research

FINANCIAL INCLUSION

A TOPIC REPORT FROM THE SCOTTISH HOUSEHOLD SURVEY

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The views expressed in this report are those of the researchers and do not necessarily represent those of the Directorate or Scottish Ministers.

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Needless to say any errors in the report and the interpretation that has been placed on the data is our responsibility.

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EXECUTIVE SUMMARY

Introduction

1. This topic report on Financial Inclusion was commissioned from GEN Consulting by the Scottish Executive The aim of the study was to provide the Scottish Executive Development Department with information concerning the extent of financial inclusion across Scotland, based on evidence from the Scottish Household Survey (SHS). This was to be augmented, where appropriate, by other data sources in order to inform, and provide an evidence base for, the future development of the Executive's financial inclusion policy.

Method

2. This task was approached through an initial review of policy and literature relating to financial inclusion, a review of relevant datasets that could be used in support of the study, a review of descriptive and inferential statistics from the SHS relating to financial inclusion and the development of financial inclusion benchmarking templates at national and Scottish local authority level.

Review of policy and literature

3. The review of literature and policy revealed that debate surrounding financial exclusion has moved on rapidly in recent years, from a focus upon physical access to one that is concerned with wider issues including knowledge and understanding. Whilst governments in some countries have attempted to address financial exclusion through legislation, the approach of the United Kingdom has been twofold:-

- To set up specific initiatives to try to promote financial inclusion; and
- To work with the banks on a voluntary basis to try to get them to make basic services available to those who might otherwise be denied access.

4. These initiatives have been set against a growing literature that has explored the characteristics of the financially excluded, including their socio economic status and location. Although, at the margins, the characteristics of the financially excluded can be quite complex, what generally emerges is a strong relationship with indicators of poverty and with those areas where poverty is concentrated.

Access to financial services

5. Access to financial services in Scotland has generally improved in recent years. However, it is apparent that there is a relationship between financial exclusion and poverty and deprivation. This is apparent both spatially and in terms of the socio economic characteristics of those who are excluded. However, policy initiatives, such as the Post Office Card Account, which is due to be withdrawn in 2010, seem to have been instrumental in giving those who are most likely to be financially excluded access to basic banking facilities.

6. Analysis revealed polarisation in the characteristics of credit union members. At the one extreme are those who are financially included, in that, in addition to access to credit union facilities, they make use of many other financial services. At the other extreme are those members who make use of services which tend to be associated with financial exclusion, such as Provident. This polarisation reflects the characteristics of credit unions in Scotland

7. The analysis also revealed a correlation between financial inclusion and geography. In particular it seems that the more remote the area the greater the extent of financial inclusion as measured by such things as having a bank account. It is thought that technological advances may have aided this development.

Access to financial products

8. Analysis of the use of financial products again found that there was a close correlation between the ability to access (and use) products, and indicators of deprivation, both spatially and aspatially. One consequence of this is that there is considerable cross over between the characteristics of those who do not use one product and those who do not use others.

9. The use of some products, for example mortgages, is clearly a reflection of housing tenure, which is in turn related to income, while use of various sources of credit and borrowing can also be related to one's stage in the life cycle. Lack of access to various sources of credit may not always impose a burden on people. Given this, the policy implications of some of these findings may be limited. Where there may, however, be an area where intervention could be justified is in the take up of home contents insurance. Currently this seems to bear a close inverse relationship to deprivation.

Savings and financial management

10. SHS data showed that a large minority of people within Scotland have no savings, although this was found to be proportionately no different to the general situation in the UK. Unsurprisingly, the level of savings is associated with such factors as home ownership, economic status and age.

11. Given that the definition of financial exclusion now extends to cover education and knowledge, it seems as if there are increasing numbers of people who may not be excluded based on traditional definitions of access but who may be considered so when their ability to manage their finances is considered. An increase in the numbers of sequestrations and Protected Trust Deeds registered would seem to indicate that the inability to manage money is increasing.

12. These developments are seen to have placed pressure on the money advice services. There also seems to be evidence of a gap in these services, particularly affecting those who are on modest earnings. The increase in the numbers of those with severe financial problems is likely to make it even harder for this group to obtain advice.

Benchmarking Templates

13. A series of templates were devised that looked at the extent of exclusion across the 32 Scottish local authorities and compared Scotland to other parts of the Great Britain and the United Kingdom.

14. The local authority templates ranked authorities according to access to 3 financial products and perceptions of financial capability. Analysis of the relationships between these and the extent of deprivation in each authority found that:-

- The various measures of financial inclusion/exclusion only partially reinforced one another. For example individual authorities might do well on one measure but perform far worse on others; and
- The relationship between financial exclusion and deprivation at the local authority level was not particularly strong.

15. The implications were felt to be that measures to tackle exclusion need to be multi-faceted as it seems as if the various types of exclusion only partially overlap and spatial targeting at the local authority level using measures of deprivation may only be partially successful.

16. The templates that compare Scotland to other countries and regions in the United Kingdom and Great Britain can be used as baselines. As more up-to date information becomes available, movements in Scotland's relative position can be monitored.

Recommendations

17. A number of Recommendations were made relating both to further areas for research and changes to the SHS. In terms of research:-

- Given the link between poverty and financial exclusion further analysis of data relating to the 15% most deprived data zones may be justified;
- Given that the Post Office Card Account seems to have been successful in reaching those without other sources of bank account, research on Card Account users may be useful given plans to phase it out; and
- As age seems to be a factor in financial inclusion, work to analyse the uptake of financial products and services amongst older people may be appropriate.

18. The SHS is the key sources of Scottish data on financial inclusion. To increase its utility it is recommended that:-

- Consideration be given to asking questions on such things as access to, and use of, financial products by all members of a household, rather than just the highest income householder or their partner;
- Questions on access to bank accounts should ask about the type of account;
- Further questions should be included about financial capability;

- Questions on credit union membership should establish the type of union that the respondent belongs to;
- The question about use of finance companies should seek to differentiate between high cost lenders, such as Provident, and more mainstream finance companies;
- Questions should be included about financial advice; and
- Questions should be added about household or personal debt using the same methodology as used in the Families and Children Study.

CHAPTER ONE INTRODUCTION

Background

1.1 This topic report on Financial Inclusion was commissioned from GEN Consulting by the Scottish Executive.

1.2 The Scottish Executive Development Department wanted research that would report on financial inclusion issues using data from the Scottish Household Survey (SHS). This was to be augmented, where appropriate, by other sources in order to inform the development of, and provide an evidence base for, the development of the Executive's financial inclusion policy.

Study Objectives

1.3 The main objectives of the study were to:-

- Undertake an in-depth analysis of data from the SHS dealing with financial inclusion, including examining relationships with other variables not included in the standard SHS reports which may be relevant to financial inclusion (for example access to the internet, health, employment and educational attainment);
- Identify trends in this data, where possible, particularly in the context of the Closing the Opportunity Gap objectives;
- Identify groups who are more likely to be financially excluded (such as single parents and the economically inactive) and explore equalities dimensions (age, gender, ethnic background, religion and disability) and geographic location (urban and rural and areas of deprivation, as measured by the Scottish Index of Multiple Deprivation (SIMD) 2006);
- Where appropriate, draw upon data from other sources such as the Family Resources Survey in order to further understanding of financial inclusion issues in Scotland;
- Where appropriate, draw on other data sources to set financial inclusion in Scotland within the wider United Kingdom (UK) and, if possible, the international context; and
- Make recommendations on how gaps or anomalies in the evidence base might be filled.

Methodology

1.4 The methodology for the study included:-

- A policy and literature review of financial inclusion;
- A review of relevant datasets that could support the study;
- Analysis of results from the SHS; and
- The development of financial inclusion benchmarking templates.

1.5 At various stages in the work programme an Advisory Group, set up by the Executive to oversee the study, was consulted (to advise on such things as emerging issues, content and development of the final report). This input proved useful in ensuring that the work both met the objectives of the brief and the expectations of those involved in any implementation.

1.6 The SHS is a continuous survey based on a sample of the general population in private residences in Scotland. It is designed to provide nationally representative samples of private households and of the adult population in private households. This is achieved by splitting the interview between a household respondent and an adult selected at random from the permanent residents of the household. The householder or the spouse/partner of the householder completes Part 1, while Part 2 is completed by one of the adults in the household selected at random. In households with a single adult, the same person completes both parts of the survey (TNS Social and MORI Scotland, 2005).

1.7 Following advice from the Scottish Executive the study examined household access to, and use of, financial products and services in relation to the socio-economic characteristics of the highest income householder (HIH) who may or may not be the survey respondent.

1.8 The sample is also designed to provide data for each local authority over a 2 year period. The sample is selected from the small user Postcode Address File for Scotland, expanded to take account of addresses which might only be listed once but actually contain multiple dwellings.

1.9 All data presented for 2005/06 relates to survey responses from 2005 and the first 3 quarters of 2006 as data for the final quarter was not available at the time the study was undertaken. Following discussion with the Advisory Group it was concluded that this would not affect the analysis in a substantial way.

1.10 All data used in analysis was weighted to be representative of Scottish households or of the Scottish adult population. It is made clear in the text if the information presented relates to households or to individuals. Scottish Household Survey weighting factors were applied to data in both instances.

1.11 Results derived from the cross tabulation of SHS variables are all statistically significant at a 95% level, unless otherwise stated in the text or footnotes.

Report Structure

1.12 In order to make sense of the data the approach taken has been to structure the analysis around financial services (for example bank accounts), financial products that are sold by these service providers (such as insurance) and financial management, for example savings and investments.

1.13 The remainder of the report is structured as follows:-

- Chapter 2 outlines the background to financial inclusion and the current policy position;
- Chapter 3 looks at issues around financial services;
- Chapter 4 looks at key issues around financial products;
- Chapter 5 looks at financial management; and
- Chapter 6 draws some conclusions and makes some recommendations

CHAPTER TWO BACKGROUND TO FINANCIAL INCLUSION

Introduction

2.1 This Chapter looks at what lies behind financial inclusion (and by definition exclusion) and its theoretical underpinnings. It also considers the current policy responses to financial inclusion within the UK and then specifically within Scotland. Reference is also made to the situation in other developed countries as appropriate.

Financial Inclusion

2.2 Following deregulation of the financial markets in the 1980's, financial products, especially credit and mortgages, are now more widely available than ever before. Increasing participation in the financial services market has been promoted by:-

- An increase in living standards and disposable income for a majority of the population;
- Increased use of electronic money transfer mechanisms for the payment of wages and benefits from the Department of Work and Pensions;
- Growth of telephone and internet banking; and
- Increased participation of women in the labour market (HM Treasury 2004a).

2.3 However, there remains a small, but significant, minority of people who lack access to financial products and services resulting in growing academic and political interest in the issues surrounding financial inclusion.

2.4 HM Treasury (HM Treasury 2007a) consider financial inclusion as being about ensuring that everyone has access to appropriate financial services, enabling them to:-

- Manage their money on a day-to-day basis, effectively, securely and confidently;
- Plan for the future and cope with financial pressure, by managing their finances to protect against short-term variations in income and expenditure, and to take advantage of longer-term opportunities; and
- Deal effectively with financial distress, should unexpected events lead to serious financial difficulty.

2.5 Financial inclusion, as defined by the Scottish Executive (2005), relates to:-

"access for individuals to appropriate financial products and services".

This includes having the capacity, skills, knowledge and understanding to make best use of those products and services. Financial exclusion by contrast, is the converse of this: that is a lack of access to products and services, and or capacity, skills, knowledge and understanding.

2.6 Interestingly, the definition of financial inclusion currently employed by policy makers extends to those who have access to products and services but, for whatever reason, fall into financial difficulties. In this way the definition is moving on from earlier ones that defined financial inclusion and exclusion largely in terms of physical access, to a wider definition covering access to and use and understanding of products and services.

The Extent of Financial Exclusion

2.7 In November 1999 the Social Exclusion Unit published a report to the Treasury on Access to Financial Services (HM Treasury, 1999). The report estimated that around 1.5million low income households in Britain made no use of mainstream financial services at all. Such households managed their finances without a bank or building society account, and had no savings, investments, pensions, mortgages or insurance. The implication was that they operated in a cash economy.

2.8 In addition Kempson and Whyley (1999) noted that:-

- A further one in 5 households made very limited use of financial services;
- One in 10 had just one product, most likely a current account with a bank or building society;
- A further one in 10 had only 2 products; and
- Face-to-face money advice fell far short of demand.

Causes of Financial Exclusion

2.9 Kempson et al (2004) outlined multiple explanations for the exclusion of individuals from the banking system in a number of developed economies. Contributing factors were believed to include:-

- Physical access;
- Refusals by banks to provide services to some people;
- Inability to meet identity requirements required in order to access products and services;
- The terms and conditions imposed;
- Bank charges; and
- Psychological and cultural barriers: in essence self exclusion.

2.10 This analysis suggested that there were a number of reinforcing factors that could influence, or drive, financial inclusion: some were institutional, that is responses on the part of the organisations delivering products and services, whilst others reflected the actions and perceptions of individuals.

2.11 One of the key institutional factors is increasing competition and technological advances, such as telephone and internet banking, which have reduced the need for face-to-face transactions. One response has been the closure of banks and building societies branches: what has become known as financial desertification (Sinclair, 2001). However, those on low income are less likely to be able to benefit from these technological changes. They are therefore at increased risk of exclusion. Their problems are sometimes compounded by the lack of reliable, and cheap, transport to reach other branches. There may therefore be a disproportional impact on rural and deprived urban communities. However, whilst there is some evidence that access restrictions increase psychological barriers to the use of financial services, Kempson and Whyley (1999) report that this does not seem to be one of the main reasons cited by individuals to explain their lack of engagement.

2.12 Identity requirements have become increasingly important in recent years as the government and the banking industry have taken action to combat money laundering and terrorism. Indeed the UK Financial Services Authority (FSA) recently fined two major high street banks for failing to carry out adequate identity checks on prospective customers. Until recently, banks were required to ask for a range of personal identification, including proof of address and photographic identification, before they could open a bank account. Passports and photographic driving licences were the most widely accepted forms of identification. For people without such identifying documents it may be difficult to provide acceptable identification. Kempson et al (2004) discovered this problem in other countries where, as in the UK, identity cards are not a compulsory requirement. Identity requirements may be particularly problematic for those on low incomes, the homeless and refugees. However, recent changes to the money laundering regulations have eased this situation. While proof of identity is still required to open an account, this may now come from a trusted third party in the form of a letter.

2.13 There are also a range of terms and conditions attached to service use that might prevent or deter use of financial products and services amongst some social groups. Whilst Kempson et al (Ibid) recognise that these barriers differ between countries, it is also true that there are similarities. Barriers to engagement arising from terms and conditions include:-

- The requirement for a minimum balance to open an account, which may be beyond the means of financially excluded individuals. This has also been a cause of concern in France, Canada, the United States of America (USA) and Australia;
- Conditions relating to minimum use of a bank account. In Belgium it has been reported that accounts have been closed by banks when customers fail to use them with sufficient regularity or withdraw money too soon after they are opened;
- Lack of safeguards against unintentional use of overdrafts. This has been a major cause of concern and criticism in the UK where being overdrawn by a small amount for only a few days may result in bank charges, bounced cheques and failed direct debits. Fear of this situation arising, and the charges incurred as a result, are the main reasons cited by individuals for closing their bank accounts;
- Those with a history of bad debt may be offered very limited facilities or facilities that are inappropriate to their situation; and
- Bank charges have been shown to be a significant deterring factor in all countries studied, with the exception of the UK where transactional banking is generally free as long as there are sufficient funds in the account. In other countries charges may be applied for:-

    - Failing to maintain a minimum balance;
    - Over the counter transactions (most frequently used by low income groups); and
    - Exceeding the permitted numbers of free transactions.

The situation in the UK may, however, be set to change as a number of banks have recently indicated that they are considering the introduction of compulsory monthly fees on current accounts, as is common in the USA and Europe. Any such move is, however, likely to result in heavy criticism from organisations such as the National Consumer Council and the Independent Banking Advisory Service.

2.14 Research undertaken by Kempson et al (2004) also discovered that a minority of people in the UK and the USA, Australia, Belgium, Canada and France lacked access to banking facilities as a result of being denied an account by a bank. There is also evidence to suggest that people who have been refused rarely appeal against the decision, even when they have the legal right to do so. This situation has been observed despite the implementation of new laws and voluntary codes to strengthen the right of access to a bank account (see Paragraphs 2.59 to 2.64).

Types of Financial Exclusion

2.15 Kempson and Whyley (2000) identified 6 principal types of financial exclusion:-

- Physical access exclusion, brought about by the closure of local banks or building societies and lack of reliable transport to reach alternatives;
- Access exclusion, when access is restricted through risk assessment, with people being denied a product or service as they are perceived to be high risks;
- Condition exclusion, when conditions are attached to products or services thereby making them inaccessible to some;
- Price exclusion when products are available but at a price that is unaffordable;
- Marketing exclusion, where sales and marketing activity is targeted on some groups, or areas, at the expense of others; and
- Self exclusion, when individuals do not seek financial products and services for reasons including fear of failure, fear of temptation or lack of awareness.

As the evidence base grows, and the theory becomes more sophisticated, policy has been developed and adapted to tackle these issues.

Characteristics of the Financially Excluded

2.16 Kempson et al (2004) report that financial exclusion is most prevalent amongst those on low incomes. Unemployed people living on social security payments from the state are therefore especially vulnerable, as are low income households from ethnic minority communities who may also have relatively low levels of engagement with the financial services industry. Kempson et al (ibid), supported by evidence from the Family Resources Survey 2002-2005, report that uptake of financial products and services is lowest amongst African-Caribbean, Black, Pakistani and Bangladeshi households in the UK. However, for some members of these groups religious beliefs may provide a partial explanation for this apparent exclusion.

2.17 Age has also been highlighted as an important factor in identifying those at risk of financial exclusion, with those at the extremes of the spectrum seen to be at most risk. This is illustrated by Kempson and Whyley (1999) who note that very young householders, aged under 20, may not yet have acquired any financial products, whilst householders aged over 80 may have retired prior to the rapid expansion of financial services. However, it may also be that age is not the key determinant here, but low income, with those at the extremes of the age spectrum being relatively poor. This is explored in greater detail below.

2.18 Those with a history of bad debt may face additional barriers to financial inclusion especially in relation to gaining affordable credit and opening a bank account. Kempson et al (2004) report that this is a major cause of banking exclusion in Sweden and Germany, despite there being near universal access to banking in these countries.

2.19 Additional characteristics associated with high levels of financial exclusion include:-

- Households headed by a single person, including single people who live alone both above and below pensionable age and lone parents;
- The age of the householder when they left full time education. Whilst it is not true to say that a low level of education leads directly to financial exclusion, educational attainment is linked to income which has been shown to affect use of financial products and services (Kempson and Whyley, 1999); and
- Households headed by a woman, including lone parents, single pensioners, widows and separated women (Small Change Partnership, 2006).

Once again it is likely that members of these groups may also have low incomes.

The Spatial Dimension

2.20 Geographical location is a further factor which may contribute to financial inclusion. This may impact through:-

- Physical access restrictions, the focus of traditional thinking on financial exclusion; and
- The overall level of deprivation in the local authority area. Thus, the more deprived people there are within a local authority area then the more people there will be who are classed as financially excluded. This shows the significance of poverty, and other deprivation characteristics, as causes of financial exclusion. It is also likely to be self fulfilling in that the higher the level of deprivation then the less likely it is that financial providers will see a market for their services.

Kempson and Whyley (2004) noted that those living in rural communities were less likely to hold a bank account whilst the Treasury Select Committee (2006) and Citizens Advice (2006) highlight the difficulties and costs faced by those in rural areas and deprived urban communities who lack access to free cash machines.

The Implications of Financial Exclusion

2.21 The factors contributing to financial inclusion are multiple and complex. Such factors are not mutually exclusive, indeed they often overlap and reinforce each other with a resultant detrimental impact on individuals, the communities in which they live and society as a whole.

2.22 In the paper "Promoting Financial Inclusion" HM Treasury (2004b) suggests that, for the individual, the most significant costs associated with financial exclusion included:-

- Higher charges for basic financial transactions and credit;
- Being unable to access certain products and services, for example services requiring payment by direct debit;
- Lack of security in holding and storing money;
- Barriers to employment; and
- Entrenching exclusion as having no formal banking or credit history is often as much of a disadvantage as a poor credit history.

2.23 In the wider community, financial exclusion has been shown to: -

- Exacerbate the harm caused by child poverty. This is highlighted by the Child Poverty Review (HM Treasury, 2004a) which notes the negative impacts of debt and high charges for services on family life;
- Place additional strain on the benefit system, as claimants may be forced to rely on high cost credit (HM Treasury, 2004b); and
- Contribute to wider social exclusion (Social Exclusion Unit, 1998).

Addressing Financial Exclusion in the UK

2.24 In an effort to increase financial inclusion, the UK government, in the 2004 Spending Review, announced the establishment of a £120 million Financial Inclusion Fund to support initiatives to address financial exclusion. The government also announced the creation of a Financial Inclusion Taskforce to monitor progress of the fund. The Spending Review committed the government to try to make progress in 3 priority areas:

- Affordable credit;
- Free face-to-face money advice; and
- Banking.

As part of the Fund, £45 million was allocated to support an increase in provision of face-to-face money advice in England and Wales. This money is to be administered by the Department of Trade and Industry.

2.25 Funding is to be split over a 2 year period; £15 million in 2006/07 and £30 million in 2007/08. An additional £6 million will be used by the Legal Services Commission to pilot financial advice outreach initiatives, including debt advice, aimed at those who do not normally seek help.

2.26 A further £36 million from the Financial Inclusion Fund has been ring fenced for the establishment of a Growth Fund to increase the availability of affordable personal loans through third party (not for profit) lenders such as credit unions and community development finance institutions. This fund is to be administered by the Department of Work and Pensions who will evaluate bids from service providers in deprived areas of England, Wales and Scotland. To date 5 third sector lenders in Scotland have been allocated a proportion of the Growth Fund[1].

2.27 In addition, the Facilitating Access Campaign "Lets Talk Money" was launched on 31st January 2007. This is a UK wide multi-media campaign launched by the Department for Work and Pensions and funded by the Financial Inclusion Fund, to raise awareness among low income groups about access to banking services, low cost loans and advice on how to better manage their money.

2.28 The Financial Inclusion Taskforce also has a budget of £3 million, which is being used primarily to conduct research and enhance the knowledge base on financial inclusion.

Scotland: Closing the Opportunity Gap

2.29 Financial inclusion forms a part of the Scottish Executive's "Closing the Opportunity Gap" strategy to address poverty in Scotland. One of the 6 objectives is:-

"To reduce the vulnerability of low income families to financial exclusion and multiple debts - in order to prevent them becoming over-indebted and/or to lift them out of poverty".

2.30 This objective is supported by the target of increasing the availability of appropriate financial services and advice to low income families by 2008. Promotion of greater financial inclusion will also contribute to wider aims of the Executive's policy, such as:-

- Growing the economy;
- Delivering excellent public services;
- Building strong safe communities; and
- Developing a confident democratic Scotland.

2.31 "A Partnership for a Better Scotland" (Scottish Executive, 2003) outlined commitments by the Executive for tackling financial exclusion and poverty over the next 4 years. These included:-

- Supporting an extension of money advice services;
- Implementing the Debt Arrangement and Attachment (Scotland) Act 2002;
- Supporting the development of credit unions and community banking arrangements;
- Investigating the feasibility of community based insurance schemes;
- Encouraging local enterprise and trading schemes; and
- Working with the Department of Trade and Industry to tackle harassment by loan sharks and introduce fairer credit systems.

2.32 The Executive, in partnership with Communities Scotland, aims to meet the commitments set out in the Partnership by focusing upon 3 priority issues:-

[1] These are; Credit Capital Union Edinburgh, Dumbarton Credit, North East Scotland Credit Union, Pollock Credit Union and Scotcash (Glasgow). The latter is a recently established Community Interest Company based in Glasgow,

- Financial services;
- Advice and support; and
- Financial education.

These are outlined in the Financial Inclusion Action Plan (Scottish Executive, 2005) which aims to tackle these issues by working in partnership with local authorities, banks and other financial institutions, the money advice agencies and credit unions.

2.33 In parallel with the publication of the Plan the Executive allocated £5.3 million to the 11 local authority areas having the greatest concentrations of financially excluded residents, for each of the years 2006/07 and 2007/08. The money was routed through the relevant Community Planning Partnerships and was to develop financial inclusion programmes and plans. It has been spent on a variety of initiatives, including the employment of financial advisers, funding training and outreach work, supporting credit unions and employing staff to promote financial advice through other departments such as housing.

Recent UK Initiatives – Basic Bank Accounts and Cash Machines, Savings and Financial Capability.

2.34 In the UK, as in Australia, access to basic banking has been possible through voluntary arrangements with high street banks. The conclusions of the Policy Action Team examining social exclusion in 1998 provided a blueprint for a basic bank account which offered a full range of facilities but had no overdraft facility and no cheque book: all transactions were therefore to be "real time" (HM Treasury, 1999). Despite all banks complying with recommendations to make such accounts available, Kempson and Whyley (2000) reported that such accounts are not always promoted to those who may benefit most from them. This assertion is supported by the report of the Treasury Select Committee 2006 (The House of Commons, 2006a). This suggested that many financially excluded people were still facing problems in opening basic bank accounts, including problems of identification, administrative delays and lack of access to appropriate literature. It is also reported that the vast majority of banks restricted access to basic accounts for those who were undischarged bankrupts, in spite of it being an appropriate way for them to manage their finances.

2.35 In operating basic accounts the Treasury Select Committee stated that some banks were failing to meet their obligations under the Banking Code, the provisions of which, in relation to basic bank accounts, were that banks should:-

- Give clear information explaining the key features of the services and products in which potential customers express interest;
- Assess whether the customers' needs were suited to a basic bank account and offer the product if appropriate;
- Provide information on a single product or service if the customer had already made their mind up;
- Explain what information was required to satisfy identity requirements;

- Provide information on products and services offered in more than one way (for example, on the internet, over the telephone or face-to-face in branches) and explain how to find out more; and
- Inform customers if basic bank accounts (if offered) can be used in post offices.

2.36 In spite of this code a mystery shopper survey undertaken by the Banking Code Standards Board (BCSB) in 2005, summarised in the report of the Treasury Select Committee, revealed that:-

- Four high street bank chains displayed no literature on basic bank accounts in 90% of their branches;
- In 2 chains, 40% of applicants were unable to obtain, or encountered difficulties in acquiring, information on basic bank accounts;
- Three chains actively dissuaded customers from opening a basic account; and
- In 3 chains 45% of customers were required to send original identification documents away to a processing centre.

2.37 In light of these findings the BCSB made recommendations to strengthen the code of practice which included:-

- Mandatory display of literature on basic accounts in branches;
- No credit searches being undertaken using credit reference agencies as they are not necessary to open an account;
- Implementation of a standard time for a bank to open an account so as to reduce unnecessary delays; and
- In branch verification of identification documentation

2.38 It may be that these, and other initiatives, are now beginning to have an impact. For example, in 2004 the Government, in partnership with banks, agreed a shared goal to halve the number of adults living in households without access to a bank account, and to make significant progress on this goal within two years. The 2002-2003 Family Resources Survey (FRS) showed that there were 2.8 million adults living in 1.9 million households without access to a bank account. Early analysis of the latest FRS shows that steady progress has been made: in 2005-06, the number of adults without access to a bank account had fallen from 2.8 million to 2 million adults living in 1.3 million households (HM Treasury, 2007a).

2.39 There have also been recent initiatives to improve free access to money through the cash machine network**.** In December 2004, following concern regarding the rapid increase in the number of fee charging Automated Teller Machines (ATMs), the Treasury Committee announced an inquiry into cash machine charges. The enquiry concluded that fee charging machines were a legitimate business model but that their spread could raise public policy concerns if they displaced existing free machines (The House of Commons, 2005). A debate on the Treasury Committee report was held in February 2006 when calls were made for the systematic analysis of the geographical locations of free cash machines to discover which low-income areas lacked access. The ATM Working Group was therefore to investigate:-

- The transparency of cash machine charges;
- The location of free and charging machines;
- Changes to the LINK interchange arrangements[2]; and
- Whether it would be possible to secure a commitment from the banks to keep cash machines free and to expand into any under-served areas identified by the research.

2.40 The study resulted in an announcement in December 2006 that agreement had been reached between banks, machine operators and the government that more than 600 free ATMs would be installed in socially deprived locations across the UK. In December 2006, it was reported that more that 200 of these machines would be located in Scotland (The Scotsman, 2006). It might be possible to assess the impact of these changes using future SHS data sets.

Savings and Financial Capability

2.41 Saving and asset building is a key part of the Governments financial inclusion agenda and as a result a series of measures have been introduced to make it easier for people to save small amounts. Over 17 million people now save with an Individual Savings Account and in 2005 the Child Trust Fund was introduced as a universal savings account into which children are automatically enrolled at birth.

2.42 To encourage saving among lower incomes groups, the Saving Gateway, a matched incentive scheme, is being piloted and has provided evidence to suggest that matching incentives can indeed encourage additional saving and new savers (HM Treasury, 2007a). A report by the Scottish Council Foundation saw merit in linking incentives savings schemes with financial literacy. The report observed that matched savings schemes stand out as a promising way to improve financial literacy among low to middle-income consumers (McCormick et al, 2005).

2.43 In 2006 the FSA published the results of the Baseline Survey of Financial Capability (Everitt, 2006). The survey looked at 5 dimensions of financial capability: -

- Making ends meet;
- Keeping track of your finances;
- Planning ahead;
- Choosing financial products; and
- Staying informed about financial matters.

2.44 A score was developed for each of the 5 aspects, and for the first time the UK's population was described in terms of their relative accomplishments in terms of these capabilities.

[2] LINK Interchange Network Ltd is the company that operates the LINK cash machine network across the United Kingdom. It is owned by 22 banks and building societies and is responsible for some 59,000 ATMs.

2.45 Key themes to emerge from the Baseline Survey are:-

- In relation to forward planning, the study found that people from all sections of society were not taking the most basic steps to adequately plan ahead, whether for retirement or to guard against an unexpected expense or a drop in income. This was not always because they lacked the money to do so: indeed many respondents were aware that they had issues to address but were often unsure of where to start. The study also found that, given the need to manage money effectively to get by, some of the most capable consumers were those on low incomes;
- Many people did not take adequate steps to choose financial products that met their needs, with many failing to shop around for the most appropriate products. It was concluded that many people take unnecessary risks by making poor product choices or by lacking awareness of the risks they face. This was considered a result of people finding it difficult and confusing to deal with the financial services industry;
- Half a million people are already experiencing severe problems with debt. A further one million have fallen behind with some of their debt payments at some point and the study found that a further 2 million households are only just coping. For them, even a small adverse change in their circumstances could lead to debt repayment problems; and
- The study revealed that the greatest demands were placed on those least equipped to deal with them. The under-40s were found to face a considerably more demanding environment than their parents and were generally less capable than their elders. For example, the costs of higher education and retirement are increasingly being borne by individuals rather than the state or employers. This means that the cost of lacking the necessary skills to make financial decisions is becoming increasingly significant. There is, therefore, a particularly pressing need to equip young people with greater financial capability.

As the Survey is likely to be repeated in 3 years time, it might be possible to align some of its questions with those in the SHS.

2.46 The FSA leads the National Strategy for Financial Capability in partnership with the Government, industry and the voluntary sector. The FSA programme of action to improve financial capability is being delivered through:-

- Schools: Learning Money Matters, which is operational in England only;
- Young Adults: helping Young Adults make Sense of Money;
- Workplace: Make the Most of Your Money, which works with employers to develop employees' financial capability;
- MoneyMadeClear, which is a handbook to explain financial terminology;
- Syndicating online tools, including such things as a debt check;
- Parents Guide to Money; and
- Money Advice.

2.47 The need for a step change is illustrated by figures taken from the Baseline Survey which show that Scotland is failing to plan ahead for retirement or an income shock. For example in Scotland (FSA, 2007):-

- 82% have not considered making financial provision for retirement, yet 63% are confident their retirement income will give them the expected standard of living;
- 74% have not considered making financial provision in case of an unexpected drop in income; and
- 65% agreed they would rather have a good standard of living today than in retirement.

2.48 In *Financial Capability: the Government's Long-Term Approach* published in the January 2007 (HM Treasury, 2007b) the UK Government set out aspirations to ensure that:-

- All adults in the UK have access to high-quality generic financial advice to help them engage with their financial affairs and make effective decisions about their money;
- All children and young people have access to a planned and coherent programme of personal finance education, so that they leave school with the skills and confidence to manage their money well; and
- A range of Government programmes are focused on improving financial capability, particularly to help those who are most vulnerable to the consequences of poor financial decisions.

2.49 From a Government perspective key challenges include:-

- The Child Trust Fund, where additional payments are to be made from 2009;
- Implementation of Personal Accounts from 2012, which is part of the push to ensure that everyone has pension provision; and
- The provision of affordable "generic", that is personalised but unregulated, financial advice

2.50 The Government intends to review the policies and programmes which have the potential to raise financial capability and then to set longer term goals for:-

- Children, young people and families: improving information and advice for young people, promoting opportunities for children to learn about money, and sign post information and advice for parents through extended schools and Sure Start Centres;
- The curriculum: giving financial education a secure place on the educational agenda and issuing revised curriculum guidance;
- Child Trust Fund: promoting the CTF as a learning tool to bring personal finance to life in the classroom;
- Adult skills: integrating financial education into basic skills learning and promoting the use of financial education as a route to literacy and numeracy skills;
- Planning for retirement: making better use of pensions information to equip people to take decisions about their retirement; ensuring that the introduction of personal accounts is supported by appropriate information and generic advice;
- Parents and carers: ensuring that personal finance resources prepared for parents are effectively distributed through trusted intermediaries; and

- Ensuring there is effective information and advice about personal finance from a range of Government services such as the Social Fund and Jobcentre Plus.

2.51 In the future the Government will also:-

- Set up an independent feasibility study, led by Otto Thoresen, Chief Executive of AEGON UK, to research and design a national approach to generic financial advice;
- Establish a ministerial group, chaired by the Economic Secretary to the Treasury, to develop, oversee and coordinate the Government's work; and
- Publish an action plan, by the end of 2007, setting out how financial capability will be integrated into existing services, particularly for those most vulnerable to the consequences of poor financial skills.

2.52 To some extent the type of initiatives that have been set up in the UK are mirrored in other countries. Some of these will now be considered.

Financial Exclusion in other Countries

2.53 Kempson, et al (2004)**,** in a report prepared for the Department of International Development, considered the extent to which individuals in developed economies were excluded from mainstream banking services. Countries considered in the report were the United Kingdom, the United States, Canada, Belgium, France and Australia. It was found that between 1% and 17% of adults in these countries had no bank account of any kind. The exact proportion varied between countries reflecting the differing levels of inequality that existed.

2.54 Their analysis showed that high levels of financial exclusion were most likely to be found in countries where income inequality, as measured by Gini coefficients for equivalent disposable income[3], was most marked. Table 2.1 looks at the percentage of adults without access to a bank account. The United Kingdom sits in the middle of the range, albeit that, as the figures relate to 2000, there are likely to have been changes since then.

TABLE 2.1 **Adults Without Access to a Bank Account in 2000**

Country	**Percentage of adults without a bank account**
Portugal[1]	**17%**
USA	**9%**
United Kingdom	**7%**
Belgium	**5%**
Canada	**3-4%**
Germany	**3%**
Sweden	**2%**

Source: Kempson et al (2004).
Note:-
1. The figure for Portugal relates to access to any type of account, not just a bank account.

[3] Income after taxes and taking into account the size of the household.

2.55 The report also concluded that account holding tended to be higher in countries like Germany and France where local savings banks and Post Offices are important players in the provision of banking services. Similarly, in countries such as Australia where social security benefits and pensions have been paid into bank accounts for many years, fewer adults lack access to bank accounts.

2.56 However, one of the issues internationally, is how to capture information on wealth, savings and asset building. For example, the need for quality data on the saving patterns of New Zealanders has long been acknowledged. Such information is vital in informing policy debate in areas as diverse as retirement provision, social equity analysis, consideration of microeconomic trends in consumption and asset prices, and broader macroeconomic policy for growth, balance of payments constraints and foreign investment patterns.

2.57 The 2001 Household Savings Survey (HSS) was the first major national survey of wealth to be conducted in New Zealand (The Retirement Commission, 2002). This reflects, in part, the internationally recognised difficulties of collecting information in this area, particularly given the sensitive nature of the information sought, the wide range of asset and liability types involved and the inherent difficulties of assigning market values to these instruments.

Policy Responses in Other Developed Countries

2.58 Concern over access to financial services in the United Kingdom is mirrored across most developed nations in Europe, North America and Australasia (Kempson et al, 2004). The study also notes that, rather perversely, financial exclusion only emerged as a major issue when the vast majority of the population had access to financial services. In such circumstances, lacking access to financial services is costly and serves to reinforce social exclusion. In this sense, financial exclusion is a symptom of poverty as well as a cause.

2.59 Whilst financial inclusion has only featured prominently on the political agenda in recent years, some countries have had legislation and initiatives to promote inclusion that predate this interest. For example:-

- In Sweden banks are not permitted to refuse a customer a deposit or savings account under Section 2 of the Banking Business Act 1987;
- In France the Banking Act 1984 recognised the principle of a right to a bank account; and
- In the USA federal legislation, passed in 1997, rates banks on their efforts and effectiveness in serving low income communities. Although there are no formal sanctions for banks receiving an "unsatisfactory" rating, the majority strive to achieve "satisfactory" or "outstanding" ratings if only for the publicity that this may bring.

2.60 Some countries have also taken steps to introduce legislation enforcing commitments to tackle financial inclusion in order to address the shortcomings of voluntary codes. This legislation generally ensures a universal right to a bank account and defines the nature of banking services that must be provided. Such legislation was introduced in France in 1998, Belgium in 2001 and by some US states.

2.61 In 1998 the Canadian federal government task force on the future of the financial services sector published recommendations on reform measures, which were subsequently incorporated into legislation placed before Parliament in 2001. Reforms required all banks to provide accounts to all Canadians regardless of employment or credit history, with minimum identification requirements and without a minimum opening balance. In addition the Act allows the government to introduce further regulation relating to the provision of low cost accounts. Banks were however, given the opportunity to address this voluntarily before regulations were introduced, which many subsequently did.

2.62 Whilst the legislation outlined above helps to ensure access to a deposit account, it provides no further guidance on the nature of services which should be offered with that account. Wider concern over social exclusion has led to developments in this area, such as voluntary codes of practice developed by the banks and legislation, although, as yet, it is too early to comment on the effectiveness of such initiatives.

2.63 Amongst the earliest voluntary codes of practice was that introduced in 1992 by the French Bankers Association. The code committed banks to opening affordable accounts with access to facilities including:-

- A cash card;
- Free access to a cash machine network;
- Bank statements; and
- A negotiable number of cheques.

2.64 A voluntary code was also introduced by the German Bankers Association in 1996 to provide an "Everyman Account" offering basic services without an overdraft facility, whilst the Belgian Bankers' Association followed suit in 1997 with a voluntary code to introduce a deposit account offering money transfers, deposits and withdrawals and bank statements. Individuals can choose to upgrade these services and facilities should they wish.

Conclusions

2.65 The debate about financial exclusion has moved on rapidly in recent years, from a focus upon physical access to one that is concerned with far wider issues including knowledge and understanding. The debate has been paralleled by a growing number of initiatives set up by governments and financial institutions. Governments in some countries have gone down the legislative route whilst in the United Kingdom the approach has been twofold:-

- To set up specific initiatives to try to promote financial inclusion; and
- To work with the banks on a voluntary basis to try to get them to make basic services available to those who might otherwise be denied access.

2.66 These initiatives have been set against a growing literature that has explored the characteristics of the financially excluded, including their socio economic status and location. Although, at the margins, the characteristics of the financially excluded can be quite complex, what generally emerges is a strong relationship with indicators of poverty and with those areas where poverty is concentrated.

CHAPTER THREE ACCESS TO FINANCIAL SERVICES

Introduction

3.1 It has been claimed that the number of people with a bank account has risen sharply over the past 30 years as the importance of basic transactional banking services in managing personal finances had come to be regarded as essential (Kempson et al, 2004). This had however resulted in considerable cost and inconvenience to those who, for a variety of reasons, did not have access to such services.

3.2 The purpose of this Chapter is to look at access to financial services across Scotland, before considering the variables which might restrict access and therefore result in financial exclusion. The Chapter considers:-

- The prevalence of financial accounts from a range of providers;
- Convenience and frequency of use of financial services; and
- Use of the internet in accessing financial services.

Access to Financial Accounts

3.3 Extracting data from the SHS on those with bank of building society accounts is complicated by the fact that the questions asked have become more detailed over time[4]. Accepting this, analysis of the data between 1999 and 2006 shows a small but steady increase in account holding.

3.4 Table 3.1 presents comparative information on the types of financial accounts held by households. Key findings are:-

- 88.5% of households held a bank account in 2005/06, up from 86% (including building society accounts) in 1999/2000;
- The prevalence of building society accounts appears to have decreased between 2003 and 2006. However, this is probably a reflection of the trend for societies to de-mutualise and offer a full range of banking facilities;
- A relatively small proportion of respondents made use of credit union accounts;
- Approximately 9% of households in 2005/06 had a Post Office Card Account; and
- The proportion of respondents who did not have an account with any of the service providers mentioned decreased from 6% in 2003/04 to 2% in 2005/06.

[4] Details of the changes in the questions asked are given in Appendix One.

TABLE 3.1 **Percentage of respondents with an account**
(Household information)

Type of Account	1999/00	2001/02	2003/04	2005/06[5]
Bank Account	**86%[1]**	**87%[1]**	**87%**	**88.5%**
Building Society Account			**32%**	**29%**
Credit Union Account	**N/A**	**N/A**	**2%**	**3%**
Post Office Card Account	**N/A**	**N/A**	**N/A**	**9%**
None of the above	**N/A**	**N/A**	**6%**	**2%**
Number of respondents	30,202	15,557[2]	30,813	27,069

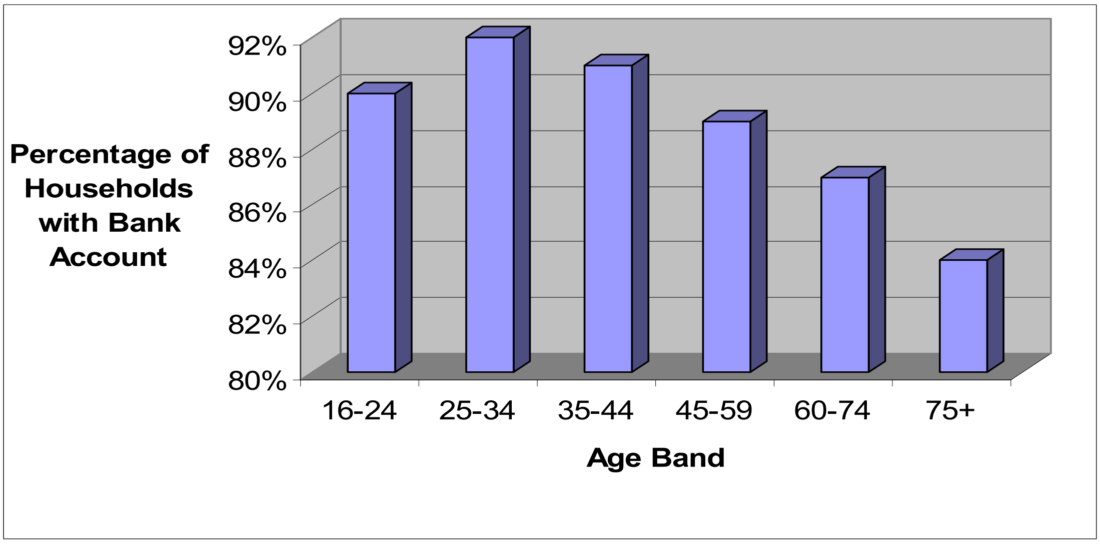
Source: Scottish Household Survey Data
Note:
1. In earlier years data concerning possession of bank and building society accounts was combined.
2. It is not clear why it is only possible to access half the sample for 2001/02

3.5 In addition, and broadly in keeping with the characteristics of the financially excluded mentioned earlier (see Paragraphs 2.16 to 2.19), analysis of the 2005/06 SHS household data indicated that, in terms of household access to bank accounts:[6]

- A greater proportion of households where the highest income earner was male possessed a bank account: 90% compared to 86% where the highest income earner was female;
- A significantly smaller proportion of respondents from households headed by a single person had access to a bank account compared to households where the highest income earner was married or co-habiting. Further examination revealed that, at 83%, access to bank accounts was lowest amongst those households in which the highest income householder was widowed, divorced or separated;
- This finding was reinforced when considering household type, when single pensioners and single parent families emerged as the least likely to have access to a bank account (also 83%). At 94%, inclusion was highest among small families;
- The vast majority of those who owned their own home (92%), or were in the process of buying with the help of a mortgage (94%), had access to a bank account. This proportion fell amongst those who rented and was lowest among those renting their property from a LA (77%), housing association (76%) or who held some other form of tenure 72%; and
- The likelihood of having a bank account decreased slightly with age, from a high of 92% among those aged 25-34 to 84% among respondents aged 75 and above (Figure 3.1). This is generally in line with the national picture as observed in the Family Resources Survey 2004/05.

[5] The data for 2006 as used in this and all subsequent Tables are for the first 3 quarters of the year only.
[6] All results are statistically significant – Asymp. Sig less than or equal to 0.05

FIGURE 3.1 **Prevalence of Bank Account by Age of Highest Income Householder 2005/06**
(Household Information)



Number of respondents: 27,068
Source: Scottish Household Survey Data

3.7 Additional factors which appeared to have a strong influence on the prevalence of bank accounts in Scotland were:-

- Economic status; and
- Disability and long term illness;

3.8 In terms of access to bank accounts Table 3.2 shows that:-

- Respondents from households in which the highest income householder was permanently sick or disabled or unemployed and seeking work were less likely than other groups to have access to a bank account; and
- Those who were employed on a full time basis or were self employed were most likely to have access to a bank account.

This is an interesting finding given that the groups least likely to possess a bank account are more likely to be in receipt of state benefits which are increasingly paid directly into bank accounts. It is, however, possible that the Post Office Card Account is used as a substitute by the aforementioned groups, a theory that will be explored subsequently.

TABLE 3.2 **Access to Bank Accounts by Economic Status of Highest Income Householder 2005/06[1]**

(Household Information)

Economic Status	Access to bank account
Self Employed	**94.5%**
Employed Full Time	**94.4%**
In further/ higher education	**92.9%**
Employed Part Time	**91.5%**
Permanently retired	**85.4%**
Short term illness/ injury	**77.4%**
Other	**76.6%**
Looking after home or family	**72.5%**
Permanently sick/ disabled	**70.2%**
Unemployed seeking work	**68.6%**

Number of respondents: 27,069

Source: Scottish Household Survey Data

Note:-

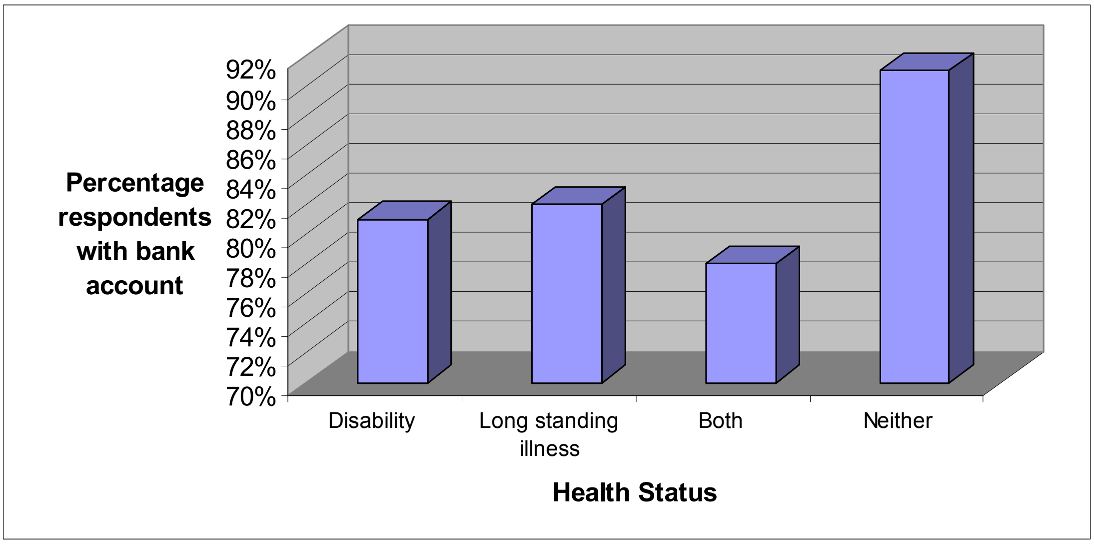
1. Responses of those in government work/ training have been discounted due to the small sample.

3.9 Figure 3.2 illustrates the effect, on account holding, of disability and ill-health among survey respondents (householder or partner of the householder[7]). It can be seen that 90% of those who were neither disabled nor had a long standing illness had a bank account. This fell to 81% for those with a long standing illness and 80% for those who had a disability. Those who had both a disability and a long standing illness were even less likely to have an account.

[7] In 71% of cases the survey respondent (person1) is also the Highest Income Householder (HIH).

FIGURE 3.2 <u>Prevalence of Bank Account by Illness or Disability of Respondent 2005/06</u>

(Household Information)



Number of respondents: 23,956
Source: Scottish Household Survey Date

3.10 Given the importance of health to the policy agenda the relationships between illness and financial exclusion were examined. Ideally the relationships between such illnesses as cancer would have been examined. However, the SHS does not ask specifically about this. Questions were, however, asked about mental health.

3.11 However, the sample size and the structure of the SHS, in which some questions are asked of the household and not of the individual, are not ideal for examining these relationships. It is possible to carry out limited analysis of the characteristics of the survey respondent (generally the householder or their partner), mental ill-health and holding a bank account amongst households. This revealed that the prevalence of bank accounts among households where the respondent answering on behalf of the household has experienced mental health problems, was below average at 69

3.12 The extent of financial service access exclusion is not evenly distributed throughout the country. Kempson and Whyley (1999) reported that non-participation in the mainstream financial services market tended to be higher in Scotland than in Great Britain as a whole, whilst non-participation was lowest in the South East of England. This assertion was based on evidence from the 1995/6 Family Resources Survey which revealed that 13% of the Scottish households questioned made no use of financial products or services. The UK comparator was 7%.

3.13 These findings are supported, to an extent, by data from the 2004/05 Family Resources Survey (Table 3.3). However, this survey also revealed a substantial decline in the proportion of Scottish households which did not have access to any form of account, bringing Scotland in line with the UK average. From the Table it can be seen that:-

- The proportion of households with access to stated financial products was, in most cases, lower in Scotland than in England or Wales;
- The prevalence of basic bank accounts was higher in Scotland than in England or Wales indicating a positive impact in addressing financial exclusion among low income groups; and
- At 4%, the proportion of Scottish households without an account of any kind was in line with the UK average.

TABLE 3.3 **Use of financial products by Country**

Financial Product	Percentage of households by Country				
	UK	England	Wales	Scotland	Northern Ireland
Current Account	90%	91%	91%	88%	83%
Post Office Account	5%	5%	6%	4%	3%
Basic Bank Account	6%	6%	6%	10%	13%
TESSA	6%	6%	5%	5%	4%
ISA	33%	34%	32%	31%	21%
Other Bank or Building Society	52%	54%	44%	45%	34%
No account	4%	4%	5%	4%	8%

Number of respondents: 28,041
Source: Family Resources Survey 2004/05 Data

3.14 In addition to variations at a national level, Kempson and Whyley (1999) reported that high levels of financial exclusion were often found in concentrated geographical areas, and in certain types of neighbourhood.

3.15 In terms of access to bank accounts at local authority level, the 2005/06 SHS data shows Perth and Kinross to be the most inclusive local authority, achieving 98% inclusion. This followed by Stirling and Orkney which each had inclusion rates of 95%. Conversely, local authority areas with the lowest take up of bank accounts were found to be North Lanarkshire and Glasgow City with 82.5% and 81.5% respectively.

3.16 When access was analysed using the Executive's 6-fold rural:urban classification, the prevalence of bank accounts was highest among those living in remote rural areas (94%) and lowest among those in large urban areas (86%). This finding is in contrast to established theories of financial exclusion (Paragraph 2.20) and is of interest given the distance that may be involved in reaching a local branch. This may reflect a trend towards mobile, telephone and internet banking, a dimension which will be examined in more detail subsequently. It is also possible that this bias may become less pronounced should the most deprived areas of cities such as Glasgow be removed from the analysis.

3.17 It is also the case that the proportion of respondents with access to a bank account was significantly lower in the 15% most deprived data zones (as determined by the SIMD, 2004) than in the rest of Scotland: 78% compared to 91%. This conclusion is supported further when the prevalence of a bank account is considered in relation to the SIMD deciles. This revealed a steady increase in account holding from 76% in the most deprived decile to 94% in the least deprived.

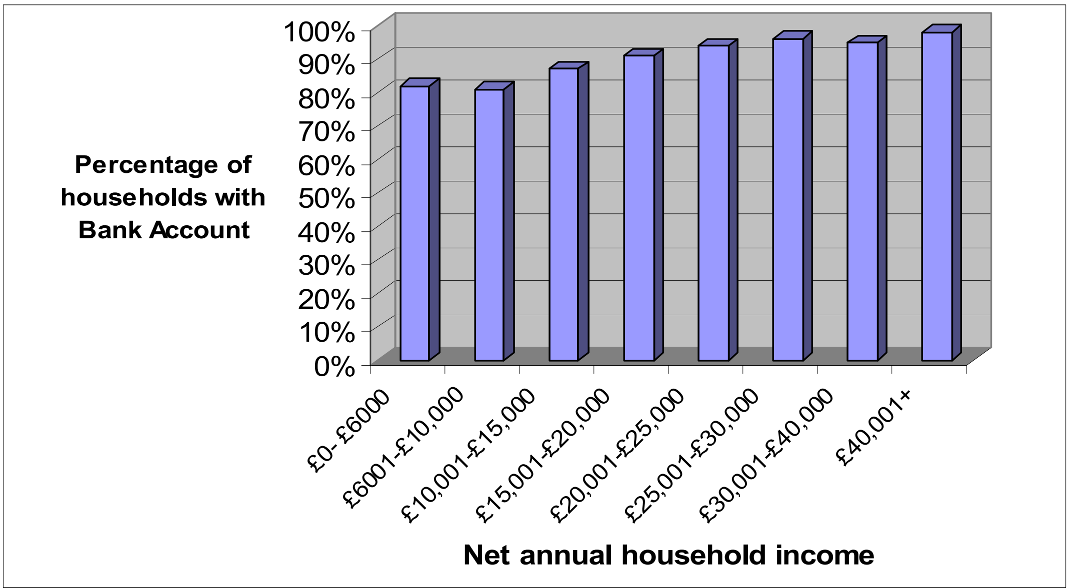
3.18 The evidence presented from the SHS highlights the groups most likely to suffer from banking exclusion namely:-

- Older people;
- The unemployed;
- Those who do not own their own home;
- Those from households headed by a single person, including single parents, single people who have never been married, widowers and divorcees; and
- Those with a disability or long standing illness.

This confirms the findings of the research highlighted in Chapter 2 (Paragraphs 2.16 to 2.19).

3.19 However, for many of these groups it is likely that a low income is the overriding factor determining the extent to which they are financially included. Figure 3.4 considers the association between household income and holding a bank account. It can be seen that households with an annual income of less that £10,000 were less likely to have access to a bank account than those having a higher annual income.

FIGURE 3.4 **Prevalence of Bank Accounts among Income Bands 2005/06**[1]
(Household information)



Number of respondents: 26,036
Source: Scottish Household Survey Data

Note:-
1. It would be useful to examine change over time. However, inconsistencies in questions (Paragraph 3.3) mean this is not possible.

3.20 The relationship between income and having a bank account is confirmed when other data sets are considered. For example, whilst direct comparisons with the Family Resources Survey 2004/05 are not possible[8], a steady increase in the proportion of households with a current account, across the UK, is observed as total weekly income increases (76% among households earning between £100 and £200 per week increasing to 98% among those earning £1,000 or over). The one exception to this pattern occurs among the group earning less than £100 per week, where the prevalence of current accounts is 83% (the same as those earning £200-£300 per week). This anomaly is also observed in the SHS. It is not immediately obvious why this should be the case, although it might have something to do with benefits increasingly being paid into bank accounts.

Underbanking

3.21 Whilst the earlier data provides basic information concerning access to financial services, and the characteristics of users, exploring the extent to which these services are used is more difficult.

[8] Data in the Family Resources Survey is gathered for different types of account while the SHS only takes an overall view of bank accounts. The Family Resources Survey also does not disaggregate data by geography and income.

3.22 Research undertaken by Kempson and Whyley (2000) revealed that "underbanking", relating to low usage or functionality of an account, may be as significant an issue as complete exclusion from banking services. In the UK it was found that as many people only had access to very limited banking services (such as a simple savings account with no cash machine card or bill payment facilities) as lacked an account of any kind. Furthermore as many people had an account that they hardly used as lacked one altogether[9]. Concern surrounding underbanking is mirrored in other developed economies.

3.23 With the exception of access to a bank overdraft and credit cards (examined in the next Chapter), data on the depth of use of common banking services is not available from the SHS. However, for many of those with access to a bank account there are a number of potential barriers which may prevent services being fully utilised or may increase costs for some sections of society. Such barriers may include:-

- Physical access restrictions;
- Refusal by service providers;
- Lack of comprehensive knowledge of available services; and
- Fear or experience of charges.

3.24 Lack of comprehensive knowledge of available services will be examined subsequently when considering access to financial services. Unfortunately, it is not possible to examine the impact of bank charging on the take up of bank accounts through the data collected by the SHS.

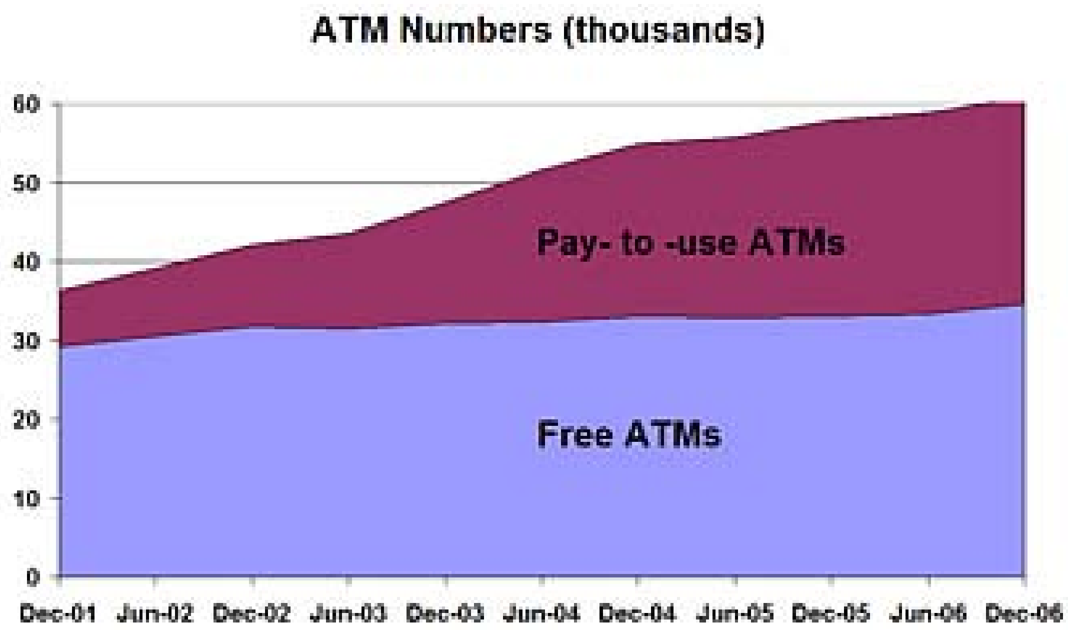
Convenience and Use of Automated Teller Machines (ATMs) and Banking Services

3.25 The issue of fee-charging ATMs is currently high on the political agenda. Evidence on the distribution and impact of fee charging cash machines in the UK suggested that 84% of adults now use cash machines to withdraw their money and that this proportion continues to rise (Citizens Advice, 2006). This is demonstrated by the Royal Bank of Scotland's Annual Report (2005) which indicated that ATM cash withdrawals increased by 13% in 2005.

3.26 In 1999 the vast majority of ATMs in the UK were free. Whilst the absolute number of free ATM's continues to rise, the proportion of free machines in relation to fee charging ones has decreased in recent years (Figure 3.5). The report of the UK ATM Working Group (2006) revealed that, as of the end of June 2006 approximately 43% of ATM's (25,500) in the UK charged a fee. It is anticipated that this number will continue to rise in the short term before the market reaches saturation point. It should however be noted that 96% of cash withdrawals in the UK continue to be made without charge[10].

[9] It is recognised that many people may have a number of financial accounts some of which are used with greater frequency than others. However, in this instance it appears that Kempson et al are referring to those users who make little use of banking services in general, regardless of the number of accounts they may hold.
[10] LINK Statistics www.LINK.co.uk

FIGURE 3.5 **ATM Numbers**



Source: LINK Statistics available online at www.link.co.uk

3.27 Whilst cash withdrawals have increased significantly in recent years, this has happened in parallel with the closure of many local bank branches. Citizens Advice (2006) state that 6,000 local branches have closed in the UK since 1990 and that the effects have been especially severe in rural areas, with around 1,000 rural communities left "bankless". The absence of a free cash machine, compounded by poor public transport provision in many areas, may leave residents with little choice but to use a fee- charging machine to access their money. The financial implications of this situation may be particularly severe among low income households, the elderly and the disabled who may lack access to private transport.

3.28 Research on the impact of fee charging cash machines was undertaken by Citizens Advice using an online survey (Citizens Advice, 2006). While the research results provide some interesting qualitative findings, wider interpretation needs to be undertaken with caution owing to the potential for self selection bias inherent in surveys. The results indicated:-

- Fee-charging "hotspots", such as hospitals and university campuses, were emerging;
- Residents in some areas felt they had no choice but to use fee charging cash machines. This was particularly the case in rural communities or deprived urban areas where bank branches had closed; and
- The impact of fee charging cash machines was most acute for those in receipt of state benefits whose income was now paid directly into bank accounts.

3.29 The average charge placed on a cash withdrawal from a fee charging machine is around £1.50. However, Citizens Advice found charges ranging from 90p to £3.00 (Ibid). Given that the average withdrawal from a fee charging machine is £20 or less, these charges could, potentially, account for a significant proportion of weekly income for low income households.

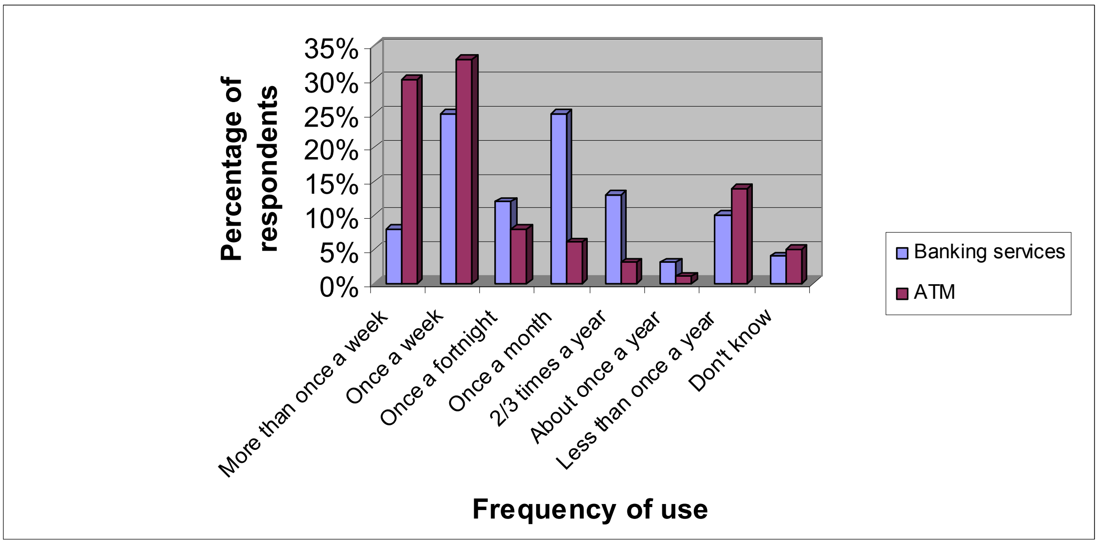
3.30 The 2005/06 SHS included questions concerning use of banking services and ATMs, among the adult population, along with their views on how convenient it was for them to use these services during standard working hours. The results are shown in Figures 3.5 and 3.6. It can be seen that:-

- ATMs were used far more intensively than general banking services, being used by around 63% of respondents at least once a week, compared to a third who made use of other banking services;
- The vast majority of users considered the services to be "Very" or "Fairly convenient" to access; and
- Banking services were more likely than ATMs to be used infrequently, with 18% of respondents stating that they used ATMs 2 or 3 times a year or less, as against 26% of those who made such infrequent use of general banking services.

3.31 When perceptions of the convenience of ATM machines were compared with the economic status of respondents, those who were permanently sick or unable to work owing to a short term illness or injury were most likely to state that it is "Very Inconvenient" for them to access the services.

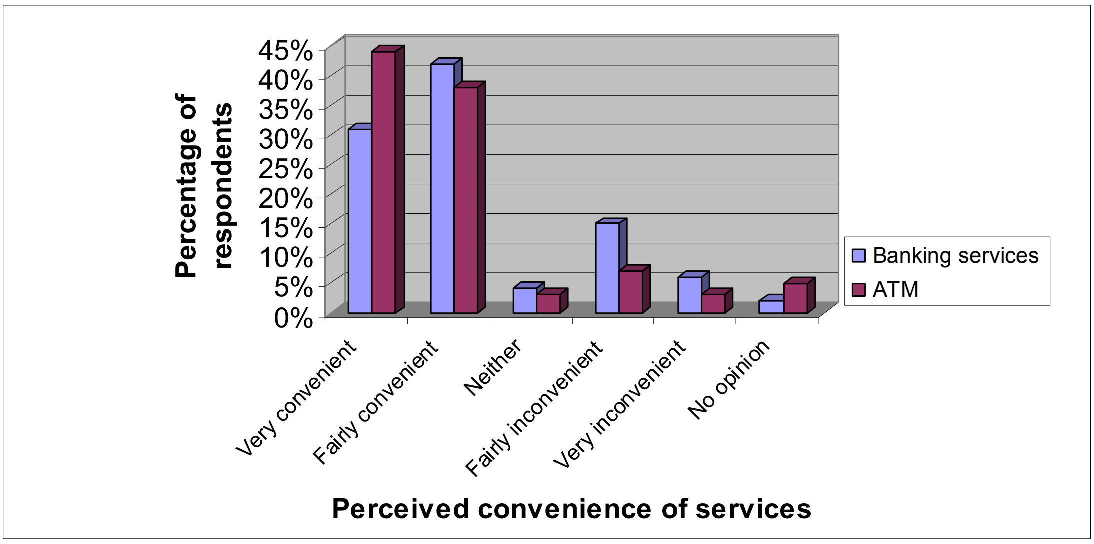
3.32 A similar pattern is observed when frequency of use was considered. Analysis of the 2005/06 SHS revealed that, amongst those classified as permanently retired, permanently sick or disabled, 37% and 43%, respectively, stated that they used banking services once a week or more. This is compared to 80% amongst those who were employed on a full time basis and 78% of part time employees.

FIGURE 3.5 **Frequency of use of Banking Services and ATM machines 2005/06**
(Adult Population)



Number of respondents: 24,813
Source: Scottish Household Survey Data

FIGURE 3.6 **Perceived convenience of Banking Services and ATM machines 2005/06** (Adult Population)



Number of respondents: 24,815
Source: Scottish Household Survey Data

3.33 Whilst it is possible to demonstrate below average usage of services among the aforementioned groups, it is not possible to infer conclusive explanations for this from the data available in the SHS. Low usage may be attributable to:-

- Poor transport provision;

- Lack of awareness of services;
- Lack of need to use the services when compared to those in work;
- Caution surrounding use of technology (especially among older respondents); or
- Greater use of credit among those in work compared to those who are not working.

3.34 The ATM Working Group sought to establish the extent to which there were gaps in access to free of charge cash machines in low income areas across the UK. This was done by comparing data showing the distribution of cash machines, provided by LINK, with the Index of Multiple Deprivation. The working group focused on areas in the bottom quartile of the Indices for England, Northern Ireland, Scotland and Wales respectively.

3.35 The analysis showed that the majority of low income areas were reasonably well served with free cash machines. One explanation for this may be the relative proximity of many deprived areas to town centres. However, it was also found that 1,701 areas (approximately 16% of those studied) located within the most deprived quartile did not have a free cash machine within the area or within a 1 kilometre radius of the centre of the area. It was estimated that around 4% of the UK population were resident in such localities (ATM Working Group, 2006).

3.36 When convenience of banks and banking services, as reported by the 200506 SHS, was considered, the differences between respondents of differing economic status who believed that services were "Very Convenient" to access are less pronounced.

3.37 However, when use of banking services was examined in relation to the economic status of respondents, a number of groups appeared to make little use of banks or banking services (using services 2 or 3 times a year or less). These groups included those who were:-

- Unemployed and seeking work (33%); and
- The permanently sick or disabled (38%).

Across all economic groups the proportion of respondents who made use of banking services 2 or 3 times a year or less was around 26%. However, the size of this figure may lend credence to the view that underbanking is a general issue across Scotland and not just for certain economic groups.

Use of the Internet

3.38 In recent years the role of the internet in the management of personal finances has increased significantly. As a result it is now possible to make savings in both time and money by accessing services over the internet. Those who lack physical access to such technology, or lack the capacity to make use of online services, are therefore at greater risk of financial exclusion.

3.39 In 2005/06 the SHS reported that approximately 50% of households had access to the internet from a personal computer in their home, a substantial increase from the 43% figure in 2003/04 (Table 3.7).

TABLE 3.7 **Whether Household can Access Internet from Home**

(Household information)

	1999/2000	2001/2002	2003/2004	2005/06
Yes	**18.7%**	**31.7%**	**42.8%**	**49.6%**
Number of respondents	30,227	29,952[11]	30,820	27,078

Source: Scottish Household Survey Data

3.40 Detailed analysis of the 2005/06 data showed that:-

- Access to the internet from a home computer was highest among those households where the highest income householder was aged 35-44 (71%), declining to 32% amongst those aged 60-74;
- At 10%, access was lowest for those aged 75+;
- Home internet access was also below average for the 16-24 age groups (39%). This may indicate access restrictions owing to the cost of the service;
- A greater proportion of households where the highest income earner was male indicated that they had access to the internet from home: 56% as compared to 40%;
- Home internet access was significantly higher among households where the Highest Income Householder was in employment, education or training 69% as compared to 24%[12];
- There was a significant relationship between housing tenure and home internet access with 74% of those who were in the process of buying their property having internet access from home (Table 3.8); and
- Bank accounts were found to be more prevalent among those households who could access the internet from home, 94% as compared to 83%.

[11] The figure is an aggregate of quarterly data presented in 2003/04 annual report as SPSS crosstabulations provided very low positive response in 2001/02. This may be attributable to the form of the question. See Appendix 1.

[12] The variable is an aggregate of those self employed, employed on a full or part-time basis, in full time education or on a government work or training scheme.

TABLE 3.8 **Home internet access by housing tenure**
(Household Information)

Housing Tenure	Proportion of households with home internet access
Buying property with help of a mortgage/ loan	**74%**
Rent- Private landlord	**49%**
Own property outright	**44%**
Other	**36%**
Rent- HA/ Co-op	**26%**
Rent- LA/SH	**21%**

Number of respondents: 27,078
Source: Scottish Household Survey Data

3.41 Internet access from a personal computer in the home in 2005/06 was found to be highest in East Renfrewshire (63%) and Aberdeenshire (62%). Access appeared to be most restricted in Dundee City where only 38% of respondents could access the internet from home. Access was also low in Glasgow City (40%) and East Ayrshire (41%). As one might expect, a significant relationship was found between home internet access and overall levels of deprivation, with the prevalence of home internet access being significantly lower in the 15% most deprived data zones (31%), than in the rest of the country (53%).

3.42 Access to the internet from a home computer was above average in accessible rural areas and remote rural areas at approximately 58%. The lowest level of access was found among respondents from large urban areas where around 46% of respondents had internet access from home. This result may reflect higher levels of public access in urban areas or may be a result of an income differential. Interpretation should however be made with caution as the result was not statistically valid.

3.43 From 2001 questions concerning use of the internet were asked of respondents included in the sample of random adults. When use of the internet for personal banking, financial or investment activities was examined, the SHS revealed a steady increase in the proportion of respondents who stated that they used the internet for this purpose between 2001/02 and 2005/06 (Table 3.9).

TABLE 3.9 **Use of the Internet for Banking, Financial or Investment Activities**[13]
(Adult Population)

	2001/2002	2003/2004	2005/06
Uses the internet for personal banking/ financial/ investment activity	**27%**	**34%**	**40%**
Number of respondents	9,796	12,982	12,917

Source: Scottish Household Survey Data

Note: The question was only asked of those adults from household previously coded as having access to the internet from home.

[13] Questions relating to specific use of the internet amongst the adult population were not asked in 1999/00.

3.44 However, the survey also highlighted a steady decrease in the proportion of respondents who stated that they would use the internet for this purpose in future (Table 3.10). This may suggest that:-

- Online transactions may not be as popular or convenient as service providers believe;
- Whilst those who embrace technology may already have made the switch to online services, there may be a hard core of people who it will be difficult to convince; or
- Increasing fears about the security of internet transactions are reducing confidence in online services.

TABLE 3.10 Future Use of the Internet for Banking, Financial or Investment Activities
(Adult Population)

	2001/2002	2003/2004	2005/06
May use internet for personal banking/ financial/ investment activity in future	**18%**	**15%**	**11%**
Number of respondents	9,796	11,464	12,909

Source: Scottish Household Survey Data

Note:-
1. The question was only asked of those adults from households previously coded as having access to the internet from home.

The Role of the Post Office

3.45 With over 14,000 branches across the UK, the Post Office is larger than all of the UK's banks and building societies combined. The Post Office also has branches in locations where banks and building society branches have long since ceased to operate. However, in recent years the number of branches has been declining. For example, in 2002 the closure of 3,000 branches, mainly in urban areas, was announced. More recently (December 2006) closure of 2,500 to 3,000 rural branches was announced.

3.46 Despite these closures the Post Office network is still extensive. As a result the 2006 report of the Treasury Select Committee concerning banking services and financial inclusion considered the role of the Post Office in addressing financial inclusion to be important. The main reason for this was that, under universal banking arrangements, people with basic bank accounts and some current accounts were able to access their cash without charge over the post office counter. This position was supported by consumer organisations such as Citizens Advice. However, at present 60% of current account holders cannot use the Post Office network to access their cash. In particular, 3 major banking groups, HSBC, HBOS and RBS, do not offer any Post Office access to their current accounts. The reasons for this are claimed to be the costs of such an arrangement and the fact that the Post Office was viewed as a competitor in the financial services market.

3.47 In addition, when the issue of cash machines in Post Office branches was examined by the Treasury Committee, it was found that, of the 2,493 cash machines within Post Office branches, around 74% were fee charging (The Treasury Select Committee, 2006). It should, however, be noted that the Post Office has since reviewed its policy and has committed to withdrawing from contractual agreements with existing providers, at the end of the contract period, and introducing free to use Post Office Ltd ATM's in branches.

3.48 The 2005/06 SHS shows that around 9% of the Scottish population make use of a Post Office Card Account (POCA)[14]. Among this group:-

- Around 7% of households in which the Highest Income Householder (HIH) was male made use of the POCA, this is compared to approximately 11% of households where the highest income earner was female;
- POCAs were more prevalent among households headed by a single person and amongst those who rented their home from a local authority landlord (19%) or housing association (21%). This is compared to 4% among those who were buying their home with the help of a mortgage and 5% among those who rented from a private landlord;
- 16% of households where one person suffered from an illness or disability made use of the POCA. This increased to 18% among those where 2 household members had a long term illness or disability. This is compared with 5% among households in which no one had a long term illness or disability. It has been shown earlier that those with a disability or long standing illness were less likely to have a conventional bank account (Paragraph 3.8, Figure 3.2). It may therefore be that they use the POCA in preference; and
- 27% of respondents from households in which the HIH was permanently sick or disabled made use of a POCA as did 21% of those where the HIH was unemployed and seeking work and 19% of those unable to work owing to short term injury or illness. This was compared to 3% of households where the HIH was employed full time or self employed and 5% of those who were employed on a part time basis.

3.49 The 2005/06 SHS showed that POCAs were most prevalent in West Dunbartonshire and North Ayrshire where around 17% and 15% of respondents respectively had an account. They were least common in Shetland and Moray, where around 3.5% of respondents stated that they had one. This might indicate a correlation between having such an account and deprivation/poverty, although to some extent this is self evident given that the account can only be used to receive benefits, state pensions and tax credit payments.

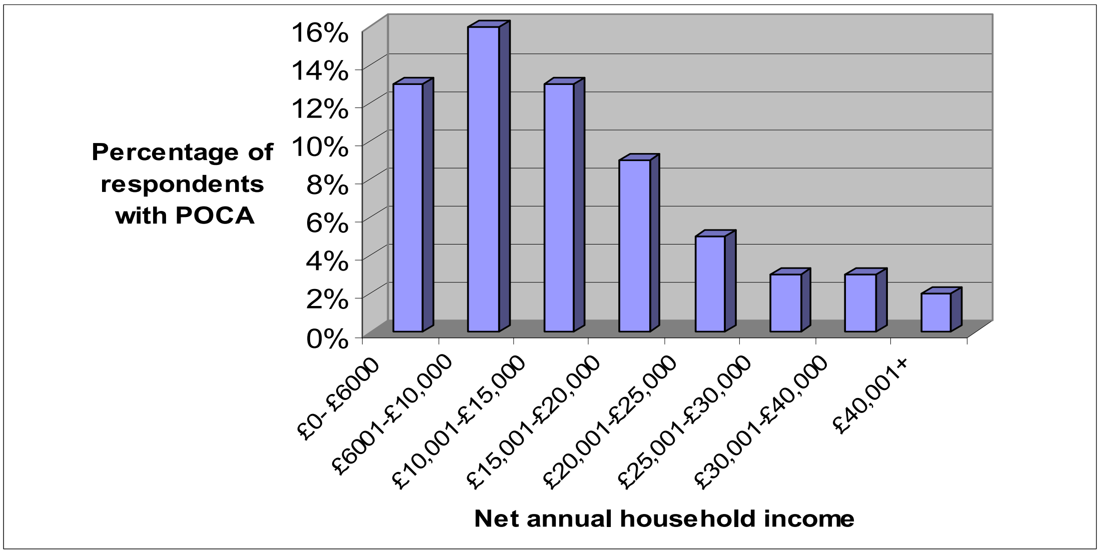
3.50 A contrasting pattern to that which emerged when examining the use of bank accounts is apparent when the prevalence of POCAs is analysed by location. Account cards were most common in large urban areas (10%). Again this may simply be showing where benefit receipt is highest.

3.51 A further finding related to geographical location concerns the use of POCAs in rural areas. 2005/06 data revealed that use was less common in small remote towns (7.5%) than in remote rural areas (8.2%). This may be a reflection of Post Office closures in small towns in recent years.

[14] The Post Office Card Account is a basic account that can only be used to receive benefits, state pensions and tax credit payments. Users can withdraw money free of charge at any Post Office.

3.52 Over twice the proportion of households in the most deprived 15% of Scottish data zones had POCAs, 18% compared to 7% in the rest of the country. Again given that POCAs are likely to be associated with low income, reflecting their eligibility conditions, this is not unexpected. Further investigation which considers the prevalence of the POCAs amongst respondents with differing annual incomes revealed that they were more common among low income groups, with respondents earning between £6001 and £10,000 being most likely to hold such an account. Interestingly, account holding was lower amongst those earning £0-£6000 per annum. This may be highlighting issues of exclusion amongst the lowest income earners for whom products such as the POCA may be of most benefit (Figure 3.11) yet are not widely used.

FIGURE 3.11 **Use of POCA by net annual income 2005/06**
(Household Information)



Number of respondents: 26,037
Source: Scottish Household Survey Data

3.53 The SHS has collected information on the perceived convenience of the Post Office since 1999. As Table 3.12 shows the proportion of respondents who believed it was "Very convenient" to make use of the Post Office during normal opening hours has declined in recent years, from a high of 52% in 2001/02 to 46% in 2005/06. This is most likely a reflection on Post Office closures or other institutional changes such as reduced opening times (Paragraph 3.44).

TABLE 3.12 How convenient do you find it to make use of a Post Office

(Column percentages) (Adult Population)

	1999/2000	2001/2002	2003/2004	2005/06
Very Convenient	**51%**	**52%**	**46%**	**46%**
Fairly Convenient	**39%**	**38%**	**41%**	**39%**
Neither convenient or inconvenient	**1%**	**2%**	**3%**	**2%**
Fairly inconvenient	**6%**	**5%**	**6%**	**8%**
Very inconvenient	**2%**	**2%**	**3%**	**4%**
No Opinion	**1%**	**1%**	**1%**	**1%**
Number of respondents	28,344	28,664	28,726	24,815

Source: Scottish Household Survey Data

3.54 Information concerning the use of the Post Office among the adult population was collected for the first time by the SHS in 2005/06. From the survey data it appears that just over a third of respondents (34%) make use of a Post Office once a week or more, whilst 27% make use of services less than 3 times a year. When use was compared to economic status it was apparent that those who were not in employment, education of training made greater use of the Post Office than those who were, with 46% stating that they use the Post Office once a week or more. This is compared to 25% of those who were in employment, education of training.

3.55 Recent moves may further reduce the role of the Post Office in promoting financial inclusion. In January 2006 the announcement was made to the UK Parliament that the Department of Work and Pensions would not be renewing its contract with the Post Office to provide the POCA when it expires in 2010-11. This move has been justified on the grounds of cost and limited functionality of the Account. However, apparently discussions are currently underway about the launch of a new service after 2010, although details are not, as yet, available.

3.56 However, the November 2006 report of the House of Commons Treasury Committee criticised the government for its handling of the situation (The House of Commons, 2006a). The report revealed that around 30% of POCA holders in the UK do not have access to a bank account. Indeed this figure may be even higher in Scotland as SHS data suggests that in 2005/06 around 42% of those who held a POCA did not have a bank account. The Treasury Committee stated that the government must improve consultation with those affected and recognise that successful migration from POCAs to basic bank accounts needs to address the barriers to opening such accounts.

3.57 In addition on the 15th December 2006, it was announced by the Trade and Industry Secretary that, in an attempt to reduce financial loses, 2,500 small and rural Post Offices, out of the nation's 14,263, would close by mid-2008. It is thought that around 600 of these will be in Scotland. The move has been justified by government on the grounds that internet banking, cash points and direct debits are altering personal habits thereby rendering the Post Office network, as it currently stands, unviable. However, for those lacking access to such services and technologies, the closures may reinforce financial and social exclusion.

Credit Unions

3.58 The FSA reports that there are currently around 571 credit unions across the UK, approximately 22% (127) of which are in Scotland. In 2004 the total value of loans made to Scottish credit union members was around £108 million. Credit unions have 4 statutory objectives as laid down by the Credit Unions Act 1979. These are:-

- The promotion of thrift among the members of the society by the accumulation of their savings;
- The creation of sources of credit for the benefit of the members of the society at a fair and reasonable rate of interest;
- The use and control of the members' savings for their mutual benefit; and
- The training and education of the members in the wise use of money and in the management of their financial affairs.

3.59 The Treasury reports that credit unions have been growing strongly in recent years, with membership having doubled since 2002. Statistics published by the FSA state that, at 30 June 2005, there were 509,248 adult credit union members across the UK[15]. Data provided for Scotland shows that in 2004 adult credit union members totalled 182, 051, whilst there were 23, 878 juvenile members.

3.60 The 2005/06 SHS reports that around 3% of respondents hold an account with a credit union. This represents a 1% increase on 2003/04 figures and no doubt reflects the various policy initiatives that have been implemented to facilitate membership growth by the Executive.

3.61 The characteristics of credit union members were examined by extracting data from the 2005/06 SHS on those households which held an account with a credit union. Results revealed that, in the majority of households which possessed a credit union account, the HIH was aged between 35 and 59, with relatively few members being at the extremes of the age spectrum (Figure 3.13).

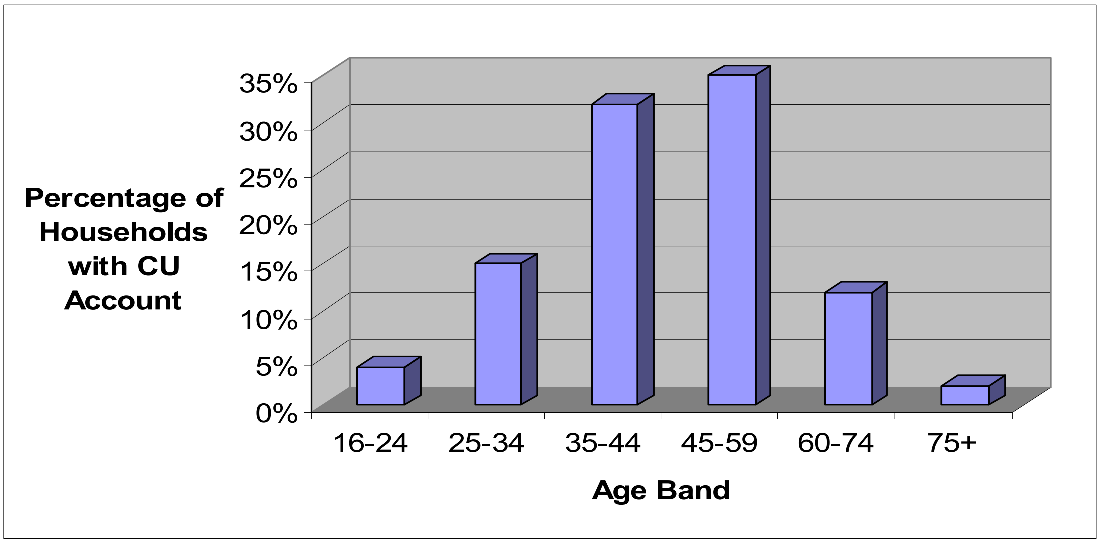
[15] This figure is based on unaudited quarterly returns for the period to 30 June 2005.

3.62 Other characteristics included:-

- In the majority of households (69%) the HIH was employed on a full time basis;
- 71% of households which had an account with a credit union did not contain any members who suffer from a long term illness or disability;
- 99% of respondents with a union account considered themselves to be of white ethnic origin; and
- There was no statistical relationship between the gender of the HIH and credit union membership.

FIGURE 3.13 **Age Profile of Credit Union Members 2005/06**

(Household Information)



Number of respondents: 775

Source: Scottish Household Survey Data

3.63 Analysis of the 2005/06 SHS revealed that access to financial services and products was relatively high amongst households which had a credit union account. For example: - .

- 92.5% of credit union members, or their partners, had a bank account. The Scottish comparator was 88.4%;
- 71% of those with an account owned their home or were buying it with the help of a mortgage. The comparable Scottish figure was 65%;
- A higher proportion of credit union members had access to credit cards such as Access or Visa, than in Scotland as a whole (63% compared to 52%);
- The prevalence of home contents insurance was higher among those households which held an account with a credit union (88% compared to 86%);
- 61% of those with a Credit Union account had accumulated savings or investments as compared to 51% across Scotland as a whole. The value of those savings and investments is illustrated in Table 3.13. It can be seen that, generally, union members tend to have savings of under £10,000 when compared to the Scottish picture (59% as against 41%)

This may reflect the fact that most credit union members were making use of other financial products and services;

- 5% of CU members made use of shopping vouchers from companies like Provident or Shopacheck. This was found to be above the national average of 2%; and
- Similarly, credit union members made above average use of loans from finance companies such as Provident with 7% stating that they had such a loan. This compared to 3% across the whole sample.

TABLE 3.13 **Value of savings and investments 2005/06**

(Household Information)

Values of Savings and investments	Credit Union Member	Scotland
A: Under £1,000	**22%**	**12%**
B: £1,000-£4,999	**24%**	**17%**
C: £5,000-£9,999	**13%**	**12%**
D: £10,000-£15,999	**5%**	**8%**
E: £16,000-£29,999	**6%**	**7%**
F: £30,000-£74,999	**4%**	**8%**
G: £75,000 or more	**2%**	**6%**
Refused	**24%**	**30%**
Number of respondents	474	13,779

Source: Scottish Household Survey Data

3.64 Table 3.14 looks at the incomes of credit union members. It can be seen that credit union accounts were more common amongst those earning an average or above average income than among low income groups. For example:-

- Only 10% of union members had incomes of under £10,000, compared to the Scottish figure of 25%; and
- 41% had incomes of over £25,000 compared to 29% of the Scottish population.

This finding may account for the above average access to products and services among respondents having a credit union account. This finding may contradict traditional perceptions of credit union members and might raise questions about the role of unions, in their current form, to alleviate financial exclusion amongst high risk groups.

TABLE 3.14 **Household Income of those with Credit Union Account 2005/06 (HIH plus Partner)**

(Household Information)

Income Band	Credit Union Members	Scotland
£0- £6000	**3%**	**7%**
£6001- £10,000	**7%**	**18%**
£10,001- £15,000	**18%**	**21%**
£15,000- £20,000	**15%**	**14%**
£20,001- £25,000	**15%**	**11%**
£25,001- £30,000	**14%**	**9%**
£30,001- £40,000	**18%**	**12%**
£40,001 +	**9%**	**8%**
TOTAL	**100%**	**100%**
Number of respondents	770	26,040

Source: Scottish Household Survey Data

3.65 Further analysis of the 2005/06 SHS revealed that in 15 of the 32 local authorities, respondents in possession of credit union accounts made up less than 1% of the total. Indeed in

3 authority areas no respondents stated that they had an account with a credit union[16]. Credit union accounts were most prevalent in West Dunbartonshire South Lanarkshire and Glasgow City where 11% and 7% of respondents, respectively, stated that they had one.

3.66 Perhaps unsurprisingly, credit union accounts were more common in urban areas than in rural locations. In 2005/06, 4% of those resident in large urban areas held an account with a union compared to only 0.6% in remote rural areas and 0.5% in small remote towns (Table 3.15).

TABLE 3.15 **Prevalence of CU accounts by location 2005/06**
(Household Information)

Location	Percentage of SHS respondents with a Credit Union account	Proportion of Credit Union Members
Large urban	**4.4%**	**63%**
Other urban	**2.6%**	**26%**
Small accessible towns	**1.6%**	**5%**
Small remote towns	**0.5%**	**1%**
Accessible rural	**1.1%**	**4%**
Remote rural	**0.6%**	**1%**
Total	**2.9%**	**100%**

Number of respondents: 775
Source: Scottish Household Survey Data

3.67 When the 15% most deprived data zones were considered, findings were similar to those highlighted in relation to POCAs, with possession of a credit union account being proportionately more common amongst those in deprived areas than in the rest of the country, 6% compared to 2%. To some extent this finding contradicts the earlier findings about the relative prosperity of union members (Table 3.14). Why this should be the case is explored in the next Paragraph.

3.68 The findings as to the characteristics of credit union members mirror those of earlier work that found most members not to be financially excluded (Hayton et al, 2005). However, some members clearly do exhibit some of the characteristics that one would associate with exclusion. For example, there is greater use of such sources of credit as Provident (Paragraph 3.62) and more members in deprived areas. The reason for this apparent anomaly may be the characteristics of the credit union movement in Scotland. This tends to be polarised between the large employee based, or former employee based, unions, such as Capital, Glasgow's Credit Union and Scotwest. As members had to be employees, or former employees, they were by definition in paid employment. As such they were less likely to be financially excluded. At the other extreme are the many, often small, community based unions whose membership is often drawn from deprived areas. It may be that it is the members of these unions that make use of such sources of credit as Provident. Unfortunately the SHS does not allow these differences to be explored.

[16] These authorities were Eilean Siar, Moray and Orkney

Conclusions

3.69 What emerges from this Chapter is that access to financial services in Scotland has generally improved in recent years. For example, if access to a bank account is seen as a measure of financial inclusion then Scotland has become more financially inclusive. However, it is apparent that there is a relationship between financial exclusion and poverty and deprivation. This is apparent both spatially and in terms of the socio economic characteristics of those who are excluded. For example exclusion tends to be concentrated in the worst 15% data zones and amongst those who are unemployed and sick and disabled.

3.70 However, recent policy initiatives, in particular the POCA, seem to have been instrumental in giving those who are most likely to be financially excluded access to basic banking facilities. Given this, the ending of the Post Office's contract to provide POCA may have a significant effect on financial inclusion in the United Kingdom, an issue which is recognised in the report of the Treasury Select Committee (2006).

3.71 The other main policy implication of the analysis relates to the characteristics of credit union members. These appear to be polarised. At the one extreme are those who are financially included, in that, in addition to access to credit union facilities, they make use of many other financial services. At the other extreme are those members who make use of those services that tend to be associated with financial exclusion, such as Provident. This polarisation reflects the characteristics of credit unions in Scotland, there being a number of large employee, or former employee, based unions and then a large number of smaller community based ones, many of which have bonds covering areas of deprivation. The policy implications of this are that any initiatives that are to use credit unions to overcome financial exclusion need to be carefully targeted.

3.72 The final thing to emerge from the analysis is that there seems to be a correlation between financial inclusion and geography. In particular it seems that the more remote the area then the greater the extent of financial inclusion as measured by such things as having a bank account. The extent to which this reflects necessity, or the relative affluence of these areas, is unclear.

CHAPTER FOUR FINANCIAL PRODUCTS

Introduction

4.1 The purpose of this Chapter is to look at issues around the use of financial products. Financial products are loosely defined as being anything that can be provided to a consumer, such as credit cards or insurance. The Chapter looks at 4 main issues:-

- The use of credit;
- Sources of borrowing;
- Mortgages; and
- Insurance.

4.2 For each of these the differences in geography and the socio-economic characteristics of those using them are analysed. The geographic analysis looks at variations across local authorities, rural:urban differences based on the Executive's 6 fold rural:urban classification and differences based on the levels of deprivation as identified in the SIMD. Socio-economic factors analysed cover the key characteristics of the individuals, such as age, gender, economic status and housing tenure.

Use of Credit

4.3 In 2005 the National Consumer Council (NCC) estimated that around 7.8 million people were excluded from the mainstream credit market in the United Kingdom. This figure is derived from examination of the number of people who had applied for credit and had been refused on more than one occasion (NCC, 2005). This was supported by evidence from the Personal Finance Research Centre (PFRC) which found that 6.2 million people of working age could potentially benefit from the wider availability of affordable credit, whilst 3.3 million lacked ready access to the mainstream credit market The House of Commons, 2006b).

4.4 Use of credit in relation to financial inclusion is a complex issue which appears to have 2 main dimensions:-

- Those who are excluded from the mainstream credit market, through denial by service providers or through personal choice. In these circumstances it is possible that people are forced to rely on more expensive forms of credit or that they may fail to realise the quality of life benefits that could result from the availability of affordable credit; and
- Those who receive credit from mainstream providers which exceeds their ability to meet repayments. This may result in large debts and a detrimental impact on the person and their family. The Families and Children Study 2004 suggests that around 20% of Scottish families have debts (excluding up to date mortgage payments but including such payments if they are in arrears). Of these, 10% were found to have one debt while 5% had two, 4% had three or four and 1% had five or more debts[17].

[17] Number of debts equals the number of household bills which are in arrears including rent and mortgage repayments, plus one if there are any credit card or catalogue arrears (regardless of the number of credit, charge,

4.5 Whilst the SHS provides basic information on the characteristics of those households which make use of various forms of credit and sources of borrowing, conclusive explanations of patterns of use and non-use are not available. SHS data for 2005/06 on the use of credit (Table 4.1) suggests that:-

- 52% of respondents had credit cards in 2005/06;
- 16% and 18% respectively had a store card or used mail order schemes;
- A small proportion of those surveyed used hire purchase agreements, charge cards or shopping vouchers; and
- Around one third of respondents did not make use of any of the sources of credit listed in the Table, a seemingly large minority.

TABLE 4.1 **Sources of Credit 2005/06**

(Household Information)

Sources of credit	**Percentage respondents using this source of credit**
Credit Cards	**52%**
Mail order	**18%**
Store Cards	**16%**
Hire Purchase Agreements	**8%**
Charge Cards	**5%**
Shopping vouchers (Provident etc)	**2%**
None	**35%**
Refused	**3%**

Number of respondents: 27,069
Source: Scottish Household Survey Information

4.6 The key finding would seem to be that a high proportion of the population do not make ready use of these sources of credit. It is not, however, clear if this is as a result of personal choice or as a result of exclusion. There is a small group of people who use store cards and mail order schemes which, when goods are not paid for in full, are more expensive forms of credit. One major catalogue retailer provides a good example of this with the price of an item paid over 20 weeks being 29% higher than the same item if bought by cash. However, as data concerning repayment of such credit is not available, and the proportion of respondents who make use of these sources is relatively small, this is not considered to be a widespread issue.

4.7 Whilst just over half of households surveyed had access to credit cards in 2005/06, there was a high degree of variation by local authority area. Dundee City stood out as having the lowest proportion of people with credit cards (33%), while usage was also low in Glasgow City and West Dunbartonshire (40% and 41% respectively). At the other extreme, East Renfrewshire (71%) and East Dunbartonshire (67%) had the greatest proportion. Two key issues emerge from this analysis:-

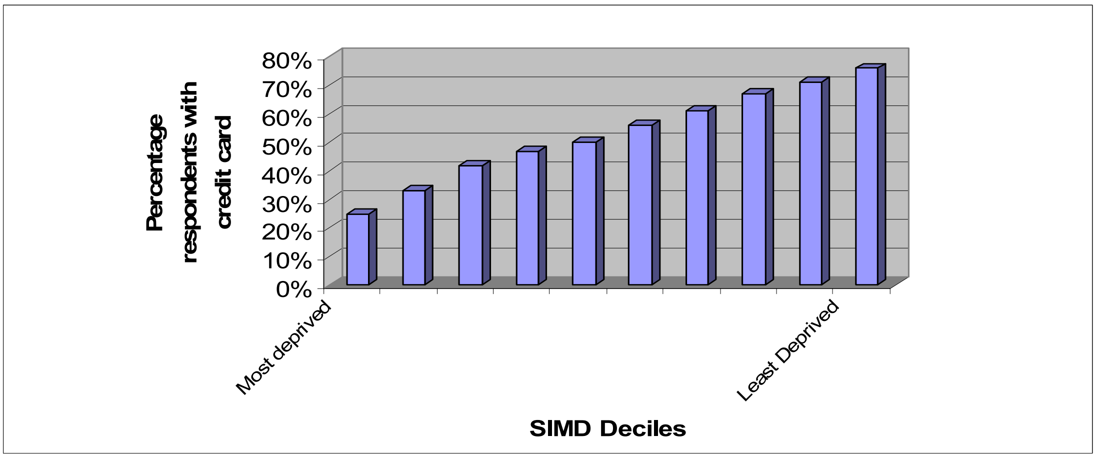
shop, store cards or catalogue agreements with arrears) and plus one if there are any loan arrears (regardless of the number of individual loans from banks, finance companies, money lenders, friends or employers).

- Glasgow, Dundee and West Dunbartonshire have high levels of deprivation, as measured by the 2006 SIMD; and
- East Renfrewshire and East Dunbartonshire have low levels of deprivation and high numbers of residents who commute into the higher paying occupations in Glasgow.

4.8 There was also a rural dimension to the results, with a greater proportion of households in remote rural (60%) and accessible rural areas (59%) having a credit card, whilst respondents from large urban areas were proportionately less likely to have one (48%). This finding may be a reflection of relative levels of deprivation or, alternatively, the convenience of credit card transactions which may be made online or over the phone in rural areas which lack the services and amenities of urban areas.

4.9 The suggestion that urban areas, in particular, have low levels of credit cards due to deprivation is borne out when assessing differences between the most deprived 15% of datazones and the rest of the population. In the 15% most deprived data zones, 27% of those surveyed had a credit card. In the other areas 57% of residents had a credit card. In addition, when looking at the proportion of people with a credit card in the continuum from the most to the least deprived areas in Scotland, there is a clear upward trend. Thus only a quarter of residents in the 10% most deprived datazones had a credit card compared to around three quarters in the least deprived 10% (Figure 4.1).

FIGURE 4.1 **Percentage of respondents by SIMD Deciles using credit cards 2005/06**
(Household Information)



Number of respondents: 27,045
Source: Scottish Household Survey Data

4.10 Analysis of the relationship between credit card possession and the socio-economic characteristics of households showed that:-

- A higher proportion of households in which the HIH was male (58%) than female (42%) possessed a credit card in 2005/06;

- A lower proportion of those aged 16-24 (34%) and 75+ (28%) had credit cards than those in the intermediate age brackets. Those in the 35-44 age group had the highest level of credit card ownership (62%);
- The highest level of credit card possession was found amongst married couples (65%) and lowest amongst those householders who had been widowed (29%). This may however reflect the average age of these respondents;
- Further analysis revealed that for all categories of household headed by a single person (see Paragraph 2.17), especially single parents (29%) and single pensioner (28%) households, credit card possession was below average, while the highest levels were recorded among small families (68%);
- Possession of a credit card was over 50% among respondents from all religious groups with the exception of Roman Catholics (45%) and those of Islamic faith (37%);
- Credit cards were very common among those who were in the process of buying their home with the help of a mortgage or loan (72%). Conversely, credit cards were least prevalent amongst respondents who were renting their homes from the local authority (17%), or a housing association (19%); and
- A similar pattern to that observed in relation to bank accounts was evident when use of credit was compared with health and physical ability. Use of credit cards was lower among those households where one or more members suffer from a long term illness or disability (35%, as compared to 60%).

4.11 Access to credit cards among respondents of differing economic status is shown in Table 4.2. From the Table, it is apparent that possession is highest among those households where the HIH is self employed and lowest for those who were unemployed and seeking work.

TABLE 4.2 **Use of credit cards by economic status of HIH 2005/06**
(Household Information)

Economic Status	Percentage of economic group having a credit card
Self employed	**74%**
Employed full time	**69%**
Employed part time	**48%**
In further/ higher education	**43%**
Permanently retired	**39%**
Other	**32%**
Short term illness or injury	**24%**
Permanently sick or disabled	**18%**
Looking after home or family	**17%**
Unemployed seeking work	**13%**
Total	**52%**

Number of respondents: 27,068
Source: Scottish Household Survey Data
Note:
1. Respondents at school or in a government work or training scheme have been discounted due to the small sample size.

4.12 Although the above analysis illustrates the socio-economic characteristics of those who engage with mainstream credit providers, especially credit card providers who are the principal source of credit for the majority of respondents, it is also important to determine the characteristics of those who do not engage with the sector.

4.13 When looking at the results by geography in 2005/06 a contrasting pattern to that observed in the assessment of credit card possession emerged. Large urban areas contained the greatest proportion of respondents who had not accessed any of the listed forms of credit (38%). This compared to 25% of respondents from remote rural areas. There was also a clear deprived area dimension, with respondents in the 15% most deprived datazones being less likely to have accessed credit (54% compared with 31%).

4.14 The key findings from the 2005/06 SHS regarding the socio-economic status of households who make no use of credit include:-

- 61% of householders aged 75+ and 49% of those aged between 16-24 had not accessed any of the forms of credit considered;
- 57% of householders who had been widowed made no use of credit. Once again this may reflect the average age of these respondents as 51% of this group were aged 75+; and
- Those who were unemployed or permanently sick or disabled were least likely to make use of credit (Table 4.3).

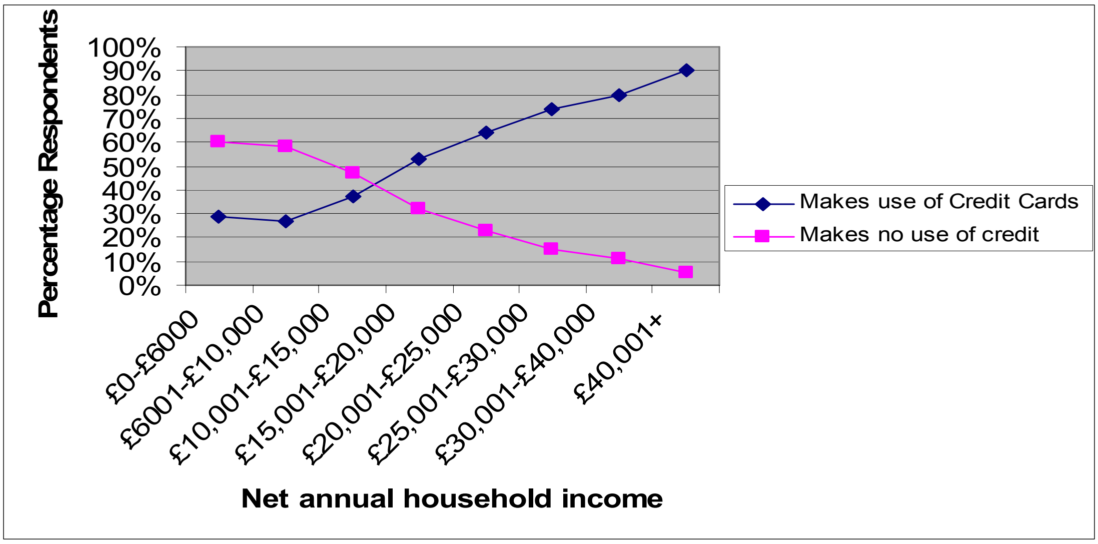
TABLE 4.3 Economic status householders who make no use of credit 2005/06
(Household Information)

Economic Status	Percentage of economic group not making use of credit
Unemployed seeking work	66%
Permanently sick or disabled	61%
Short term illness or injury	59%
Looking after home or family	54%
Other	53%
Permanently retired from work	49%
In further/ higher education	44%
Employed part time	31%
Employed full time	19%
Self employed	16%
Total	35%

Number of respondents: 27,067
Source: Scottish Household Survey Data
Note:
1. Respondents in a government work or training scheme have been discounted due to the small sample size.

4.15 The results show that there are a number of factors determining the likelihood that a person will have a credit card or some other source of credit. As with bank accounts (considered in the previous Chapter), it is believed that income may be a key determinant, although age may also play an important role. When respondents were considered in terms of their annual income, use of credit cards appeared to have a positive correlation with income, while the reverse was true among those who made no use of any type of credit. This is illustrated by Figure 4.2.

FIGURE 4.2 Use of credit by income band 2005/06
(Household Information)



Number of respondents: 26040
Source: Scottish Household Survey Data

Sources of Borrowing

4.16 The ability to borrow is an important element of financial inclusion. Households often need small amounts of credit to be able to pay for unexpected expenses or bills over the course of the year. For those on low incomes this pressure may be exacerbated by peaks and troughs in their income and outgoings. For the majority, mainstream products offer a mechanism for dealing with these variations. However, there are still a number of people who cannot access mainstream forms of borrowing. Those who are excluded from using these products may turn to moneylenders or pawn brokers. They can charge high levels of interest on loans (up to 500% APR) and, in extreme cases, may use threats of violence and take benefit books or passports as loan security. Access to suitable sources of borrowing is therefore a key element in promoting financial inclusion.

4.17 SHS data shows that the majority of respondents (73%) had not borrowed money from any of the sources considered in the previous 12 months (Table 4.4). Among those who had borrowed money in the past 12 months:-

- 12% of respondents used a bank overdraft, whilst 9% had taken out a fixed term loan from a bank, building society or credit union; and
- Only a small number of respondents had taken a loan from a finance company and very few households had taken out a loan from an illegal money lender or "tally" man. Given the sensitive nature of these issues it may be that figures underestimate the true scale of use.

This pattern appears to be replicated across the UK. For example, evidence from the Families and Children Study (Lyon et al, 2006)) showed that bank overdrafts were the most significant form of borrowing among both couples and lone parents.

TABLE 4.4 Sources of Borrowing Used Over Previous 12 Months 2005/06
(Household Information)

Sources of borrowing	Percentage of total respondents
Bank overdraft	**12%**
Fixed term loan from bank, building society, credit union	**9%**
Loan from finance company (e.g. Provident)	**3%**
Loan from friend or relative	**3%**
DSS social fund loan	**2%**
Pawnbroker	**0.2%**
Loan/ advanced wage from employer	**0.2%**
Loan from money lender or 'tally' man	**0.1%**
Cheque cashing service	**0.1%**
Other	**0.6%**
None	**73%**
Refused	**4%**

Number of respondents: 27,069
Source: Scottish Household Survey Data
Note: Mortgages are excluded from the sources of borrowing considered by the SHS.

4.18 We now turn to an assessment of the places and people who had and had not borrowed money in the past 12 months. While access to affordable mainstream credit and borrowing are viewed as indicators of, and contributors to financial inclusion, it is important to highlight that exclusion cannot necessarily be equated with the failure to borrow money. Given that the majority of respondents have not borrowed money in the past year it seems doubtful that even a minority of these are financially excluded, particularly given that many of the sources of borrowing may be considered as short term or targeted loans for a specific purpose or as a crisis measure. Failure to borrow is, therefore, more likely to reflect the personal circumstances and wishes for the majority of respondents.

4.19 Analysis suggested that there was no clear geographic pattern to borrowing, although when analysed according to the rural:urban classification small remote towns[18] stood out as having the greatest proportion of people (76%) who had not borrowed money in the preceding 12 months. This is slightly above the average of 73%. No statistical relationship between living in the 15% most deprived data zones and levels of borrowing was detected.

4.20 When assessed in terms of use of a bank overdraft, the most common form of borrowing in 2005/06, some general issues emerge. In the most deprived areas 8% of respondents used a bank overdraft. This is lower than in the rest of the country, where 13% made use of an overdraft. This is, no doubt, a reflection of those who live in the worst SIMD areas not having bank accounts or not being granted overdrafts and therefore being unable to use this form of credit, which in its turn may be a reflection of financial exclusion.

4.21 In many respects the lack of any clear geographical pattern on borrowing was replicated when borrowing was analysed in terms of socio-economic characteristics. However, it was possible to identify some significant findings:-

- 91% of those who were permanently retired had not borrowed any money in the preceding 12 months;
- 91% of those who had been widowed made no use of loans as did 86% of those who owned their home outright; and
- Borrowing was most prevalent among those buying their home with the help of a mortgage, where 39% had borrowed money in the 12 months preceding the survey.

A similar pattern was evident when looking specifically at those who were least likely to have had a bank overdraft over the past year. Once again those who were permanently retired, widowed or owned their property outright were least likely to have borrowed money through a bank overdraft.

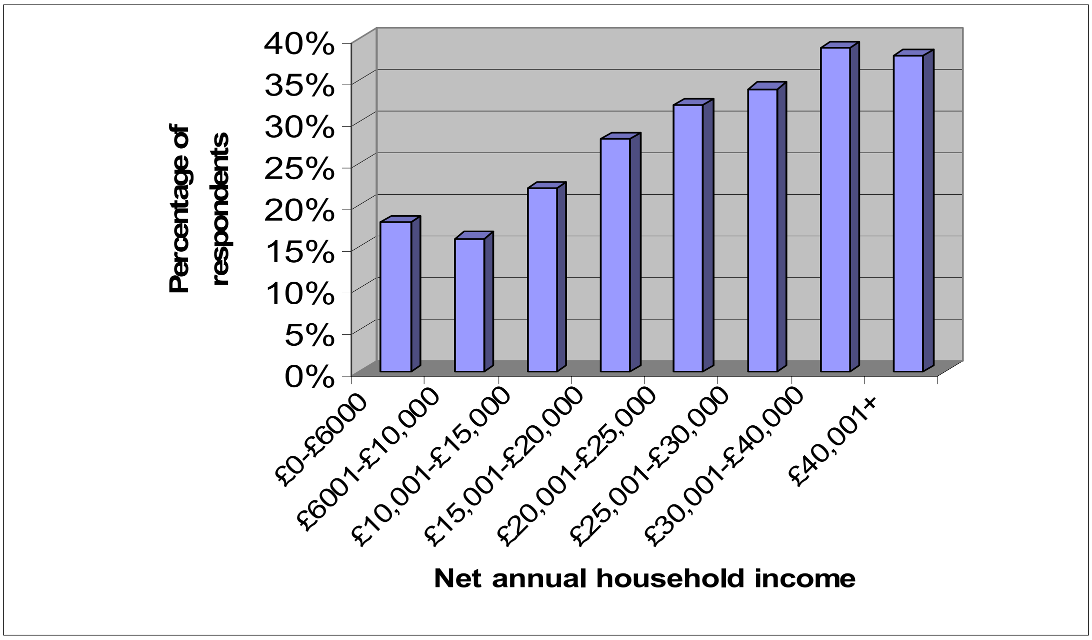
4.22 These findings suggest that age may be a key factor in relation to borrowing (or more appropriately a lack of it), with those over retirement age being less likely to borrow than other groups. This, in turn, no doubt reflects the stage that this group is in its life cycle, already owning the type of things that people borrow to be able to buy. However, it should be noted that for the

[18] These are defined as settlements of between 3,000 and 10,000 people and with a drive time of over 30 minutes to a settlement of 10,000 people or more.

majority, borrowing does not appear to be a major issue, with only a small proportion of people accessing particular products.

4.23 In addition, there was a significant relationship between the propensity to borrow money from identified sources and household income, with the likelihood that households had borrowed money in the past 12 months increasing with annual net household income (Figure 4.3). This was not, however, a consistent trend, with those in the lowest and the highest income groups being, respectively, more and less likely to borrow than their income band would imply. Why this should be the case is not immediately apparent.

FIGURE 4.3 **Prevalence of Borrowing in Previous 12 months by Net Annual Household Income 2005/06**
(Household Information)



Number of respondents: 26,037
Source: Scottish Household Survey Data

4.24 Use of high cost lenders, such as finance companies and doorstep lenders, may provide an indication of exclusion from mainstream markets. As such, the characteristics of respondents who make use of these forms of credit will now be considered. Due to the small number of respondents making use of these sources and the potential sensitivity of the subject, which may result in underreporting, interpretation needs to be treated with caution. In addition, the use of DSS Fund Loans will also be considered as these provided a source of borrowing which may partially overcome financial exclusion for low income households.

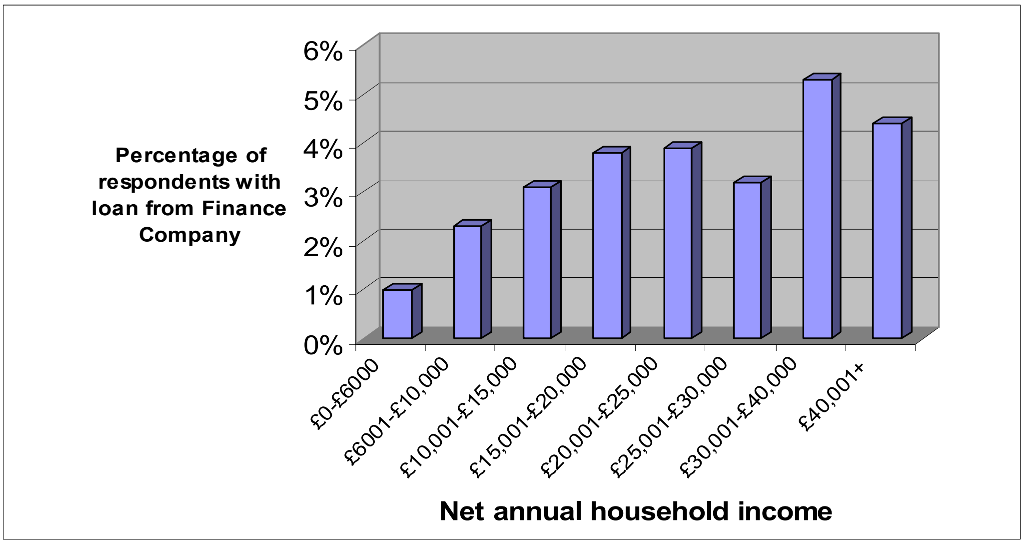
Borrowing from Finance Companies such as Provident

4.25 Of the 27,069 respondents who answered questions concerning borrowing and credit in the 2005/06 SHS, 3% of households (894) stated that they had taken a loan from a company such as Provident in the preceding 12 months. Further analysis revealed that:-

- There was no statistically significant relationship between gender of the HIH and the likelihood of borrowing money from a finance company;
- There was a statistically significant relationship between borrowing and the age of the HIH. Use of companies is highest among householders aged 25-34 (6%). This decreases to 1% among those aged 60-74 and 0.2% for those aged 75+;
- Borrowing was proportionately more likely among householders who were permanently sick or disabled, unable to work owing to short-term injury or illness (6%) or looking after their home or family (8%);
- There was a relationship between marital status and uptake of high cost loans. Level of use was lowest among householders who had been widowed (0.6%). Householders who were separated were most likely to make use of such services (5%). This was reinforced when household composition was considered as loans were most prevalent among single parent households (8%) and lowest amongst single pensioners (0.5%);
- Borrowing from companies like Provident was low (1%) amongst householders who owned their property outright and highest among those who rented their home from a Housing Association or Housing Co-operative (5%). There was little variation in other categories; and
- Loans were more common among those resident in the 15% most deprived areas of the country (5% compared to 3%).

4.26 It would appear, once again, that income is a factor determining the use of finance companies, with use generally increasing as income rose (Figure 4.4). This was the case until the highest income bracket was reached. It is not immediately obvious why this should be the case, although one explanation may be that the responses to the question relate to both high and low cost finance companies, that is they cover the use of finance companies such as Provident and more mainstream financial providers offering such things as loans for car purchase.

FIGURE 4.4 **Use of finance companies by net annual household income**
(Household Information)



Number of responses: 26,038
Source: Scottish Household Survey Data

Borrowing from Unlicensed/ Illegal Doorstep Lenders

4.27 Until fairly recently little has been known about illegal money lenders and their activities. However, as part of policy to address poverty and promote financial inclusion, the UK government made a manifesto commitment to "tackle loan sharks". As a result the DTI commissioned research to establish the extent and impact of illegal lending in the UK and how best to address it. The DTI has also funded 2 pilot enforcement projects in Birmingham and Glasgow: both areas known to have a concentration of loan shark activity. Key objectives set for the pilot team were:-

- Achieving an understanding of the nature and scale of the loan shark problem;
- Reducing the incidence of illegal money lending;
- Addressing the climate of fear that works against reporting;
- Changing the perception that lenders can work with impunity; and
- Supporting victims in finding viable alternative sources of credit following the removal of an illegal money lender.

4.28 The Personal Finance Research Centre (PFRC) (2007) report that illegal lenders tend to operate in the most deprived communities, often in urban conurbations, with borrowers being among the most severely financially and socially excluded individuals. Those who use illegal lenders are typically those who:-

- Have no access to legal forms of credit;
- Have reached the limit of, or defaulted on, a legal credit line; or
- Are unable to access credit from the high-cost home credit lenders, for a variety of reasons.

4.29 The socio-economic characteristics of those using illegal lenders are generally reported to be similar to those of home credit users in general in that most users are female, with families, and are aged 30–40. However, in the case of unlicensed borrowing, there appears to be a greater male bias and a greater tendency to disadvantage than is the case with home credit users. The PFRC also report that chaotic lifestyles and/or substance abuse may be significant factors associated with those who borrow from illegal lenders.

4.30 Evaluation of the DTI pilot projects undertaken by the PFRC found that:-

- The 2 units had identified 203 lenders, had opened 111 investigations and arrested 39 lenders;
- Lenders in England had been prosecuted for offences including kidnapping, blackmail, firearms and assault;
- In Scotland 2 cases had been brought to court resulting in convictions with a further 6 in the prosecution pipeline; and
- Nine cases, largely unlicensed lending at the benign end of the spectrum, have been dealt with by way of formal cautions or warning letters.

4.31 Given the significance of social and financial inclusion policies for those who currently have few options but to borrow from illegal lenders, it was considered important to look at the characteristics of these households. However, the small sample size makes it difficult to draw conclusions.

4.32 Use of unlicensed doorstep lenders among respondents to the SHS in 2005/06 was very low at 0.1%. This amounts to 31 households. In 55% of cases the HIH was female. However, no statistically significant relationship between gender and use of illegal lenders was detected from the sample. In addition:-

- The small sample size made it impossible to determine a significant relationship between use of illegal doorstep lenders and household composition and tenure, although such loans were found to be slightly more prevalent among single parents, small families and those who did not own their own home;
- 81% of those who had borrowed from an illegal lender were aged between 25-59;
- 41% of those who stated that they had borrowed from an unlicensed lender were earning £10,000-£15,000 although, once again, the very small number of respondents means that this result should be interpreted with caution; and
- No significant relationship could be detected when households were compared using the 6 fold rural: urban classification and the Scottish Index of Multiple Deprivation.

Borrowing from the DSS Social Fund

4.33 The DSS Social Fund is intended to act as a "safety net" for those on the lowest incomes by reducing the costs of financial exclusion for those who lack access to affordable credit and financial products such as insurance. The Fund may distribute:-

- Crisis Loans; small loans to meet expenses in the event of an emergency. In 2004 the average value of a crisis loan was £77; and
- Budgeting Loans; larger loans to meet one off expenses (such as household appliances, or advance rent payments). In order to receive a budgeting loan, applicants must be in receipt of income support, Job Seekers Allowance or pension credit. In 2004 the average value of a budgeting loan was £384.

4.34 Loans from the Social Fund are interest-free and are usually repaid by deductions from benefit payments. Loans are made from cash limited budgets according to local priorities. As a result there is no guarantee of being awarded a loan. Statistics from the Department of Work and Pensions for the period 1 April 2004 – 31 March 2005, show that more than one in 5 applications for budgeting and crisis loans were rejected[19]. The National Consumer Council (NCC) (2005) reports that 50% of loan refusals were subsequently overturned on appeal. This was felt to indicate that people with a genuine need were being turned away. In addition, the NCC reports that around one in 4 of those whose applications were refused, may then be forced to borrow from high cost lenders and unlicensed credit providers.

4.35 Amongst respondents to the 2005/06 SHS, 528 households had received a loan from the DSS Social Fund. Analysis of their socio-economic characteristics found that:-

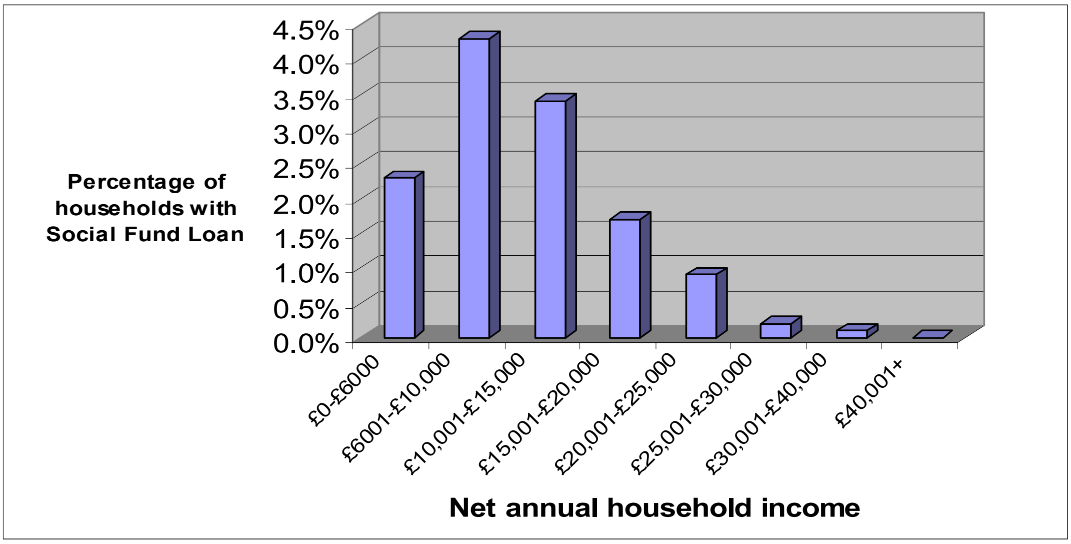
- A higher proportion of households where the HIH is female received a loan (3% compared to 1%);
- There was a relationship between the age of the householder and the likelihood that they had received a loan from the Social Fund. Loans were most common among householders aged 16-24 (7%), declining to 0.02% among those aged 75+;
- Loans from the Fund were significantly more common amongst householders who were not in employment, single parent households and those did not own their own home;
- Social Fund loans were most common among respondents who were single or separated (5%) and least common among married couples (0.5%); and
- Loans from the Fund were most common in large urban areas (2.5%) and least common in remote rural locations (0.4%). This no doubt reflects income differentials and the overall levels of deprivation in these areas.

4.36 The above conclusion is supported when loans were considered in relation to the SIMD. Of SHS respondents living in the 15% most deprived data zones, 6% had received Social Fund loans, compared to only 1% in the rest of the country.

4.37 Use of the DSS Social Fund by income band is shown in Figure 4.4. It can be seen that loans were most common among those earning £6,001-£10,000. This decreased to 0.3% among those earning £20,001 or above. This is to be expected.

[19] In 2004/05 there were 1,334,000 applications for crisis loans. Of these 304,000 were rejected. In 2004/05 there were 1,621,000 applications for budgeting loans of which 377,000 were rejected.

FIGURE 4.4 DSS Social Fund Loans by net annual household income 2005/06
(Household Information)



Number of respondents: 26,038
Source: Scottish Household Survey Data

Mortgages

4.38 There appears to be a generally consistent picture from the data on mortgages or loans on property, with just over a third of the population having a mortgage or loan on their property in 2005/06. This has declined slightly from 2001/02 when the proportion was 37% (Table 4.5).

TABLE 4.5 Whether Household has a Mortgage or Loan on Property
(Household Information)

	1999/00	2001/02	2003/04	2005/06
Respondent has mortgage/loan	**37%**	**37%**	**36%**	**35%**
Number of respondents	30,227	30,639	30,882	27,080

Source: Scottish Household Survey Data

4.39 In 2005/06, 62% of those with a mortgage or loan had a repayment mortgage, just over one quarter had an endowment mortgage and the remainder stated that they had some other form of mortgage or loan (including combined endowment and repayment mortgage, a bank loan or a loan backed by another institution). This profile may be driven by the recent poor returns on endowment mortgages, as the balance was much more even in 2003/04 when endowments accounted for 40% of mortgages held, repayments for 51%. Alternatively, this may reflect confusion among respondents as to the kind of mortgage that they have. A further notable finding in the rapid increase in the proportion of respondents taking interest only mortgages between 2003/04 and 2005/06 (1% to 6%). This may be a response to the relative rise in house prices in comparison to incomes.

4.40 Overall 2005/06 data shows that:-

- 70% of householders who had a mortgage on a property that they own were aged between 35-59;
- In 92% of households which had a mortgage, the HIH was in employment, education or training;
- The majority of those with mortgages (63%) were married couples; and
- Among those who owned their property, no significant relationship was found between urban location or levels of deprivation and having a mortgage or loan on that property.

Insurance

4.41 This analysis looks at the prevalence of home contents insurance and the characteristics of those who do not possess this form of insurance cover. The main focus is on home contents insurance as this is an area where a lack of compulsion allows us to identify those who are not accessing this product. As buildings insurance is not an issue for those who rent (either privately or publicly), it is felt to be a weaker indicator of financial inclusion.

4.42 In 2005/06, 85% of respondents had home contents insurance, an increase of 4% from 1999/2000, (Table 4.6).

TABLE 4.6 **Prevalence of Home Contents Insurance**
(Household Information)

	1999/00	**2001/02**	**2003/04**	**2005/06**
Home contents insurance	**81%**	**82%**	**83%**	**85%**
Number of respondents	30,182	30,621	30,813	24,360

Source: Scottish Household Survey Data

4.43 The proportion of respondents who have home contents insurance appears to have increased steadily between 1999 and 2006. However, with between 15-20% of households failing to take out contents insurance, a substantial minority of households continue to be vulnerable to incurring high costs should they have to replace any damaged goods, or become victims of crime, flood or fire damage.

4.44 There would appear to be a particular geography of access to home contents insurance, that largely mirrors some of the earlier findings on access to finance and borrowing. In 2005/06 Glasgow City and Dundee City stood out as having the lowest proportion of people with home contents insurance, whilst East Dunbartonshire and East Renfrewshire had the highest proportions. There was a large differential between the areas with the highest and lowest prevalence of home contents insurance, ranging from 94% in East Dunbartonshire to 70% in Glasgow City.

4.45 These patterns were reinforced when home contents insurance was considered based on the 6 fold rural:urban split. In 2005/06 around 80% of those in large urban areas had home contents insurance compared to 91% in remote rural locations and 93% in accessible rural areas.

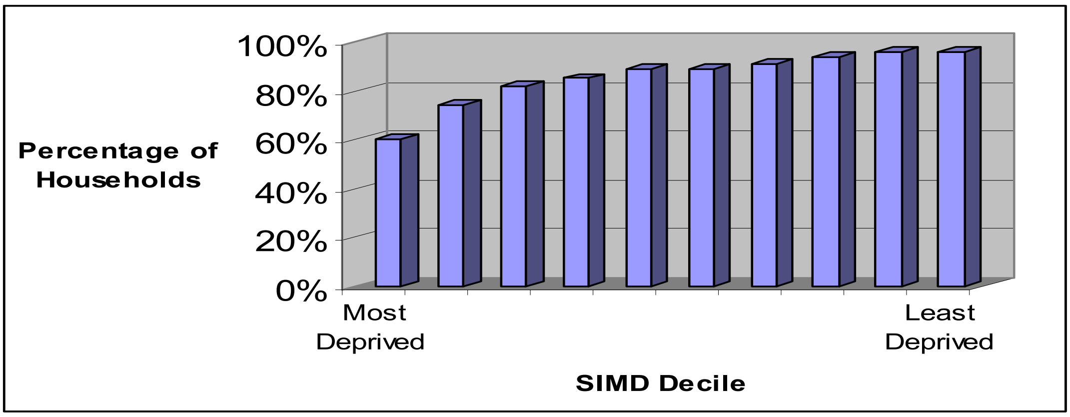
4.46 There were 2 further features of note in relation to deprived areas and home contents insurance (Figure 4.5):-

- The most recent data shows that a lower proportion (64%) of people in the most deprived 15% of areas had home contents insurance than in the rest of Scotland (89%); and
- The proportion of people with home contents insurance increased as the level of deprivation decreased. Thus 60% of those in the most deprived decile had home contents insurance as opposed to 96% in the 2 least deprived deciles.

4.47 It is believed that half of the poorest 20% of households in the UK are currently uninsured, compared to only one in 5 households on average incomes (Joseph Rowntree Foundation, 2005). These results show that levels of insurance in the most deprived parts of Scotland are significantly lower than in the rest of the country. Given that deprived areas tend to have the highest levels of crime, and this in turn drives the cost of insurance up, it may be that there is a cycle of decline in these areas with high risk meaning that the price of insurance is beyond the ability of many residents to pay. This then increases their vulnerability to damage or property theft, which in turn reinforces exclusion.

FIGURE 4.5 **Home Contents Insurance by SIMD Decile 2005/06**

(Household Information)

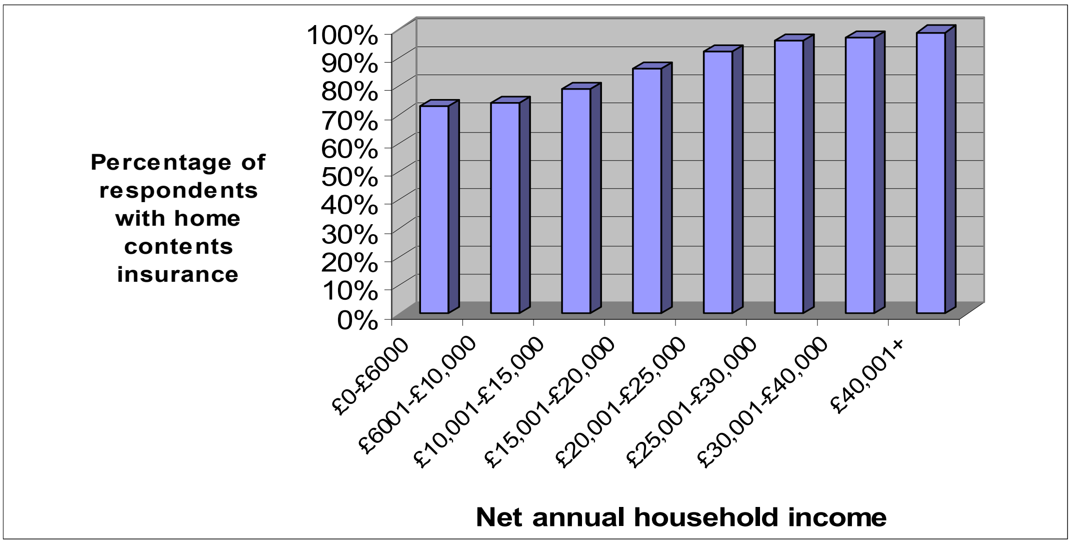


Number of respondents: 24,342
Source: Scottish Household Survey Data

4.48 There would appear to be a clear pattern in relation to deprivation and the take up of home contents insurance. This may partly explain the socio-economic characteristics of those who do not use this product. The socio-economic characteristics of those with home contents insurance were:-

- Home contents insurance was more prevalent in households where the HIH was male (86% as compared to 81%);
- Only 31% of unemployed respondents had home contents insurance. This compares with 94% of those who were self employed;
- 98% of those who were in the process of buying their home with the help of a mortgage had home contents insurance in 2005/06, as did 97% of those who owned their property outright. However, the prevalence of home contents insurance was much lower among those who rent their property with only 56% of those who rent from a local authority possessing this form of cover and 50% of those who rent from a Housing Association, Co-operative or private landlord;
- There was a relationship between marital status and home contents insurance with 72% of those who were separated and 66% of those who were single (and had never been married) stating that they possessed this cover. This compared to 94% of married couples and 88% of those who had been widowed. This finding may be a reflection of age;
- The likelihood of having home contents insurance increased steadily with age, from a low of 48% among those aged 16-24 to a high of 90% among those over 60; and
- There was a positive relationship between household income and the prevalence of home contents insurance (Figure 4.6).

FIGURE 4.6 **Home Contents Insurance net annual household income 2005/06**
(Household Information)



Number of respondents: 26,461
Source: Scottish Household Survey Data

4.49 These findings suggest that there are barriers to insurance among low income households. The review of literature found a number of major obstacles believed to deter the uptake of insurance services among low income households, namely:-

- Cost, with some people simply being unable to afford contents insurance. This problem is compounded for those living in areas of high social deprivation where premiums are higher. In such areas, provision of affordable insurance, which is commercially viable, may not be possible;
- Payment systems, as the majority of insurers require bank accounts from which to collect premiums in an efficient manner; and
- Understanding, in that those with low levels of financial education may find insurance services hard to understand and may be deterred by the documentation.

4.50 In addition, some may not appreciate the value of insurance cover if they have never had to make a claim and may therefore see little reason to have cover renewed, whilst others may judge that the cost of insurance cover outweighs the value of their belongings.

4.51 These factors imply that the situation is more complex than just cost, with these barriers relating closely to the definition of financial exclusion that highlights lack of access to products and services and having the knowledge and understanding to make informed choices.

Conclusions

4.52 This analysis of access to financial products has again found that there is a close correlation between the ability to access (and use) products and indicators of deprivation, both spatially and aspatially. One consequence of this is that there is considerable cross over between the characteristics of those who do not use one product and those who do not use others,

4.53 The use of some products, for example mortgages, is clearly a reflection of housing tenure, which in turn is related to income. Use of various sources of credit and borrowing can be related to one's stage in the life cycle, as shown by the negative relationship between borrowing and age. The inability to use various sources of credit may also not always impose burdens on people. Given this, the policy implications of some of the findings in this Chapter may be limited. Where there may, however, be an area where intervention could be justified is house contents insurance. This seems to bear a close relationship to deprivation, and one assumes poverty. However, the consequences of not having insurance (as against, for example, not having a credit card) can be quite severe. As such action to increase uptake could be easily justified.

CHAPTER FIVE FINANCIAL MANAGEMENT

Introduction

5.1 In "Promoting Financial Inclusion" (The House of Commons, 2004b) HM Treasury identified the absence of savings as an integral element in financial exclusion. In support of this assertion, the report of the House of Commons Treasury Committee (2006b) noted the important role of savings in increasing financial inclusion. Savings not only provide a buffer in times of financial hardship, they also reduce the need to rely on expensive forms of credit. The accumulation of savings is also seen to draw people into the banking system thereby increasing familiarity and trust in financial institutions.

5.2 The purpose of this Chapter is to determine the extent of saving and investment activity across Scotland and look at the characteristics of those people who have savings and investments. The Chapter will consider:-

- The extent of savings and investment activity in Scotland;
- The new financial excluded;
- Access to financial advice; and
- Perceptions of financial management.

Extent of savings and investment in Scotland

5.3 In spite of the well documented benefits of saving, a recent survey by the FSA found that 43% of people in the UK had no savings at all (FSA 2006). In addition, a further 15% had savings of less than half of their monthly income. In Scotland, only 42% of people living in households with an income of under £10,000 a year had any savings or investments (Scottish Executive, 2005). Additional information on saving activity is available through the Families and Children Study (Lyon et al, 2006). This found that 39% of families with children in Scotland saved on a regular basis. It was also reported that most were saving for the future or for no particular reason (14% and 13% of respectively).

5.4 Reasons put forward by the House of Common Treasury Committee (2006b) to explain a lack of savings among financially excluded households included:-

- Saving being seen as unaffordable;
- High levels of personal debt;
- Inflation in house prices with a resultant decrease in disposable income; and
- Saving not being high on the agenda of the financially excluded and those on low incomes.

5.5 Before examining the evidence on savings and investments from the SHS and other data sources, it is important to note that such data should be treated with caution as questions relating to assets are sensitive and tend to produce a lower response rate than questions concerning other subjects. In addition, the Department of Work and Pensions suggest that there may be some underreporting of capital among survey respondents, both in terms of the actual value of assets and the investment income.

5.6 The SHS gathers data on savings and investments, as well as their value. The proportion of those with savings has remained relatively stable in recent years, at just over 50% (Table 5.1). Although the proportion of respondents who hold savings or investments appears to have declined slightly from 53% between 1999 and 2004 to 51% in 2005/06, this might reflect the fact that the 2006 data is currently only based on 3 quarters.

TABLE 5.1 **Percentage of respondents with savings or investments**
(Household Information)

	1999/00	2001/02	2003/04	2005/06
Yes	**53%**	**53%**	**53%**	**51%**
No	**40%**	**39%**	**38%**	**40%**
Refused	**6%**	**7%**	**8%**	**8%**
Don't know	**1%**	**1%**	**1%**	**1%**
Number of respondents	30,202	30,627	30,813	27,069

Source: Scottish Household Survey Data

5.7 Analysis of the 2005/06 SHS revealed that:-

- Households in which the HIH was male were more likely to have accumulated savings or investments, 56% compared with 43%;
- 66% of households in which no members had a long term illness or disability stated that they had accumulated savings or investments. This is compared to 48% in those households where one person had a long term illness or disability;
- Savings and investments were significantly more common amongst those respondents who owned their own home (67%) or were in the process of buying with the help of a mortgage (61%), than amongst those who rented from a private landlord (35%), housing association (23%) or local authority (22%)[20];
- Saving was most common among older couples and small adult households (60%) and least common among single parent households (20%); and
- Savings and investments were more common amongst older respondents, with over 50% of people aged over 35 stating that they had savings or investments. The rate of saving is highest among those aged 60-74 (55%) and lowest among those householders aged 16-24 (27%).

5.8 These findings are supported by the findings of the Family Resources Survey 2004/05 which revealed above average saving activity in households with one or more adults over pension age for all categories of savings above £3,000 (Table 5.2).

[20] The form of the question concerning savings and investments means it is unlikely that home owners are including their home as an investment, thereby skewing results.

TABLE 5.2 UK Households by amount of savings and composition

(Column percentages)

Savings	Household Composition			
	Households with one or more adult over pension age	**Households with one or more sick or disabled adult under pension age**	**Households with one or more unemployed adult under pension age**	**All households**
No savings	**21%**	**40%**	**48%**	**27%**
Less than £1,500	**16%**	**22%**	**22%**	**22%**
£1,500 but less than £3,000	**7%**	**7%**	**5%**	**8%**
£3,000 but less than £8,000	**16%**	**10%**	**9%**	**15%**
£8,000 but less than £10,000	**4%**	**3%**	**2%**	**4%**
£10,000 but less than £16,000	**8%**	**5%**	**5%**	**7%**
£16,000 but less than £20,000	**4%**	**2%**	**1%**	**3%**
£20,000+	**23%**	**10%**	**7%**	**15%**
Number of respondents	9,302	5,766	1,058	28,041

Source: Family Resources Survey Data 2004/05

5.8 Unsurprisingly, the SHS revealed a statistically significant relationship between savings activity and economic status. Savings and investments were more common among households in which the HIH was self employed (65%) and least common in households where the HIH was unemployed and seeking work (12%) (Table 5.3). This relationship was also evident when savings were considered in relation to annual household income (Figure 5.1)

TABLE 5.3 Household savings and investments by economic status of HIH 2005/06

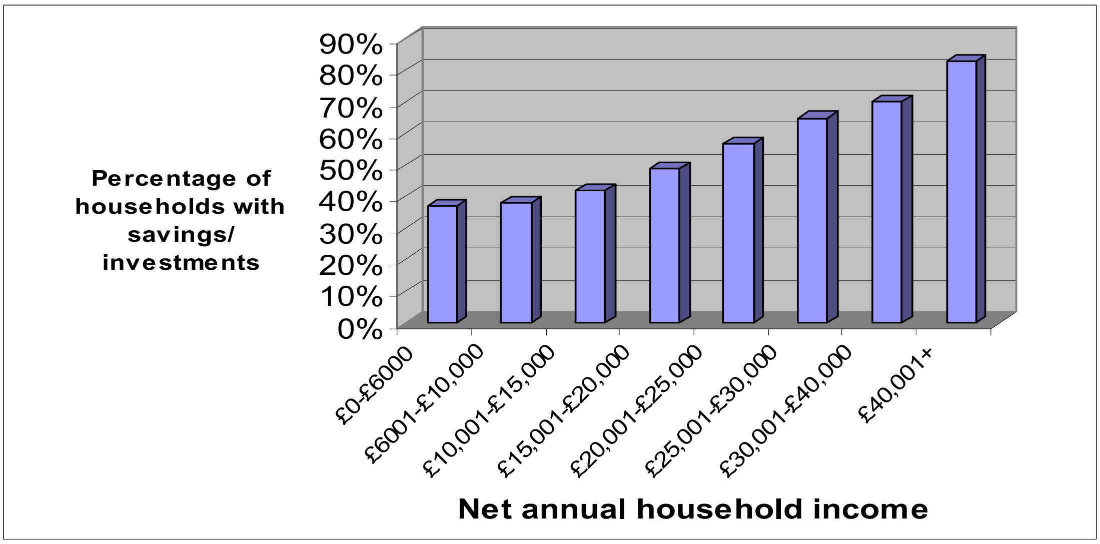
(Household Information)

Economic Status	Proportion of households with savings/ investments
Self employed	**65%**
Full time employment	**60%**
Permanently retired	**54%**
Part time employment	**41%**
Other	**34%**
In further/ higher education	**31%**
Permanently sick or disabled	**17%**
Short term injury or illness	**16%**
Looking after home or family	**14%**
Unemployed and seeking work	**12%**

Number of respondents: 27070

Source: Scottish Household Survey Data

FIGURE 5.1 Savings and Investments by net annual household income 2005/06
(Household Information)



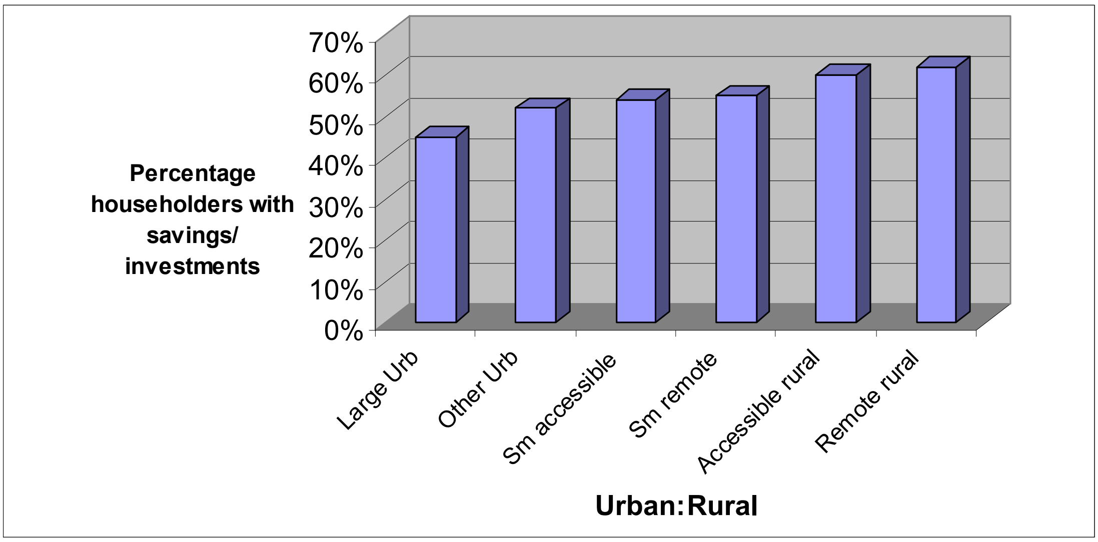
Number of respondent: 26,038
Source: Scottish Household Survey Data

5.9 Analysis at the local authority level showed Orkney to have the highest level of savings, with 76% of respondents stating that they had savings or investments. This was followed by East Renfrewshire and Aberdeenshire, where 71% and 69%, respectively, had savings or investments. Levels of saving were significantly below average in Dundee City (32%) and Glasgow City (38%).

5.10 The level of saving and investment activity among residents of the 15% most deprived Scottish areas, as defined by the SIMD, were considerably lower than in the rest of the country. 27% of respondents from the 15% most deprived areas possessed savings or investments in 2005/06, compared to 56% of respondents in the rest of the country.

5.11 Using the Scottish Executive's 6 fold rural:urban classification, there appears to be a steady increase in the prevalence of saving as the area becomes more remote with approximately 45% of respondents from large urban areas and 62% from remote rural areas stating that they had savings or investments (Figure 5.2).

FIGURE 5.2 Prevalence of Savings and Investments by Scottish Executive 6 fold Rural:Urban Classification 2005/06
(Household Information)



Number of respondents: 27,067
Source: Scottish Household Survey Data

5.12 The values of savings and investments held by respondents to the SHS between 1999 and 2006 are shown in Table 5.4. It would appear that levels of savings have remained relatively constant in recent years with the largest proportion (between 17% and 19%) of households which possessed savings or investments, having in the region of £1,000 to £4,999. It can also be seen that:-

- There has been a steady decline in the proportion of respondents with savings or investments of under £1,000. This has been paralleled by an increase in those having savings in excess of £10,000: up from 25% in 1999/00 to 29% in 2005/06;
- A relatively small proportion of respondents in each year have savings or investments worth over £75,000; and
- Around 30% of respondents each year refused to disclose the value of their savings or investments[21].

[21] It is assumed that those who are unsure of the value of any savings or investments will be counted among those households who are unwilling to disclose the value of savings and/or investments.

TABLE 5.4 **Value of savings or investments 2005/06**

(Household Information)

	1999/00	2001/02	2003/04	2005/06
Under £1,000	**17%**	**15%**	**14%**	**12%**
£1,000-£4,999	**19%**	**19%**	**19%**	**17%**
£5,000-£9,999	**11%**	**11%**	**12%**	**12%**
£10,000-£15,999	**7%**	**8%**	**8%**	**8%**
£16,000-£29,999	**6%**	**6%**	**7%**	**7%**
£30,000-£74,999	**7%**	**7%**	**7%**	**8%**
£75,000 +	**5%**	**5%**	**6%**	**6%**
Refused	**28%**	**29%**	**27%**	**29%**
Number of respondents	16,033	16,310	16,411	13,779

Source: Scottish Household Survey Data

The New Financial Excluded

5.13 The Executive's definition of financial inclusion now covers skills, knowledge and understanding. As such this analysis needs to take account of those who, on many definitions, are financially included, in that they have access to financial products and services, but who get into serious financial problems. Although the state of the economy clearly has an impact upon financial problems it may also be that some of those who experience these problems may lack the necessary skills, knowledge and understanding to deal with the financial services industry and its marketing strategies.

5.14 Evidence of this can be seen from the published figures on sequestrations[22] and Protected Trust Deeds[23] within Scotland (Table 5.4). The trend has been for a steady increase over time in both. Protected Trust Deeds have also grown in importance relative to sequestrations.

[22] Sequestration is the Scottish term for bankruptcy.

[23] The Protected Trust Deed is offered only in Scotland. It is similar to the English IVA (Individual Voluntary Arrangement). It is a legally governed procedure by which a debtor repays the debt over a specified period of time. Monthly payments are based on what the debtor can afford and after the period of the Protected Trust Deed, any remaining debt is written off.

TABLE 5.4 Sequestrations and Protected Trust Deeds Scotland 1998 - 2006

Year	Sequestrations awarded	Percentage change on previous year	Protected Trust Deeds registered	Percentage change on previous year
1998	3,016	N/A	1,449	N/A
1999	3,195	+6%	2,144	+48%
2000	2,965	-7%	2,801	+31%
2001	3,048	+3%	3,779	+35%
2002	3,215	+5	5,174	+37%
2003	3,328	+4%	5,452	+5%
2004	3,297	-1%	6,024	+10%
2005	4,965	+51%	6,881	+14
2006	5,430	+9%	8,208	+19%

Source:
The Insolvency Service, 2007, Statistics Release: Insolvencies in the Fourth Quarter, February, Policy Directorate: Statistics.

5.16 There seem to be 3 main reasons for these increases in sequestrations and registered Protected Trust Deeds:-

- The ready availability of credit and the associated problems that a minority then seem to get into;
- The difficulties that a minority have in paying Council Tax. This has been paralleled by a greater willingness of local authorities to push for sequestration to recover their debts, even though the average dividend paid[24] tends to be low. For example in the year ending 31st March 2006 the average dividend paid was 14.8p in the pound. This compares to the average of 21.9p in the pound for Protected Trust Deeds over the same period (Accountant in Bankruptcy, 2006).; and
- A growth in fee charging advice agencies that promote Protected Trust Deeds as a way of overcoming financial problems.

Countering these problems may require more readily accessible financial advice to be available.

Financial Advice

5.17 A key facet of promoting financial inclusion lies in ensuring that consumers have access to appropriate financial advice (including debt and advice on such things as budgeting and saving). Such advice could act to both increase awareness and give people the ability to access "appropriate" financial services.

[24] The dividend is the technical term for the return in the pound that the creditor receives once a debtor's assets are liquidated.

5.18 However, the report of the House of Commons Treasury Committee (2006b) outlines evidence submitted by Citizens Advice suggesting that financial advice services were increasingly oversubscribed, displaying evidence of a significant unmet need. This was supported by the fact that the waiting times for specialist services were very often several weeks.

5.19 Lack of provision of financial advice may be particularly acute amongst those earning between £10,000 and £22,000 (not the traditional focus of financial exclusion studies). The House of Commons Treasury Committee (Ibid) suggests that around 8 million consumers with earnings in this bracket find it difficult to access generic financial advice which is separate from the sales process.

5.20 The Resolution Foundation, a research and policy organisation focusing on how advice needs can be met by either the public or private sectors, has stated that:-

"Basic rate taxpayers largely fall outside of the catchment criteria for financial advice in the UK. Most free advice services cater to the remedial needs of those already in serious debt. Meanwhile, the financial services industry tends only to offer advice when connected with a product sale. At these income levels, such sales are just not attractive to most product providers who focus on the most profitable customers" (quoted in The House of Commons, 2006b).

5.21 This issue is recognised in government and policy is now being developed to help address the problem (Paragraph 2.46). The extent to which the inability to access advice is an issue in Scotland is not known as this is not covered by the SHS, although self-perceptions of financial management are considered.

Perceptions of Financial Management

5.22 Perceptions of the financial situation of SHS respondents between 1999 and 2006 are shown in Table 5.5. The Table shows that perceptions of how the household manages financially have remained relatively stable in recent years, with a slight tendency towards an improvement.

TABLE 5.5 **Perceptions of Financial Situation**

(Household Information)

Perceptions of financial situation	Proportion of respondents			
	1999/00	**2001/02**	**2003/04**	**2005/06**
Managing very well	**11%**	**14%**	**14%**	**15%**
Managing quite well	**29%**	**32%**	**33%**	**32%**
Get by alright	**44%**	**42%**	**42%**	**42%**
Don't manage very well	**7%**	**5%**	**5%**	**4%**
Have some financial difficulties	**7%**	**5%**	**5%**	**5%**
In deep financial trouble	**1%**	**1%**	**1%**	**1%**
Don't know/ refused	**1%**	**1%**	**1%**	**1%**
Number of respondents	30,181	30,620	19,632[1]	27069

Source: Scottish Household Survey Data

Note:-

1. It is not clear why it is not possible to access the whole sample for 2003/04.

5.23 When perceptions of management are considered at a local authority level, the proportion of respondents stating that they manage "Very well" was highest in East Renfrewshire and Shetland (23% each) and East Dunbartonshire, Aberdeenshire and Stirling (21%), whilst the authorities with the lowest proportions of respondents stating that they manage "Very well" were Falkirk (8%) and Glasgow City and Dundee City (10% each). Again this seems to indicate that there is a relationship between the levels of deprivation and poverty in a local authority and ability to manage ones finances.

5.24 In keeping with findings relating to other aspects of financial inclusion, in 2005/06 only 7% of respondents resident in the 15% most deprived data zones believed that their household managed "Very well" financially. This compared to 16% in the rest of Scotland in 2006.

5.25 When perceptions are considered in terms of the Executive's 6 fold rural:urban classification the proportion of respondents who considered their household to manage "Very well" was lowest in large urban areas (13%) and highest among respondents from accessible rural areas (18.5%).

Conclusions

5.26 The data shows that a large minority of people within Scotland have no savings, although this is proportionately no different to the general situation in the UK. Unsurprisingly, the level of savings is associated with such factors as home ownership, being in work and being older so that there has been time to accumulate assets. Given these factors the spatial relationship of savings levels with deprivation is to be expected.

5.27 Given that definitions of financial exclusion now cover education and knowledge, it seems that there are increasing numbers of people who may not be excluded based on the traditional definitions of access, but who may be when their ability to manage their finances is considered. The increases in the numbers of sequestrations and Protected Trust Deeds registered would seem to indicate that the inability to manage money is increasing.

5.28 The rise in the apparent numbers of those who have problems in managing their finances has placed pressure on the money advice services. There also seems to be evidence of a gap in these services, particularly affecting those who are on modest earnings. The increase in the numbers of those with severe financial problems is likely to make it even harder for this group to obtain advice.

5.29 Paradoxically, the numbers of those who feel that they manage their financial affairs well has tended to increase slightly whilst those who feel they "Don't manage very well", "Have some problems" or are in "Deep trouble" has remained constant at around 10%. That these self perceptions have not changed, at a time when there have been considerable increases in such indicators of bad management as sequestrations (up 70% between 2002 and 2006) and Protected Trust Deeds (up 79% over the same period) may reflect the fact that in absolute terms these are still rare events.

CHAPTER SIX BENCHMARKING TEMPLATES

Scottish Local Authority Benchmarking Template

6.1 To gain a better understanding of financial inclusion at a local level, a benchmarking template was developed using key indicators of financial inclusion. Key indicators selected for analysis were:-

- Bank accounts;
- Savings;
- Home Contents Insurance; and
- Perceptions of financial management (selected as an indicator of financial capability).

6.2 Although SHS information was available for other measures of financial inclusion, including the use of various sources of credit and borrowing, it was decided to exclude these measures due to the complex relationship that they bear to financial inclusion.

6.3 The proportion of SHS respondents in each local authority, with a bank account, savings and home contents insurance was determined. Similarly, in the case of financial management, the proportion of people who stated that they managed "Very well" was considered. The results are shown in Table 6.1. It can be seen that there is not a perfect correlation. For example, when the top 5 authorities are considered for each indicator, only one, Aberdeenshire, appears in the top 5 on all 4. At the other extreme only one, Glasgow, appears in the bottom 5 on all 4.

6.4 Table 6.2 looks at the r^2 values[25] between the 4 inclusion variables. What can be seen is that:-

- All but one of the correlations are statistically significant; and
- The correlations are, however, generally quite low. For example, the maximum variance explained is 53% in the case of the relationship between savings and the "managing very well".

TABLE 6.2 **R^2 Between Inclusion Variables**

Variable	Bank account	Savings	Home contents insurance	Manage very well
Bank account	1	-	-	-
Savings	0.147[1]	1	-	-
Home contents insurance	0.168[1]	0.238[2]	1	-
Manage very well	0.09	0.527[2]	0.213[2]	1

Note:-

1. Significant at the 0.05 level.

2. Significant at the 0.01 level.

[25] The r^2 is the square of the correlation coefficient. It ranges from 0 to 1 and denotes the proportion of variance in one variable explained by the other. It can also be expressed as a percentage. For example, an r^2 value of 0.5 shows that 50% of the variance is being explained. It should be noted that r^2 is showing the strength of linear relationships.

TABLE 6.1 **Scottish Local Authority Benchmarking Criteria Template**

Bank Account	%	Savings	%	Home Contents Insurance	%	Manage Very Well	%
Perth and Kinross	97.8	Orkney	76.2	East Dunbartonshire	94.4	East Renfrewshire	23.4
Stirling	95.3	East Renfrewshire	71.0	East Renfrewshire	94.2	Shetland	23.2
Orkney	95.3	Aberdeenshire	68.7	Aberdeenshire	93.8	East Dunbartonshire	21.5
Scottish Borders	94.4	East Dunbartonshire	65.4	Perth and Kinross	93.0	Aberdeenshire	20.9
Aberdeenshire	93.6	Shetland	64.6	Moray	92.3	Stirling	20.5
Moray	93.3	Angus	63.0	East Lothian	91.4	South Ayrshire	19.2
Argyll and Bute	93.1	Midlothian	61.8	Midlothian	91.0	Highland	19.0
Fife	93.1	Highland	60.6	Aberdeen City	90.9	Moray	18.9
Shetland	92.9	Argyll and Bute	59.5	Angus	90.8	Clackmannanshire	18.2
Eilean Siar	92.6	Moray	59.5	Highland	90.3	Orkney	17.9
Midlothian	92.6	Fife	56.9	East Ayrshire	90.3	Angus	17.7
East Renfrewshire	92.2	Stirling	56.5	Scottish Borders	90.2	Perth and Kinross	17.4
East Dunbartonshire	91.9	Aberdeen City	56.1	South Ayrshire	89.8	Aberdeen City	17.3
East Lothian	91.9	Eilean Siar	55.4	West Lothian	89.0	Midlothian	17.3
Highland	90.8	South Ayrshire	55.2	Fife	88.6	Argyll and Bute	16.9
Edinburgh City	90.4	Renfrewshire	55.1	Stirling	88.6	Fife	16.7
Renfrewshire	90.3	South Lanarkshire	54.2	Argyll and Bute	87.7	South Lanarkshire	15.4
Angus	90.1	Scottish Borders	52.6	Dumfries and Galloway	87.6	Edinburgh City	14.9
Dumfries and Galloway	89.5	Perth and Kinross	51.2	Orkney	87.5	East Ayrshire	13.6
Dundee City	89.1	West Lothian	50.5	Clackmannanshire	86.9	Eilean Siar	13.5
West Lothian	88.5	Dumfries and Galloway	50.4	North Ayrshire	86.8	Scottish Borders	13.2
Clackmannanshire	88.2	East Lothian	49.5	South Lanarkshire	86.5	North Lanarkshire	12.9
North Ayrshire	88.2	Falkirk	47.7	Renfrewshire	86.3	Dumfries and Galloway	12.7
East Ayrshire	87.9	Edinburgh City	46.6	Eilean Siar	86.2	West Dunbartonshire	12.3
Falkirk	87.3	East Ayrshire	46.6	Falkirk	85.3	North Ayrshire	11.9
South Ayrshire	86.8	Clackmannanshire	46.5	Shetland	84.3	Renfrewshire	11.7
Inverclyde	86.2	North Ayrshire	46.2	Edinburgh City	83.1	West Lothian	11.5
Aberdeen City	84.8	Inverclyde	45.2	North Lanarkshire	82.5	East Lothian	11.2
South Lanarkshire	83.9	West Dunbartonshire	42.9	Inverclyde	80.7	Inverclyde	10.8
West Dunbartonshire	83.5	North Lanarkshire	40.1	West Dunbartonshire	80.5	Dundee City	9.9
North Lanarkshire	82.5	Glasgow City	38.3	Dundee City	78.6	Glasgow City	9.8
Glasgow City	81.5	Dundee City	32.3	Glasgow City	69.7	Falkirk	8.0

6.5 Local authorities were then given a score between 1 and 32 for each measure, with a 1 being allocated to the highest percentages (the most financially included authority) and a 32 to the lowest. The scores for each authority were then summed and averaged. The results are shown in Table 6.3 which ranks the authorities from the most financially included (Aberdeenshire) to the least (Glasgow City).

6.6 The final column in Table 6.3 shows the percentage of Scotland's worst 15% data zones in each authority. The correlation between this and the rankings produces a coefficient of 0.530 that is statistically significant at the 0.01 level.

6.7 Clearly the templates have been drawn up using relatively limited information. What does, however, emerge is that:-

- The various aspects of financial exclusion are only partially reinforcing. Thus some local authorities may do comparatively well on one measure but perform far worse on others; and
- Although there is a relationship with deprivation, it is not particularly strong, explaining only 28% of the variance in the exclusion rankings.

6.8 The policy implications of this would seem to be:-

- Measures to tackle exclusion need to be multi-faceted as the various types of exclusion only partially overlap; and
- Spatial targeting, using the SIMD for example at the local authority level, can be only partially successful given that exclusion is not closely correlated with deprivation

National Benchmarking Template

6.9 An attempt was also made to benchmark financial inclusion in Scotland against the rest of the UK and Great Britain. The results are illustrated in Tables 6.4 to 6.8. These position Scotland against the other countries and regions in the UK. What can be seen is that:-

- In terms of countries (Table 6.4) Scotland's use of financial products is generally behind England and Wales but ahead of Northern Ireland. Where Scotland has above average use of a product this tends to be for those products that are associated with exclusion, such as Basic Bank Accounts;
- Table 6.5 looks at the use of current or savings accounts in Britain. It can be seen that Scotland ranks 7^{th} = out of the 11 regions, with 90% of families surveyed having a current or savings account, against the British average of 92%. Scotland is, however, well behind such regions as the South East where 97% of families have such accounts;
- In terms of regular savings (Table 6.6) 61% of Scottish families surveyed did not save regularly as against the British average of 58%. Although the reasons for saving differ slightly (for example fewer Scots that the average save to pay bills) the differences tend to be slight;
- Table 6.7 looks at households in Britain with multiple debts. Scotland has more households with debts (19% as against the average of 15%). There are variations in the numbers of debts per household , although again the variations are often slight; and
- Finally Table 6.8 looks at the average number of debts per household. Again it can be seen that Scottish households have above average numbers, albeit that the average is exceeded by 3 other regions.

Conclusions

6.10 The templates position Scottish local authorities relative to one another and Scotland against other countries in the United Kingdom and British regions. As the data sources on which the various Tables are based are updated it should be possible to see if Scotland's relative position changes. As such they can be seen as a series of baselines against which progress in combating financial exclusion can be measured.

6.11 The main message for policy comes from the analysis undertaken for the Scottish local authorities. What this showed was that there are often limited correlations between various measures of financial exclusion and an imperfect correlation between financial exclusion and area based deprivation measures. The implications are that any measures to combat exclusion may need to be targeted at the particular type of financial exclusion that it is hoped to influence and that spatial targeting at the local authority level may be too crude a way of dealing with the problem.

TABLE 6.3 **Scottish Local Authority Benchmarking Criteria Ranking Template**

Local authority	Bank Account	Savings	Home Contents Insurance	Manage Very Well	Sum(1+4)/4	Percentage of Scotland's 15% worst data zones
Aberdeenshire	5	3	3	4	4	0.6
East Renfrewshire	12	2	2	1	4	0
East Dunbartonshire	13	4	1	3	5	0
Moray	6	10	5	8	7	0.5
Orkney	3	1	19	10	8	1
Stirling	2	12	16	5	9	0.8
Perth and Kinross	1	19	4	12	9	0.3
Midlothian	11	7	7	14	10	1.7
Highland	15	8	10	7	10	0
Shetland	9	5	26	2	11	0
Angus	18	6	9	11	11	0.3
Argyll and Bute	7	9	17	15	12	0.7
Fife	8	11	15	16	13	0.9
Scottish Borders	4	18	12	21	14	5.7
South Ayrshire	26	15	13	6	15	1.5
Aberdeen City	28	13	8	13	16	4.8
Eilean Siar	10	14	24	20	17	2.8
East Lothian	14	22	6	28	18	3.7
Clackmannanshire	22	26	20	9	19	1.4
East Ayrshire	24	25	11	19	20	1.1
Dumfries and Galloway	19	21	18	23	20	0.3
Renfrewshire	17	16	23	26	21	1.3
West Lothian	21	20	14	27	21	2.9
Edinburgh City	16	24	27	18	21	3.4
South Lanarkshire	29	17	22	17	21	0.1
North Ayrshire	23	27	21	25	24	1.9
Falkirk	25	23	25	32	26	6.5
North Lanarkshire	31	30	28	22	28	5.4
Dundee City	20	32	31	30	28	3.4
Inverclyde	27	28	29	29	28	4.3
West Dunbartonshire	30	29	30	24	28	8.6
Glasgow City	32	31	32	31	32	33.8

TABLE 6.4 **Use of Financial Accounts in the UK**

Financial Products	Percentage of Households by Country				
	UK	England	Wales	Scotland	Northern Ireland
Current Account	90	91	91	88	83
Post Office Account	5	5	6	4	3
Basic Bank Account	6	6	6	10	13
TESSA	6	6	5	5	4
ISA	33	34	32	31	21
Other bank or building society account	52	54	44	45	3
Stocks and shares/ members of a Share Club	21	22	15	19	11
PEP's	7	7	5	6	3
Unit Trusts	5	5	4	4	2
Gilts	1	1	1	1	-
Endowment Policy not linked	3	3	2	2	3
Premium Bonds	22	24	19	16	6
National Savings Bonds	4	4	3	3	1
Company share scheme/ Profit sharing	4	5	3	4	2
Save As You Earn	1	1	1	1	1
Credit Unions	1	-	1	2	8
Any type of account	96	96	95	96	92
No accounts	4	4	5	4	8
Direct Payment Account	95	95	95	96	92
Number of respondents	28,041	20,352	1,239	4,523	1,927

Source: Family Resources Survey 2004/05 Section 5 Assets and Savings

TABLE 6.5 **Use of Current and/or Savings Accounts in Great Britain**

(Row percentages)

Government Office Region	Whether family holds any current or savings accounts (row percent)		
	Yes	No	Unweighted base
All	92	8	6,939
South East	97	3	916
West Midlands	95	5	739
South West	95	5	621
Eastern	94	6	566
East Midlands	94	6	557
London	91	9	594
Scotland	90	10	663
Yorkshire and the Humber	90	10	673
North West	89	11	776
Wales	87	13	422
North East	84	16	412

Source: Families and Children Study 2004

TABLE 6.6 **Reasons for Saving in Great Britain**

(Row percentages)

Government Office Region	Whether saving regularly and why							
	Saving regularly- any reason	Putting money aside for bills	Saving for a particular purpose	Saving for the future/ long term	Saving for no particular purpose	Not saving regularly	Total	Unweighted Base
All	**42**	**5**	**11**	**14**	**14**	**58**	**100**	**6,936**
South West	47	5	10	19	15	53	100	621
North West	44	4	12	13	17	56	100	776
Yorkshire and the Humber	43	3	14	12	15	57	100	673
West Midlands	43	3	12	15	15	57	100	739
Eastern	43	7	9	13	18	57	100	565
South East	42	4	9	14	16	58	100	916
East Midlands	42	8	13	12	15	58	100	557
Wales	40	10	14	15	10	60	100	422
Scotland	39	3	9	14	13	61	100	662
London	37	5	7	15	11	63	100	593
North East	35	4	14	12	9	65	100	412

Source: Families and Children Study 2004

TABLE 6.7 **Proportion of Households With Debt or Multiple Debts in Great Britain**

(Row percentages)

Government Office Region	Percentage of households with Debts							
	None	One	Two	Three	Four	Five or more	Total	Unweighted Base
All	85	8	4	2	1	1	100	6,940
South East	88	5	4	1	1	1	100	916
North West	88	6	3	2	1	0	100	776
West Midlands	88	7	2	2	1	1	100	739
South West	88	6	3	2	0	1	100	621
Eastern	86	8	4	1	1	1	100	567
North East	83	9	5	2	0	1	100	412
Yorkshire and the Humber	83	10	3	2	1	0	100	673
London	81	8	5	3	1	2	100	594
East Midlands	81	8	4	4	2	1	100	557
Scotland	81	10	5	2	2	1	100	663
Wales	77	14	4	2	1	1	100	422

Source: Families and Children Study 2004

Note:-

1. The number of debts equals the number of household bills with arrears including rent and mortgage loan repayments, plus one if there are any credit card or catalogue repayment arrears (regardless of the number of individual credit, charge, shop, store or catalogue agreements with arrears) and plus one, if any, loan arrears (regardless of the number of individual loans from banks, finance companies, money lenders, friends or employers with arrears).

TABLE 6.8 <u>Mean Number of Debts Per Household in Great Britain</u>

Government Office Region	Mean Number of Debts	Unweighted Base
All	0.31	**6,940**
North West	0.24	776
West Midlands	0.24	739
South East	0.26	916
Eastern	0.26	567
South West	0.27	621
Yorkshire and the Humber	0.3	673
North East	0.31	412
Scotland	0.37	663
Wales	0.41	422
London	0.42	594
East Midlands	0.42	557

Source: Families and Children Study 2004

CHAPTER SEVEN CONCLUSIONS AND RECOMMENDATIONS

7.1 This research has demonstrated that the term financial inclusion may be applied differently to different groups of people at different stages in their lives. However, there does appear to be a clear link between financial exclusion and poverty, with exclusion acting as both a symptom and a contributing factor to the latter. While there is no single nor straightforward cause of financial exclusion it would appear that barriers such as access, expense, conditions and perceptions inhibit the use of mainstream financial products and services by excluded groups.

7.2 Exclusion from mainstream financial systems presents a barrier to learning, understanding and utilising various financial products, including mortgages, insurance and credit. Without the necessary skills and financial capability, households can be locked in a cycle of poverty and exclusion or suffer as a result of inappropriate product choice, high cost credit or, for some, illegal money lending.

7.3 The Financial Inclusion Taskforce was established in 2005 to monitor the progress against the objectives the Government set towards promoting financial inclusion across the UK. The Taskforce has welcomed the steady uptake in bank accounts but it realises that more could be done, both by Government, intermediaries, industry and consumers alike. This is particularly the case for those on low incomes.

7.4 Analysis of the SHS revealed a small but steady increase in 3 key indicators of financial inclusion; bank accounts, home contents insurance and perceptions of financial management. However it would appear that there has been a small decrease in the proportion of respondents who are actively trying, or succeeding, to accumulate savings or investments.

7.5 Analysis revealed a strong relationship between financial inclusion and indicators of poverty. The extent of financial inclusion appeared to be consistently below average among those households in which the highest income householder was:-

- Aged 75 or more;
- A single parent;
- Widowed;
- Unemployed and seeking employment;
- Suffering from a disability or long term illness;
- Renting their home; and/or
- Earning a low income.

7.6 Policy initiatives, such as the POCA, which is due to be withdrawn in 2010, seem to have been instrumental in giving those who are most likely to be financially excluded access to basic banking facilities.

7.7 Analysis revealed polarisation in the characteristics of credit union members. At the one extreme are those who are financially included, in that, in addition to access to credit union facilities, they make use of many other financial services. At the other extreme are those members who make use of services which tend to be associated with financial exclusion, such as Provident. This polarisation reflects the characteristics of credit unions in Scotland

7.8 In the majority of cases, access to financial products and services was below average among households located in the 15% most deprived areas, as defined by the SIMD. However, in contrast to existing research on financial inclusion, the rural dimension appeared to be much less significant than anticipated, with rural areas consistently scoring higher on key indicators of inclusion than other locations. It is thought that technological advances, such as the increasing of the internet, may provide a partial explanation as may in-migration.

7.9 The geographic dimension of financial inclusion was clearly evident when examining local authority level data. Local authorities were ranked in order of their performance on 4 key indicators of financial inclusion:-

- Prevalence of bank accounts;
- Prevalence of savings;
- Prevalence of home contents insurance; and
- Perception that the household manages very well financially (this was selected as an indicator of financial capability)

As illustrated by the benchmarking template, local authorities in rural locations appeared at the top of the table, with Aberdeenshire, Shetland, Moray and Argyll and Bute, all scoring in the top 5. Conversely, the 5 local authorities at the bottom of the table were Dundee City, West Dunbartonshire, Inverclyde, North Lanarkshire and Glasgow City, all of which have large urban populations and significant levels of deprivation. However, detailed analysis showed that there were imperfect correlations between the indicators and between them and the SIMD. The conclusion was that any policy initiatives to combat financial exclusion need both to focus on particular aspects of exclusion and cannot simply target authorities with the highest levels of deprivation.

7.10 While it is possible to determine the extent of inclusion at a local authority level, it is important to note that the SHS fails to detect variations within authorities. For example, Renfrewshire ranked mid table on the benchmarking template yet it seems highly likely that problems of financial exclusion may be more acute in areas such as Ferguslie Park, which was found to be the most deprived area in the 2006 SIMD.

7.11 The evidence-base for policymaking on the issue of financial exclusion has, to date, been largely influenced by quantitative research, with the principal method being statistical analysis of large-scale surveys.

7.12 However, owing to the complexity of the issues surrounding financial inclusion and the inability of large scale surveys to highlight neighbourhood level variations, qualitative research is now considered important in understanding the reasons why consumers engage, or not, with the financial services industry.

Future Research

7.13 Given the link between financial inclusion and poverty, it is thought that further analysis of data from the 15% most deprived data zones would be beneficial. This would help to ascertain the nature of the linkages between poverty, debt and persistent financial exclusion.

7.14 Financial exclusion has been exacerbated by structural features in the financial services industry and to a lesser degree by changes in Government policy, such as direct payments of benefits into accounts and the future withdrawal of the POCA. There are a significant number of POCA holders who do not have access to any other account and therefore rely on POCA as their only access to financial services. The Executive should, in the time remaining before the POCA is phased out, further analyse data provided by the SHS, in conjunction with data provided by the Department of Work and Pensions, on those who receive benefit payments into POCA. This could help to identify specific characteristics of POCA usage and any geographical variations to assist in the development of future policy.

7.15 The growth of internet banking, and banking by mobile phone, is a further area which is considered worthy of more detailed analysis. As young people tend to have lower financial capability skills than older generations, internet and mobile banking could become a channel for them to access information and advice as well as banking services.

7.16 The study showed age to be an important factor in various aspects of financial inclusion. As Scotland's population is currently ageing, there is also a need to consider the financial requirements of older people. Further work to analyse uptake of products and services amongst older people may therefore be appropriate. Accordingly it might be important to consider:-

- Ensuring that older people can access services in preferred/traditional ways;
- Educating older people about other payment methods;
- Making older people aware of credit options that are available; and
- Looking at addressing/overcoming concerns about new technology.

7.17 Asset based polices, promoting savings through, for example matched savings schemes offers the opportunity to address poverty by stopping people from falling into poverty and debt when circumstances change. Further work is therefore required to understand the obstacles to saving.

The Role of the SHS in Understanding Financial Inclusion

7.18 At present, the questions concerning access to, and use of, financial products and services, financial management and the accumulation of savings are asked of the household as opposed to the individual. As such, questions seek the response of the householder or their partner. This made it difficult to arrive at conclusions about the characteristics of those who may be considered financially excluded. As all analysis relating to socio-economic characteristics necessarily relates to the highest income householder, it was felt that other members of the household, such as grown up children or older relatives may be excluded from the sample. This may be an important oversight as analysis revealed that those at the extremes of the age spectrum are more likely to suffer from financial exclusion.

7.19 In order to gain more detailed information from the SHS it may be useful, as in the Family Resources Survey, to determine the type of financial accounts that are available to households. For example, if a householder states that they have access to a bank account it may also be useful to establish if the account is a basic bank account or an account with greater functionality.

7.20 The wealth of products and services currently available to consumers means that it is increasingly important that people have the right information, advice and education to make informed choices. Available evidence suggests that consumers do not, at present, shop around for financial products. Further attention within the SHS should therefore be given to understanding the financial capability of all incomes groups and in particular low income households and the way in which they make choices over financial products.

7.21 Increasing credit union membership has been a feature of Executive policy for some time, and it is believed that such third sector lenders may offer an effective solution to the problems of financial exclusion in some instances. However, analysis of the SHS revealed considerable polarisation in the characteristics of the households which held an account with a credit union, with many households making use of a wide range of products and services in addition to those provided by the union. It is felt that this may reflect the employee based structure of many Scottish credit unions and the fact that they may not be accessible to those who may benefit the most.

7.22 At present the SHS simply asks if the householder or their partner holds an account with a credit union. Extending this question to determine the type of credit union to which the respondent belongs could provide information on the extent to which credit unions are meeting the needs of excluded groups.

7.23 Existing research suggests that financial exclusion is associated with the use of high cost lenders, such as Provident. However, analysis of the SHS indicated that, in many instances, the use of finance companies was more prevalent amongst middle income earners. It is possible that the form of the question may have affected this result by picking up those households that had loans from mainstream finance companies as well as high cost lenders. As a result it is suggested that respondents be asked to specify the type of company from which they have received a loan.

7.24 Given the importance of financial capability to contemporary definitions of financial inclusion, it may be useful for the SHS to contain data on the uptake of financial advice. Maintaining the existing structure of questioning, the survey could ask if the householder or their partner have received financial advice concerning such things as saving, debt or budgeting in the preceding 12 months. If the respondent were to state that they have received such advice it would be useful to determine the source of that advice. If the respondent were to state that they have not received any financial advice a secondary question may ask the reason for this: for example, advice was not required or the respondent did not know where to seek such advice.

7.25 Information on financial capability could be enhanced by the inclusion of a question concerning household or personal debt. Such questions are included in the national Families and Children Study. It would seem useful if the same methodology as used by the Study could be used in the SHS.

7.26 Analysis of the 2005/06 SHS highlights the importance of the POCA in providing financial services to those who may find it difficult to access mainstream provision. This includes those who are:-

- Unemployed and seeking work; and
- Suffering from a disability or long term illness.

However, the 2003/04 SHS annual report, the most recent complete report, does not include any information on use of the POCA. Given the role of the post office in promoting financial inclusion and the forthcoming withdrawal of the POCA, it seems important, for the development of future policy, to collate evidence on the characteristics and location of users.

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APPENDIX ONE SCOTTISH HOUSEHOLD SURVEY QUESTIONS

HOUSEHOLD SAMPLE 1999/00 to 2005/06

1. Financial products

1999/00
HI1 Do you (or your partner) have a bank or building society account?

2001/02
HI1 Do you (or your partner) have a bank account or building society account or a credit union account?

2003/04
HI1 Which of these accounts, if any, do you or your partner have?
- Bank account;
- Building society account;
- Credit union account;
- None;
- Refused;

2005/06
HI1 Which of these accounts, if any, do you or your partner have?
- Bank account;
- Building society account;
- Credit union account;
- Post Office Card Account;
- None;
- Refused;

2. Savings and Investments

1999/00 – 2005/06
HI2 At the moment do you (or your partner) have any money invested in any of the places mentioned on this card? (options presented in HI1)

1999/00 -2005/06
HI3 (If answered yes to HI2) How much do you (and your partner) have saved or invested altogether?

3. Credit and Borrowing

2005/06

CREDIT 1 Do you or your partner, use any of the different ways of buying things listed on this card?

- Credit cards (like Access or Visa etc);
- Charge Cards (like American Express, Dinners Club) NOT Switch or Maestro;
- Shop store cards (like BHS, Marks & Spencer etc);
- Catalogues or mail order schemes;
- Hire purchase agreements;
- Shopping vouchers or cards from companies like Provident or Shopacheck;
- None or these;
- Refused.

2005/06

CREDIT 2 Over the past 12mths have you (or your partner) used any of these ways to borrow money?

- A bank overdraft;
- A fixed term loan from a Bank, Building Society or Credit Union NOT MORTGAGE;
- A loan from a finance company like Provident;
- A loan from a money lender or 'tally man';
- A loan from a friend or relative;
- A loan, or advance on wages, from your employer;
- A (DSS) Social Fund Loan;
- A cheque cashing service where the money is not taken from your account for a week or two;
- A pawnbroker;
- Other;
- None of these;
- Refuses.

4. Mortgage

1999/00 – 2003/04

HJ1 (If answered 2 or 3 in HB5 – buying or shared ownership) Does your household have a mortgage or loan outstanding on this property?

2005/06

HJ1 Does your household have a mortgage or loan outstanding on this property?

5. Insurance

1999/00 – 2001/02
HK1 (Ask all) Is your household currently covered by:
- home contents insurance
- house/building insurance
- no, neither
- don't know

2003/04 – 2005/06
HK1 (Ask if property owned or buying (HB5 1,2,3)) Is your household currently covered by:
- home contents insurance
- house/building insurance
- no, neither
- don't know

HK1A (Ask if property rented (HB5= 4)) Is your household currently covered by home contents insurance or not?

(HK1 and HK1A are combined in data to make a single variable HK1)

6. Perceptions of financial management

1999/00 – 2005/06
HK2 Taking everything together, which of these phrases best describes how you and your household are managing financially these days?

7. Internet Access

1999/00
HC6 (Only asked to those coded yes for computer in HC5 – does household have PC) Do you currently have access to email or the internet from home?

2001/02
HC6 (Only asked to those coded yes for computer in HC5 – does household have computer/ PC) For each member of the household do they use the internet for their personal use?

HC7 (For all members who use the internet) Where does (name) use it?
- [1] At home

2003/04 and 2005/06
HC5B (Ask all) Does your household currently have access to the internet from home?

RANDOM ADULT SAMPLE

8. Use of the internet

2001/02 - 2005/06

RC7 (Asked of those household coded as using internet at HC6) Which of these things have you ever used the internet for?

- [10] Personal banking/ financial/ investment activities.

RC8 (Asked of those household coded as using internet at HC6) And which others, if any do you think you would like to use the internet for in the future?

- [10] Personal banking/ financial/ investment activities.

9. Convenience/ inconvenience of services

1999/00 - 2003/04

RF13 Bearing in mind where they are and your own personal circumstances, please tell me how convenient or inconvenient you would find it to make use of their services during their normal opening hours, assuming you needed to?

- [1] Post office
- [2] Bank

2005/06

RF13 Bearing in mind where they are and your own personal circumstances, please tell me how convenient or inconvenient you would find it to make use of their services during their normal opening hours, assuming you needed to?

- [1] A Post Office
- [2] **Banking Services**
- [3] **A Cash machine or ATM**

2005/06

RF13C How often do you use these services?

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