WORKING PAPER NO. 8

DEBT, MONEY MANAGEMENT AND ACCESS TO FINANCIAL SERVICES: EVIDENCE FROM THE 1999 PSE SURVEY OF BRITAIN

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Poverty and Social Exclusion
Survey of Britain

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PREFACE

This Working Paper arose from the *1999 Poverty and Social Exclusion Survey of Britain* funded by the Joseph Rowntree Foundation. The *1999 PSE Survey of Britain* is the most comprehensive and scientifically rigorous survey of its kind ever undertaken. It provides unparalleled detail about deprivation and exclusion among the British population at the close of the twentieth century. It uses a particularly powerful scientific approach to measuring poverty which:

- incorporates the views of members of the public, rather than judgments by social scientists, about what are the necessities of life in modern Britain
- calculates the levels of deprivation that constitutes poverty using scientific methods rather than arbitrary decisions.

The *1999 PSE Survey of Britain* is also the first national study to attempt to measure social exclusion, and to introduce a methodology for poverty and social exclusion which is internationally comparable. Three data sets were used:

- The *1998-9 General Household Survey* (GHS) provided data on the socio-economic circumstances of the respondents, including their incomes
- The *June 1999 ONS Omnibus Survey* included questions designed to establish from a sample of the general population what items and activities they consider to be necessities.
- A follow-up survey of a sub-sample of respondents to the 1998-9 GHS were interviewed in late 1999 to establish how many [illegible]ied as necessities, and also to collect other information on [illegible]usion.

Further details about the *1999 Poverty and Social Exclusion Survey of Britain* are available at: http://www.bris.ac.uk/poverty/pse/

1 INTRODUCTION

The spread and penetration of financial services in a modern economy means that people who cannot access such services find themselves in severe difficulties. 'Financial exclusion' describes a situation in which people do not have access to mainstream financial services such as banking accounts, credit cards and insurance policies, particularly home insurance. The consequences of financial exclusion can include exclusion from other mainstream services, such as savings or pension schemes, and can also lead to debt and / or disconnection from essential utilities. Yet little is know about financial exclusion in Britain; who is excluded, why, and the consequences of such exclusion – particularly in terms of possible overlaps with other dimensions of poverty and social exclusion.

Government concern about financial exclusion is of relatively recent origin. In November 1999 a Policy Action Team (PAT) in the government's Social Exclusion Unit produced a report that drew together the most up to date evidence, particularly relating to exclusion from banking facilities and insurance (Policy Action Team, 1999). The report highlighted the rapid decline in the past 20 years in the number of people who do not have bank accounts. In consequence, the minority of those who remain without are becoming increasingly isolated.

Individuals who do not have access to mainstream banking facilities are at a disadvantage in paying bills, handling cheques and gaining access to credit, and are often forced to resort to expensive alternatives. Shops which cash cheques – a service which banks usually provide free - can charge fees of between seven and nine per cent, as well as a £2 handling charge. Access to short-term credit is also problematic without a bank account, leaving individuals at the mercy of 'loan sharks' charging excessive rates of interest on private loans, sometimes as high as 100 per cent. Lack of access to a bank account also increases the cost of meeting some bills, particularly for utilities such as gas and electricity. Discounts are commonly offered to customers who pay these bills using the direct debit system (Molloy and Snape 1999).

A number of reasons have been identified for exclusion from banking facilities. Over time banks have increased the sum needed to open an account and have become more selective in their provision of credit. People may be excluded from financial services because of changes in family circumstances, such as illness or divorce, (Whyley and Kempson, 1998a), or simply not having the required identity to open an account, such as a passport or a driving licence. Leyshon and Thrift describe a ‘predictable risk avoidance strategy’, whereby banks and insurance companies are more inclined to lend and give additional services to ‘low risk’ customers, thereby often excluding those in most need (Leyshon and Thrift, 1996, p151). In addition, there has been a withdrawal of the financial infrastructure from poorer and rural areas within the past two decades. Banks and building societies have closed branches in rural areas and in the less wealthy areas of towns and cities. Access to local branches is inevitably an important factor in participation in financial services, and such closures have been linked to increasing financial exclusion. Despite the introduction of Internet services and telephone banking, those people who have been excluded by bank closures are often those who are least likely to have access to such facilities.

The PAT report also outlined plans to turn the benefits system into a fully computerised operation, where benefit payments are paid directly into bank accounts, rather than in cash on production of an order book at the post office counter. If this is to succeed, banks will have to extend their customer base to include those with limited capital and other assets.

Concern has also been expressed about the disproportionate exclusion of poorer households from insurance. Secondary analysis of the 1996 Family Expenditure

Survey found that over 50 per cent of households in the bottom fifth of the income distribution had no insurance, compared with 22 per cent in the middle band and just eight per cent in the highest income band (Howarth et al., 1998). The cost of insurance is prohibitive for many poorer families, even without the increased charges that many insurance companies make in deprived, high crime areas. The higher risk in these areas also leads insurance companies to place restrictive conditions on policies so that, even if people are insured, the coverage of their policies is more limited than in affluent areas. The PAT report discussed home contents insurance, in particular Insurance with Rent (IWR) schemes where, for a small price, the cost of insurance is added into the rent payment. The intention of these schemes is to help people who are most at risk of crime to have access to affordable insurance.

Relatively little research has been undertaken on the problem of financial exclusion. Kempson and Whyley’s (1998b) analysis of the Family Resources Survey suggested that the problem of financial exclusion is more common among lone parent families and single person households. Half of those claiming income related benefits had no access to a current account, or many other financial services.

This paper uses evidence from the Poverty and Social Exclusion (PSE) survey of Britain to expand our understanding of financial exclusion. It examines the proportions of people going without financial services and/or in debt; the characteristics of those most likely to do so; and whether those financially excluded are also in poverty and/or socially excluded on other measures.

2 FINANCIAL EXCLUSION – WHO GOES WITHOUT WHAT?

2.1 INTRODUCTION

The PSE survey includes a number of questions that have been developed to quantify the extent of financial exclusion:

- Whether a household is currently or previously in debt, in the sense that they have been behind in the payment of bills within the past year, such as for rent, utilities, council tax, TV licence;
- Whether they have ever been disconnected from utilities such as water, gas, electricity and / or the phone, because they could not afford to pay;
- Whether they have had to borrow money from sources other than a bank, within the past year;
- Whether the household is without access to a bank account;
- Whether respondents are unable to save a small sum, at least ten pounds a month, 'towards a rainy day or retirement'; and
- Whether the household has insurance on the contents of their dwellings.

The proportion of households who are in debt or lack these services varies overall from 35 per cent of households with no savings to just five per cent of households who have been disconnected (Figure 2.1).

2.1 INDICATORS OF FINANCIAL EXCLUSION

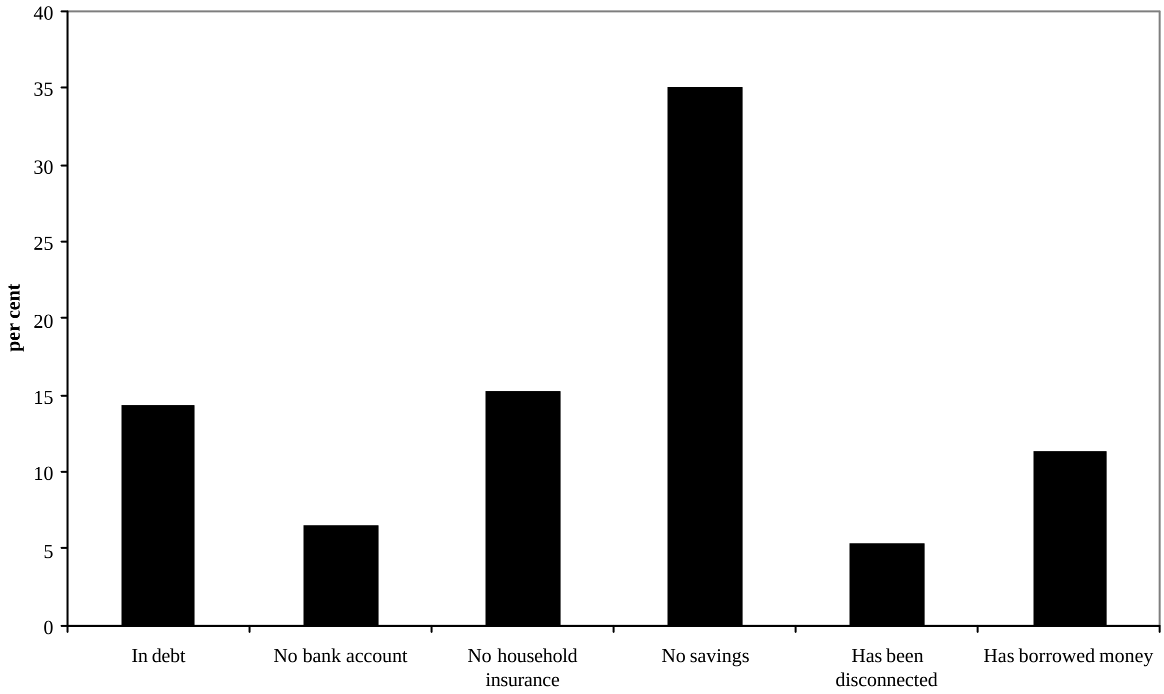


Table 2.1 Indicators of Financial Exclusion

Cell per cent

	Seriously Behind with Payment of Bills	**Been Disconnected**	**Borrowed Money**	**Not got a Bank Account**	**Not got Home Insurance**	**Not got Savings**
Grouped Family Unit						
Single pensioner	(5)	(1)	(4)	8	19	46
Pensioner couple	(2)	(1)	(0)	(2)	(7)	38
Single adult	22	(5)	14	9	24	41
Couple	10	(5)	8	3	8	23
Lone parent	43	22	40	33	46	66
2 adults 1 child	(17)	(4)	(16)	(4)	(10)	32
2 adults 2 children	18	(7)	15	(1)	(9)	23
2 adults 3 children	27	(5)	(19)	(5)	(18)	43
3 adults	(11)	(5)	(9)	(5)	(12)	26
3 adults and children	(17)	(9)	(17)	(1)	(12)	(24)
Population Size						
1 Million +	18	7	16	8	21	41
100,000 – 999,999	15	7	11	8	16	37
10,000 – 99,999	14	5	13	7	13	36
1,000 – 9,999	9	(2)	(5)	(4)	12	30
Less 1,000	12	(2)	(8)	(2)	9	23
Tenure Group						
Owns outright	4	(1)	(4)	(2)	7	31
Owns with mortgage	11	(4)	8	(1)	6	24
Rents LA	34	13	28	23	42	60
Rents privately	21	(7)	14	(8)	30	45
Age Left Education						
15 or less	18	6	12	11	22	42
16	29	12	19	10	17	35
17 – 18	14	(5)	12	(3)	12	30
19 – 21	(10)	(4)	(8)	(4)	(11)	26
22	(3)	(2)	(3)	0	(4)	(17)
older	(9)	(3)	(13)	(1)	(10)	28

No. in Family						
Working	15	6	14	13	25	50
None	18	6	13	(3)	12	32
One	9	4	7	(1)	5	18
Two	(9)	(2)	(8)	(3)	(9)	(21)
Three	(7)	0	0	0	0	(7)
Four						
Employment Status						
1 adult, working						
1 adult, not working	19	(5)	11	(4)	15	34
1 adult, retired						
2 or more adults, 2	39	17	34	30	55	71
or more working	(5)	(1)	(4)	9	17	46
2 or more adults, 1	10	(4)	8	(1)	6	18
working						
2 or more adults,	17	(6)	13	(2)	9	32
none working						
2 or more adults,	39	18	41	20	39	58
none working, at						
least one retired.	(2)	(1)	(1)	(3)	8	38
Sex of Respondent						
Male	15	11	10	5	15	32
Female	15	10	12	7	16	39
Income						
Above 60% of	10	3	7	3	9	28
median	27	11	24	22	36	61
Below 60% of						
median						
Receipt of Benefit						
Yes	11	4	8	3	10	31
No	34	16	35	32	47	66
Ethnicity						
White	13	5	10	6	14	34
Non-white	41	(24)	37	(14)	46	64
No. hh Members						
with Long-standing						
Illness	13	5	10	5	15	30
None	15	6	12	9	17	40
One	17	(5)	14	4	12	37
Two						

Age						
16-24	30	(15)	36	16	30	50
25-34	27	9	18	6	19	38
35-44	15	(6)	14	7	13	26
45-64	13	5	9	5	14	29
65-74	(5)	(1)	(2)	6	10	40
75+	(1)	-	(2)	6	16	44

Key: * = less than 20 cases

In debt

Fourteen per cent of households have had serious difficulties in paying bills in the previous year. Lone parent households are by far the most likely to be in debt with over two-fifths of lone parent households having been seriously behind in paying bills in the past year, compared to ten per cent of couples without children. Over a quarter of couples with three or more children are also in debt. More than two-fifths of non-white households have experienced serious debt. Households with no workers are far more likely to be in debt than those with one or more workers.

A third of households in local authority rented accommodation are in debt and one-fifth of those in private rented accommodation. Debt is also more common among those in densely populated areas. Almost one-fifth of households living in areas with a million or more residents are in debt, compared to just one tenth in areas of under one thousand residents.

Difficulty with paying bills is particularly prevalent among younger people and declines steadily with age. Respondents who left education at 15 or 16 are more likely to have household debts than those finishing education at a later age. Debt is only slightly more common among households with members with long standing illnesses than in other households.

Disconnection

One in 20 households have experienced disconnection from at least one of the main utilities in the previous 12 months. Although numbers are small, it seems that almost one-quarter of non-white households have been disconnected compared with only one in 20 white households. Again, lone parent households are far more likely than households in general to have been disconnected – one-fifth of lone parents. Other characteristics that seem to be associated with disconnection are being in local authority rented accommodation, aged 16 to 24, completing education at age 16 and receiving Income Support or Jobseeker's.

Borrowing

More than one in ten households have been forced to borrow money from sources other than a bank. Two-fifths of lone parent households have borrowed money, more than double the proportion of households with couples who have one or two children. As Figure 2.2 shows, the proportion of lone parents borrowing is three times more than for households as a whole. Borrowing is even higher among households with two or more non-working adults than among lone parents. More than one-third of one adult non-working households have borrowed. Borrowing is also high amongst:

- non-white households (37 per cent);
- households on benefit (35 per cent);
- among 16-24 year olds (36 per cent);
- households renting from the local authority (28 per cent).

Again, borrowing among households with members with long standing illnesses is not much higher than for households without such members and is much lower among the older age groups.

Bank accounts

Only six per cent of households do not have a member with a bank account. More than one-third of households receiving benefits do not have access to a bank account and one-third of lone parent households. One-fifth of two adult non-working households and almost one-third of one adult households with no workers lack a bank account. Those aged 16 to 24 are, again, the age group most likely to be without a bank account. Generally the longer respondents remain in education, the less likely their household is to be without a bank account, decreasing from 11 per cent at a leaving age of 15 to one per cent of those leaving over the age of 22. Almost one-quarter renting from the local authority lack a bank account, compared to one per cent of households owning with a mortgage.

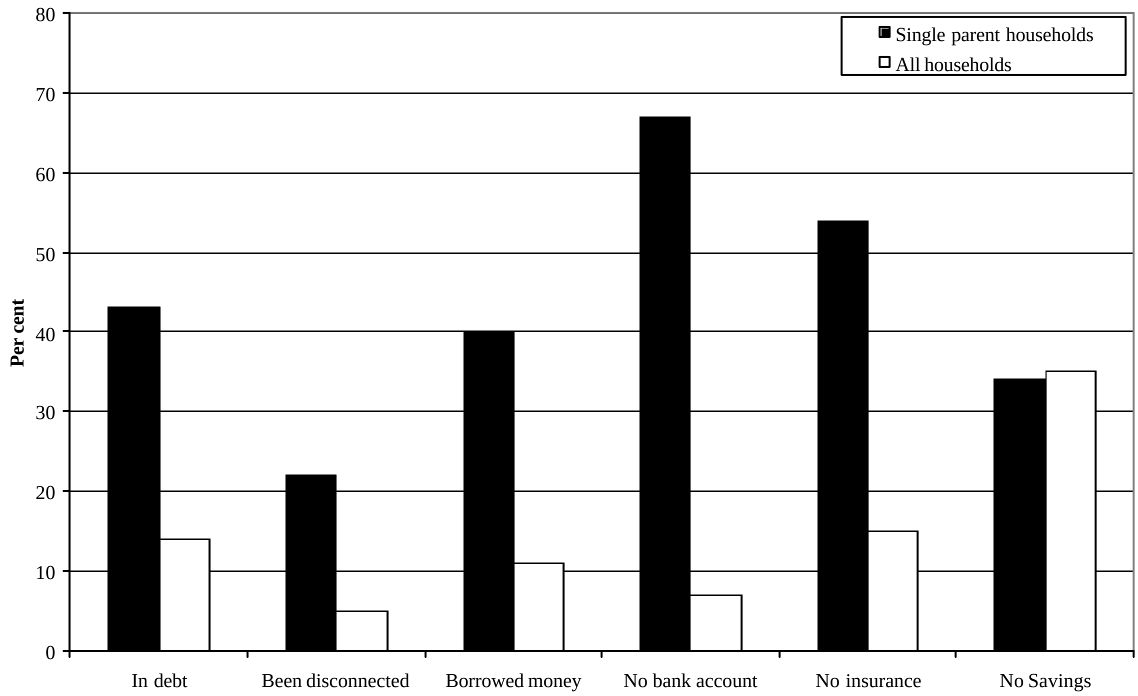
Insurance

Almost one household in seven cannot afford to insure the contents of their home. More than one half of one adult non-working households cannot afford insurance; 46 per cent of lone parents and non-white households; 47 per cent of households receiving benefits; 42 per cent of those renting from the local authority; and 39 per cent of households with two or more non-working adults. The likelihood of having insurance increases with age and with the age at which the respondent left education and decreases the larger the population size.

Savings

More than one-third of households cannot afford to make regular savings of at least £10 per month 'for a rainy day' or towards their retirement (35 per cent). Similar patterns emerge as for the other indicators but at higher levels. More than seven in ten one adult non-working households cannot afford to save (71 per cent) and 58 per cent of two adult non-working households; two-thirds of lone parent and benefit households (66 per cent); non-white households (64 per cent); and those in local authority rented accommodation (60 per cent). Rates are also higher among the 16-24 year age group (50 per cent); single pensioners (46 per cent); single adults (41 per cent); families with three or more children (43 per cent); in the most densely populated areas (41 per cent); among those who left education at a younger age (42 per cent); and, interestingly, among women (39 per cent).

Figure 2.2 Proportions of Lone Parents Financially Excluded Compared to all Households



Summary

Although the proportions 'excluded' on each of these six indicators vary quite substantially, the characteristics of those most likely to be excluded are largely the same. These are:

- households with no workers;
- lone parent households;
- non-white households;
- households receiving IS or JSA;
- households with younger respondents;
- households living in local authority housing;
- households with respondents who left education at an early age;
- households in more densely populated areas.

3 FINANCIAL SERVICES AND DEBT

The indicators described above can be seen as falling into two groups. Two indicators represent direct exclusion from financial services – not having a bank account or being able to afford home contents insurance. The remaining four indicators all relate to debt and its consequences – serious difficulties in paying bills, being disconnected, borrowing other than from banks and not having savings. This section describes the characteristics of households excluded from financial services and on the 'debt' indicators. It then examines the extent to which exclusion from financial services and debt overlap.

3.1 FINANCIAL SERVICES

Lack of a bank account and home contents insurance are the main financial services used to indicate financial exclusion; households missing one or both may be considered as financially excluded from mainstream financial services. When these two indicators are combined 14 per cent of households lack one and only four per cent lack both (Table 3.1). Therefore, in total, almost one-fifth of households are excluded from one or more financial services. The characteristics of those lacking one or more financial services are as follows:

- The highest proportion of households missing one of the services are one adult no worker households (40 per cent; 22 per cent lacked both), and 26 per cent of two or more adults households with no workers lack one service (17 per cent lack both);
- Twenty six per cent of single parent households lack one of the financial services (with a further 26 per cent missing both). This is almost double the proportion of all households and just under three times higher than the proportion of couples with children missing one of the services. Single adults and pensioners without children are more likely to lack financial services than couples without children;

- One half of households in local authority accommodation lack one or both of the financial services, seven times greater than households with a mortgage or owned outright;
- Those living in urban areas with a population of more than one million are the most likely to be lacking one or more of the services (23 per cent) compared to nine per cent in areas of less than 1,000 residents;
- Those in receipt of benefit are over three times more likely (37 per cent) to lack one financial service than households not on benefit (11 per cent);
- almost one half of non-white households (47 per cent) are excluded from at least one of the services compared with 16 per cent of white households; and
- Two-fifths of households with young respondents (aged 16 – 24) lack one or both services and one-fifth of those aged 75 or over.

Table 3.1 Financial Services Lacking

Row per cent within each category

Financial Services Missing	**None**	One	**Two**
Overall	82	14	4
Grouped Family Unit.			
Single pensioner	76	21	(3)
Pensioner couple	91	9	(0)
Single adult	72	23	(5)
Couple	91	7	(2)
Lone parent	48	26	26
Couple with children	88	10	(2)
3 adults	84	(14)	(1)
3 adults with children	87	(13)	0

Employment			
1 adult, working			
1 adult, not working	83	15	(2)
1 adult, retired	38	40	22
2 or more adults, 2 or more working	78	19	(4)
2 or more adults, 1 working	93	7	0
2 or more adults, none working	90	10	(1)
2 or more adults, none working, at least one	57	26	17
retired.	90	9	(1)
No. in Family Working			
None	71	21	8
One	86	13	(1)
Two	95	5	(0)
Three	88	(12)	-
Four	(100)	-	-
Tenure Group			
Owns outright	92	7	(1)
Owns with mortgage	93	7	0
Rents LA	51	35	15
Rents privately	67	14	(5)
Age Left Education			
15 or less	74	19	7
16	80	12	8
17 – 18	85	14	(1)
19 – 21	89	(10)	(1)
22 onwards	93	(7)	(1)
Receipt of Benefit			
Yes	42	37	21
No	88	11	1
Ethnicity			
White	83	13	3
Non-white	53	(34)	(14)
Age			
16-24	60	33	(7)
25-34	81	15	(5)
35-44	85	10	(5)
45-64	85	13	3
65-74	88	9	(3)
75 and over	79	20	(1)

Population Size			
1 mill, or more	77	17	6
100,000 to 999,999	80	16	4
10,000 to 99,999	83	14	(3)
1,000 to 9,999	86	12	(2)
less than 1,000 residents	91	8	(1)
No. Household Members with Long-standing Illness			
None	83	14	3
One	79	16	5
Two	87	11	(2)
Income			
Above 60% median	90	10	(1)
Below 60% median	57	28	14

Key: ( ) = less than 20 cases.

3.2 DEBT

Whether a household is behind in the payment of bills, been disconnected from utilities, lacks savings or has had to borrow from sources other than banks, all help to contribute to overall debt within a household. As with financial service indicators, the debt indicators were combined to create a new debt measure. Within this new measure a quarter of households have one of the indicators, with a further 16 per cent having two or more (see Table 3.2). Therefore, in total, over two-fifths of households have at least one of the debt indicators. As before, certain characteristics seem to be particularly associated with debt:

- Half of single parent households have two or more of the debt indicators, and a further 25 per cent lack just one. Thirteen per cent have all four indicators, more than three times than for households as a whole;
- Over three-quarters of one adult households with no one in employment have one or more debt indicators. This is fairly evenly spread between those lacking one, two or three or more debt indicators. Three-quarters of two adult jobless households also have one or more debt indicators, almost one half lacking two

or more (compared to one-quarter of two or more worker households lacking one or more, eight per cent lacking two or more);

- Seventy two per cent of local authority households have debt of at least one kind and this is over double the proportion found for households with a mortgage or owned outright. Thirty four per cent of local authority households have one debt indicator, 17 per cent have two and a further 21 per cent have three or more. Each of these proportions are approximately ten percentage points higher than for the population as a whole;
- Three-quarters of households in receipt of benefit have one or more debt indicators, approximately twice the figure for households not in receipt of benefit;
- Within areas with more than one million residents, just under half of households have debt compared to just under one third of households in areas with less than one thousand residents;
- Although numbers are small, non-white households are more vulnerable to debt than white households. Seventy two per cent of non-white households have at least one of the debt indicators compared to only 39 per cent of white households;
- The youngest and oldest respondents experience debt. Almost three-fifths (39 per cent) of the 16-24 year age group have one of the debt indicators and 44 per cent of those aged 75 and over. However, this oldest age group are very unlikely to have more than one of the debt indicators (one per cent), whereas among the youngest age group more than one-third (36 per cent) have two or more.

Table 3.2 Debt Indicators

Row per cent within each category

	None	One	Two	Three	Four
Overall	59	25	8	5	3
Grouped Family Unit.					
Single pensioner	52	42	(4)	(2)	0
Pensioner couple	61	38	(1)	(1)	0
Single adult	54	19	18	7	(2)
Couple	71	19	5	(3)	(2)
Lone parent	25	25	17	20	13
Couple with children	61	21	7	6	(4)
3 adults	69	(18)	(6)	(6)	(1)
3 adults with children	68	(18)	(7)	(3)	(7)
Employment					
1 adult, working	61	19	12	(7)	(3)
1 adult, not working	22	28	24	18	(8)
1 adult, retired	53	40	(5)	(2)	0
2 or more adults, 2 or more working	75	17	(3)	(2)	(3)
2 or more adults, 1 working	61	20	(10)	(7)	(2)
2 or more adults, none working	28	25	(18)	(19)	(10)
2 or more adults, none working, at least one retired.	61	36	(1)	(1)	(0)
Tenure Group					
Owns outright	68	27	(2)	(2)	0
Owns with mortgage	71	19	5	4	(2)
Rents LA	28	34	20	12	7
Rents privately	51	25	(13)	(6)	(5)
Age Left Education					
15 or less	54	26	11	7	(3)
16	55	17	13	8	7
17 – 18	64	19	(8)	(7)	(1)
19 – 21	71	18	(4)	(3)	(4)
22 onwards	73	18	(6)	(3)	(1)

RECEIPT OF BENEFIT					
Yes	24	33	17	17	9
No	65	24	7	4	(2)
AGE					
16-24	35	29	(12)	(16)	(8)
25-34	54	20	12	8	(6)
35-44	68	15	7	7	(3)
45-64	65	19	9	4	(2)
65-74	59	36	(4)	(1)	0
75 and over	55	44	(1)	(0)	0
POPULATION SIZE					
1 mill, or more	54	25	10	7	(4)
100,000 to 999,999	58	26	8	5	(4)
10,000 to 99,999	58	26	8	6	(2)
1,000 to 9,999	66	26	(4)	(3)	(1)
less than 1,000 residents	70	18	(7)	(4)	(1)
NO. HH MEMBERS WITH LONG STANDING ILLNESS					
None	65	22	5	5	(2)
One	54	28	10	5	3
Two	57	25	10	(5)	(3)
INCOME					
Above 60% of median	68	22	6	3	(2)
Below 60% of median	30	38	14	12	6

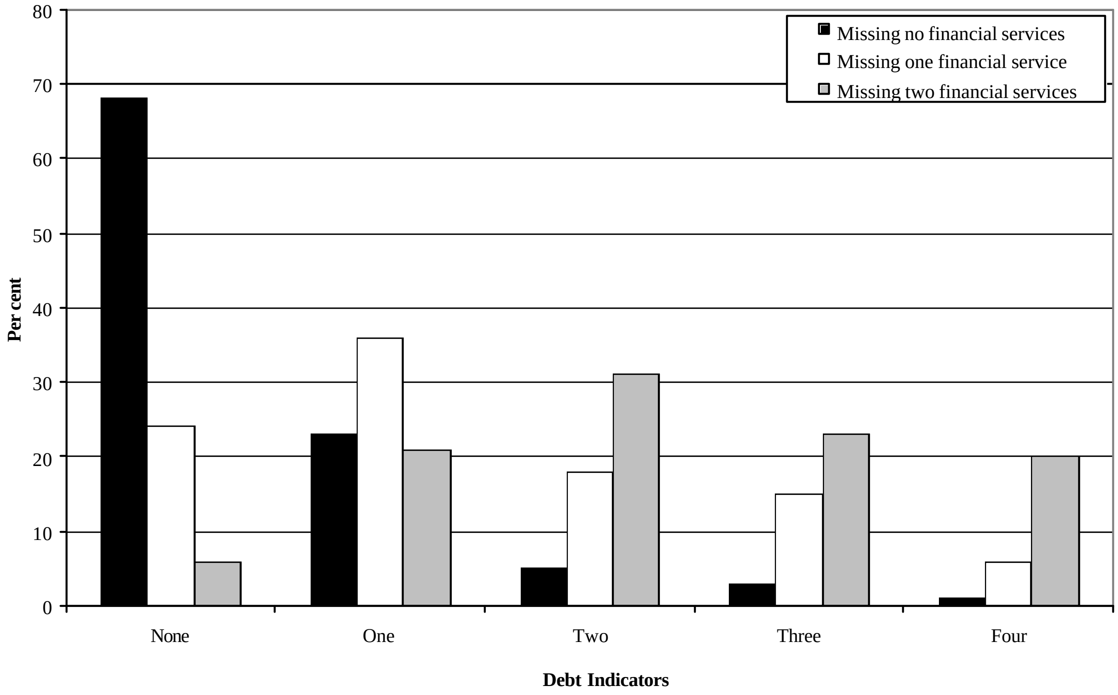
Key: ( ) = less than 20 cases.

3.3 FINANCIAL SERVICES AND DEBT

In general the characteristics of households having debts and lacking financial services are similar. Households lacking the highest proportion of financial services share the same characteristics as households with the highest proportions of debt. When the measures are plotted against each other there is a large overlap between lacking financial services and debt (Figure 3.1). Of the households lacking neither a bank account nor insurance, two-thirds are not in debt using any measure, five per cent have two of the debt indicators and only one per cent have all four. The overlap between debt and financial service exclusion is even greater. Among households not experiencing any of the debt indicators 94 per cent are not excluded from either of the financial services, six per cent lack one, and less than one half of one per cent lack two.

Given the overlap between these measures and, further, that the characteristics of households experiencing debt or financial services exclusion are largely similar, the financial service indicators have been combined with the debt indicators to produce a measure of financial exclusion including all six indicators.

Figure 3.1 Relationship Between Debt and Lacking Financial Services



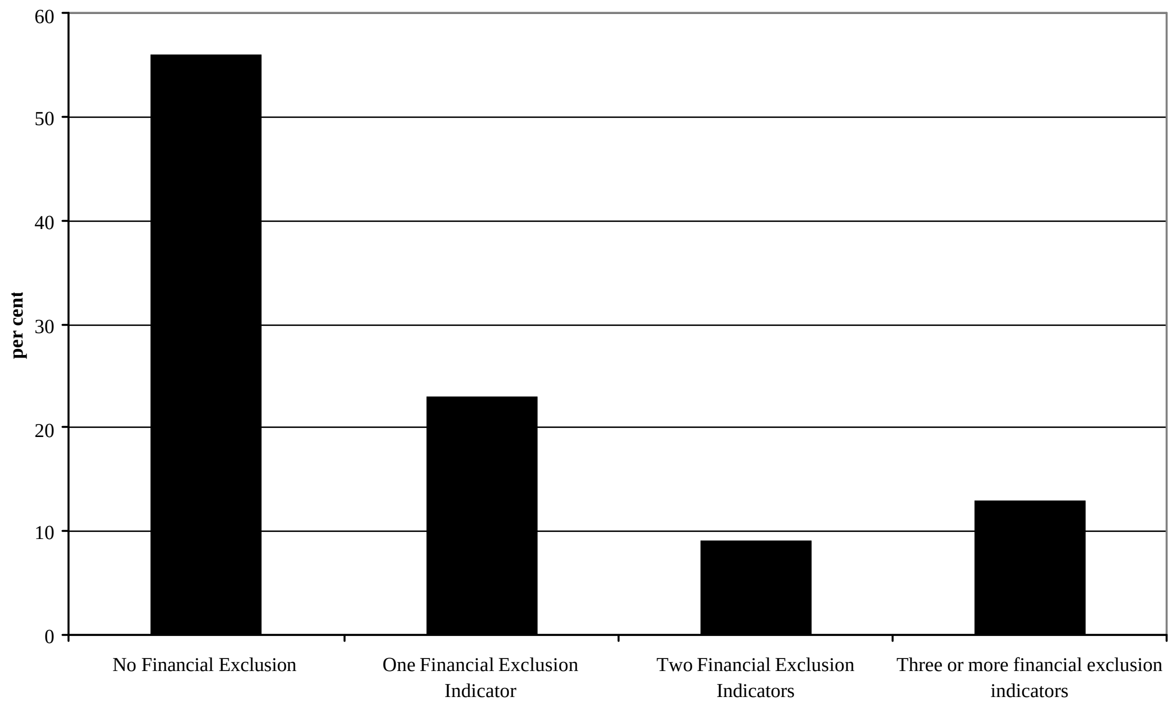
4 MULTIPLE FINANCIAL EXCLUSION

In this section the indicators of financial exclusion described earlier are combined to produce a cumulative scale of those lacking the service (in terms of bank accounts and insurance) and with the financial problem (in terms of in debt, disconnection, lack of savings and borrowed money). For simplicity in what follows financial exclusion or a 'lack' of financial services means either, or both, lacking services and financial problems. This section describes, first, the characteristics of financially excluded households and, second, a logistic regression model that predicts the odds of financial exclusion for households with particular characteristics.

4.1 WHO EXPERIENCES MULTIPLE FINANCIAL EXCLUSION?

Only a little over one-half of households are not financially excluded on any indicator, that is, they have both financial services and none of the financial problems. More than one in ten households are financially excluded on three or more (Figure 4.1).

Figure 4.1 Numbers of Financial Exclusion Indicators Lacking



Household type

Almost half of lone parents are financially excluded on three or more of the indicators, more than two and one half times the proportion for single people, and three and one half times greater than for couples with children.

Table 4.1 Characteristics of Financially Excluded Households

Row per cent

	Indicators of Financial Exclusion			
	None	**One**	**Two**	**Three or More**
Grouped Family Unit				
Single pensioner	45	38	12	6
Pensioner couple	59	32	(8)	(1)
Single adult	48	18	16	18
Couple	69	19	5	8
Lone parent	23	14	15	49
Couple and children	59	20	7	14
Three or more adults	64	18	(6)	(12)
Three or more adults and children	68	13	(9)	(10)
Employment				
1 adult, working	58	18	(13)	11
1 adult, not working	15	19	18	49
1 adult, retired	46	36	13	6
2 or more adults, 2 or more working	73	18	4	(5)
2 or more adults, 1 working	59	18	10	14
2 or more adults, none working	25	21	(9)	46
2 or more adults, none working, at least one retired.	59	31	9	(13)
NO. IN FAMILY WORKING				
None	30	53	53	61
One	28	21	31	28
Two	38	22	(12)	(10)
Three	4	(4)	(4)	(1)
Four	(1)	(0)	-	-

Tenure Group				
Owns outright	64	27	5	(4)
Owns with mortgage	64	19	6	7
Rents LA	21	(18)	20	36
Rents privately	43	(17)	16	18
Age Left Education				
15 or less	50	24	8	18
16	53	13	12	22
17 – 18	60	19	10	11
19 – 21	68	(18)	(6)	(9)
22 onwards	72	(17)	(6)	(5)
Ethnicity				
White	57	23	9	11
Other	25	13	13	49
Receipt of Benefit				
No	61	23	8	8
Yes	18	20	19	43
Age				
16-24	26	26	13	35
25-34	51	20	9	20
35-44	66	13	7	13
45-64	63	17	9	11
65-74	55	33	8	4
75 and over	48	37	14	3
Population Size				
1 mill, or more	49	24	9	18
100,000 to 999,999	54	22	11	13
10,000 to 99,999	56	23	8	14
1,000 to 9,999	64	21	10	(6)
less than 1,000 residents	66	21	(8)	(5)

NO. HH MEMBERS WITH LONG-STANDING ILLNESS				
None	60	21	8	11
One	52	24	10	14
Two	54	23	10	13
INCOME				
Above 60% of median	65	22	6	7
Below 60% of median	24	27	19	30

Key: ( ) = Less than 20 cases

Employment

Households without working adults experience more financial exclusion than other groups. Almost half of households with one non-working adult and of those with two or more non-working adults are excluded on three or more of the indicators. Households least likely to be affected by financial exclusion are those with two adults who are both working; 69 per cent of this group experience no financial exclusion.

Tenure

Households in local authority rented accommodation experience more financial exclusion than those who have a mortgage or own their house outright. More than one-third of local authority tenants lack three or more of the indicators, compared to four and seven per cent respectively of those who own houses outright or with a mortgage.

Age completed education

Households in which the respondent left education aged 16 or less have the highest risk of financial exclusion. Approximately one-fifth of households where the respondent left education aged 16 are financially excluded on at least three indicators, and just five per cent of those who continued in education to the age of 22 or older. Almost three-quarters of the latter group experience no financial exclusion.

Ethnicity

Non-white households experience far more extensive financial exclusion than white households. Just one-quarter of non-white households experience no exclusion and almost one-half are excluded on at least three of the indicators.

Benefit receipt

More than two-fifths of households in receipt of Income Support or Jobseeker's Allowance are excluded on at least three of the measures, compared with less than one in ten households not in receipt of these benefits.

Age of respondent

The extent of financial exclusion is age related. Just one-quarter of households with a respondent aged between 16 and 24 are not financially excluded on any measure and over one-third lack three or more. Households with respondents aged between 35 and 64 years fare best; approximately two-thirds in this age group suffer no financial exclusion and only one in eight lack are excluded on three or more.

Population size

Financial exclusion decreases the smaller the population of the area in which the household lives. Those living in a highly populated area (one million residents or more) are the most likely to be financially excluded – only one-half lack no indicators and almost one-fifth lack three or more. This compares with two-thirds and five per cent respectively of those living in areas of less than 1000 residents.

Long-standing illness

It seems that financial exclusion is only slightly more prevalent in households with members who have long standing illnesses than in those in which all adults are healthy. Just under one quarter of households with one or more members suffering from a long standing illness are excluded on two or more indicators compared with just over one-fifth of those without such illnesses.

Income

As would be expected, households with incomes below 60 per cent of the median are far more likely to be financially excluded. Just under one third of households with low incomes lack two or more of the indicators, compared with seven per cent of households with incomes above 60 per cent of the median. Almost two-thirds of richer households experience no financial exclusion. Less than one-quarter of poor households are not excluded on at least one indicator.

In summary, despite the spread of financial services within the past 20 years, there are still significant proportions of households suffering from multiple financial exclusion, in terms of lacking services or being in debt. Particularly vulnerable are: lone parents; local authority tenants; workless households; non-white households; and, households in receipt of benefit.

It is worth noting that these data will underestimate the true extent of financial exclusion in Britain since they do not include homeless people, or those in institutions such as prisons.

4.2 WHAT MAKES HOUSEHOLDS VULNERABLE TO FINANCIAL EXCLUSION

The previous section has shown that a number of characteristics are particularly associated with increased levels of financial exclusion. But many of these characteristics are inter-related, for example lone parenthood, benefit receipt, worklessness and local authority tenure. A logistic regression analysis was undertaken in order to unpick these inter-relationships by determining which characteristics are significant in predicting financial exclusion when all other characteristics are taken into account. In other words, what are the odds of, for example, a lone parent household being financially excluded even when the fact that she is on benefit, not working and living in local authority rented accommodation is taken into account?

For the purposes of this analysis a financial exclusion threshold was required to divide households into those who are financially excluded and those who are not. Put simply, how many of these indicators have to be present before a household can be said to be financially excluded. The threshold was determined following two stages of analysis (see Appendix 1 for further details of these procedures and their results). First the reliability of the scale was tested using Cronbach's alpha. Overall the six item index has a Cronbach's alpha score of .7234 which suggests that the index is reliable. The results of this analysis further suggested that all six indicators should be kept in the scale. Second a financial exclusion threshold was established using statistical procedures to maximise the difference between the excluded and non-excluded groups and to minimise the difference within groups, based on income and family type. The results suggest that a household is financially excluded when lacking one or more of the indicators.

The logistic regression model includes all characteristics included in Table 4.1 except for income and employment status. Income has been used to establish the threshold and should not, therefore, be included in the model. Employment status includes retired individuals and would overlap with age. Number of adults working has been used instead. Household type has also been combined so that it does not overlap with age (i.e. it does not include separate pensioner household types).

The results of the logistic regression analysis suggest that each of the characteristics in the model is a significant predictor of social exclusion when all other characteristics are held constant.

Table 4.2 Logistic Regression Model Predicting Financial Exclusion

	Odds of Being Financially Excluded
Age	
65-74+	1.00
45-64	1.24
35-44	0.94
25-34	1.93***
16-24	5.36***
Age Completed Education	
22 onwards	1.00
19-21	1.09
17-18	1.14
16	1.36**
15 or less	1.74***
Ethnicity	
White	1.00
Other	3.01***
Population Size	
One million or more residents	1.00
100,000 to 999,999	0.90
10,000 to 99,999	0.77**
1,000 to 9,999	0.47***
Less than 1000	0.82
Illnesses within households	
None	1.00
One	1.22**
Two or more	0.98

NUMBER IN HOUSEHOLD WORKING	
Two or more	1.00
One	1.58***
None	3.23***
FAMILY TYPE	
Couple	1.00
Single	1.55***
Single parent with child(ren)	2.65***
Couple with child(ren)	2.07***
3 adults	1.63***
3 adults with children	0.88
In receipt of benefit.	
No	1.00
Yes	2.26***
Tenure	
Owns outright	1.00
Owns with mortgage	1.24*
Rents LA	5.15***
Other rent	2.49***

Key: sig = *<0.05, **<0.01, ***<0.001.

- Households in which the survey respondent was aged between 16 to 24 are more than five times more likely to be financially excluded, and those aged between 25 to 34 almost twice as likely to be financially excluded, as those households with respondents who are aged 65 and over;
- Households with ethnic respondents are three times more likely to be financially excluded than white respondents, even when all other characteristics are taken into account;
- Households with one worker are one and a half times, and those with no workers over three times, more likely to be financially excluded than households with two or more workers;

- Lone parents are more than two and one half times more likely to be financially excluded than couples without children, even when other factors associated with lone parenthood, such as being on benefit, not working and living in local authority rented accommodation are taken into account. Yet being in a couple with children does not protect from financial exclusion. This group are twice as likely as couples without children to be financially excluded;
- Households in receipt of Income Support or Job Seeker's Allowance are more than twice as likely to be financially excluded as those respondents who do not receive such benefits;
- Households in local authority rented accommodation are five times more likely to be financially excluded than households who own their property outright, when other characteristics are held constant;
- In general households in areas with a lower population size are less likely to be financially excluded than those in areas with a higher population size;
- Although financial exclusion is significantly higher in households with one member with a long-standing illness or disability the differences are not as great as might have been expected. Most of the difference is because these households are much less likely to have savings than those without a sick or disabled member. The somewhat surprising finding that households with two members with long standing illness or disability are less likely, if not significantly so, to be financially excluded than households without such members is probably the result of many of these households having two elderly members. Older people are generally less likely to be financially excluded than younger ones.

5 FINANCIAL EXCLUSION, POVERTY AND SOCIAL EXCLUSION

It remains to explore the extent to which financial exclusion is associated with other measures of poverty and with social exclusion. In addition to conventional income measures, the PSE survey included a measure of poverty, described here as 'necessities deprivation' which involves going without socially perceived necessities of life and having a low income (for further details, see Gordon et. al., 2000). The survey also explored respondent's own views of their experience of poverty over their lifetime, and of their current poverty status. In addition, the PSE survey is the first to attempt to measure social exclusion on a number of possible dimensions, including exclusion from social activities, contact with friends and family and civic engagement.

Table 5.1 Poverty and Social Exclusion Measures

Column per cent within each category

	INDICATORS OF FINANCIAL EXCLUSION			
	None	**One***	**Two**	**Three or More**

*Deprived of necessities**				
Yes	16	59	87	88
No	84	41	13	12
Income:				
Above 40% of mean	82	76	53	44
Below 40% of mean	18	24	47	56
Income:				
Above 50% of mean	78	66	44	36
Below 50% of mean	22	34	56	64
Income:				
Above 60% of mean	73	56	35	29
Below 60% of mean	27	44	66	71
Experience of Poverty over Life				
Never	70	55	31	25
Rarely	13	14	24	14
Occasionally	13	23	32	32
Often / Most of the time	4	8	14	29
Currently in Poverty				
Never	90	71	41	15
Sometimes	9	24	46	50
All the time	(1)	5	13	36

Lacking social activities				
None	81	55	34	10
One	10	12	16	(6)
Two	5	11	(11)	(6)
Three – four	4	13	20	25
Five or more	(2)	9	20	54
See Relatives daily				
Yes	55	66	61	68
No	45	34	39	32
See friends daily				
Yes	73	71	71	75
No	27	29	29	25
See Relatives weekly				
Yes	92	89	92	94
No	8	11	(8)	(6)
See Friends weekly				
Yes	93	92	90	92
No	7	8	10	8
Civic Engagement				
Yes	95	91	85	78
No	5	9	15	22

Key: ( ) = less than 20 cases
* The ‘savings’ and ‘insurance’ indicators of financial exclusion were in the list of indicators used to form the index of deprivation. Therefore, these two items have been excluded from the deprivation index in this analysis to avoid double counting.

Deprived of necessities

There is a very strong relationship between necessities deprivation and financial exclusion. Eighty-four per cent of respondents in non-financially excluded households are not poor on the necessities deprivation measure. Conversely, 88 per cent of respondents in households financially excluded on three or more indicators are also necessities deprived.

Income poverty

There is, unsurprisingly, a clear link between financial exclusion and low income. Households more at risk from financial exclusion are also more likely to have an income below various proportions of the average. Fifty six, 64 and 71 per cent of households financially excluded on three or more of the indicators have incomes below 40, 50 and 60 per cent of the average. This compares with only 18, 22 and 27 per cent of households missing none of the financial exclusion indicators.

Poverty over the lifetime

As with income poverty, respondents' own views of their experience of poverty over their lifetimes follow a similar pattern; the greater the extent of financial exclusion, the greater the risk of having been in poverty at some time. Seventy per cent of households missing none of the indicators said they have never been in poverty and just four per cent have been in poverty often or most of the time. In comparison, of those households missing three or more of the indicators, 25 per cent said they had never been in poverty and 29 per cent said they were in poverty often or most of the time.

Perceptions of current poverty

Only one per cent of respondents in households with no financial exclusion consider themselves to be in poverty all of the time, compared to 36 per cent of households excluded on three or more indicators. A further 50 per cent of those lacking three or more indicators said that they were sometimes in poverty.

Social activities

The list of items and activities in the PSE survey includes questions about whether people can afford to participate in a range of 'social' activities:

Visiting friends or family in hospital	Holiday away from home once a year
Visits to friends or family	Attending a place of worship
Celebrations on special occasions	An evening out once a fortnight
Visits to school, e.g. sports day	Coach/train fares to visit friends/family quarterly
Attending weddings, funerals	A meal in a restaurant/pub monthly
Hobby or leisure activity	Going to the pub once a fortnight
Collect children from school	Holidays abroad once a year
Friends or family round for a meal	

The more financial exclusion indicators a household is missing, the more likely they are to be unable to afford social activities. Eighty one per cent of households excluded on none of the financial exclusion indicators can afford all of the social activities. More than half of respondents excluded on three or more of the financial indicators cannot afford five or more of the social activities.

Contact with friends and family

Few differences emerge from a comparison of daily and weekly contacts with friends and relatives and the extent of financial exclusion. The one notable exception is daily contact with family members outside the immediate household, where respondents who suffer the greatest extent of financial exclusion are more likely to have daily contacts with family than those who are not financially excluded at all. Similar findings are reported in other working papers in this series in relation to jobless households and households on benefits (Adelman et. al., 2000; Ashworth et. al., 2000)

Civic engagement

The extent of civic engagement was measured in two ways. First, respondents were asked if they had participated in each of a list of civic activities in the last three years[1]. These included voting in general and local elections, writing to the newspapers and standing for civic office. Second, respondents were asked whether they were currently involved in each of a list of clubs and organisations, including political parties, parents' associations, and religious groups. Respondents involved in at least one civic activity or organisation are defined as engaged in civic activity, those with no involvement in any activity or organisation are defined as disengaged.

The greater the extent of financial exclusion the lower the likelihood of a respondent being engaged in at least one civic activity or organisation. Engagement declines most between those households lacking two and three or more financial exclusion indicators, from 85 to 78 per cent.

1 For a full list of civic activities and organisations see Gordon et al., 2000.

6 CONCLUSION

Recent concern about the extent of financial exclusion in Britain is justified. This paper has suggested that almost 50 per cent of households are excluded on at least one of six indicators included in the PSE survey of Britain:

- having serious difficulties in paying bills in the previous 12 months;
- being disconnected from at least one of the major utilities;
- borrowing money from a source other than banks;
- not having access to a bank account;
- being unable to afford home contents insurance; or
- being unable to afford to save £10 per month regularly towards a rainy day or for retirement.

Further analysis shows that households who are most likely to be excluded on each indicator; to be excluded from financial services; to have financial problems; and/or to be multiply financially excluded share similar characteristics. These are:

- the young – particularly those aged 16 to 24 years;
- non-white households;
- jobless households;
- lone parents;
- households in receipt of IS or JSA;
- households renting their accommodation from the local authority;
- living in areas of high population size.

Each of these characteristics are significantly associated with high levels of financial exclusion, even when all the other characteristics are controlled for. In addition, financially excluded households are more likely to experience social exclusion as measured by being unable to afford to participate in social activities, or failing to participate in civic activities or organisations.

Some of these findings are similar to those found in other studies of financial exclusion. The PAT report found that the majority of people identified as financially excluded were lone parent households, living in rented housing, unemployed and, consequently, living on low incomes, usually state income related benefits. This paper reinforces and extends these findings. It seems that if financial exclusion is to be tackled government, the financial services sector and the major utilities will need to pay particular attention to their policies and attitudes towards individuals and households with the characteristics listed above. In particular we would highlight the following:

- Young people aged 16 to 24 years are more likely than any other age group to be financially excluded on each of the six indicators. In other words, financial exclusion for this group is not simply the result of banks and other financial institutions excluding young people from their services, although this is part of the story. Previous research has suggested that young people's uneven distribution of financial knowledge continues to prevail in later life thereby maintaining economic inequalities (Lunt, 1996);
- It is difficult to avoid the conclusion that institutional racism among banks, insurance companies and the major utilities must be playing at least a part in the disproportionate levels of financial exclusion found among Black, Asian and other ethnic minority households;
- Although policies to assist people into the labour market are likely to reduce levels of financial exclusion, it is by no means confined to jobless households. Attention will need to be given to the significant proportion of households with one worker who are financially excluded.
- Lone parents are particularly in need of assistance to reduce the levels of financial exclusion found in these households, even when other factors associated with lone parenthood are taken into account. Earlier research has suggested that the policies of financial institutions and utilities discriminate against lone parents;

- The extremely high levels of financial exclusion among households in receipt of Income Support or Jobseeker's Allowance are partly the result of the extent of financial hardship associated with being on (low) levels of benefit and partly because of the reluctance of mainstream financial services to include those on benefits. The government is committed to moving to a fully automated system of benefit payments through banks. Banks will need to be persuaded to accept such customers. In addition, attention needs to be given to levels of disconnection from the main utilities. However, for the significant proportion of households where work as a route out of financial exclusion is not an option it is hard to see how levels of financial exclusion can be reduced other than through increases in benefit;
- There is apparent discrimination against those in local authority rented accommodation, in addition to the known predilection of financial institutions for the lower financial risk associated with those who own their accommodation. Local authority tenants are more likely to be excluded than those in other forms of rented accommodation. Whilst the evidence here is indirect and, therefore, inconclusive, it seems that mainstream financial institutions might also be operating discrimination by postcode – excluding those in areas of cities known to be mainly local authority housing.
- Evidence in this paper does not support recent concerns about the retreat of financial services from less densely populated areas. Financial exclusion increases as the population size increases suggesting that it is the needs of those in the larger cities that need to be addressed most urgently.

Financial exclusion is clearly associated with poverty and deprivation and with a disengagement from social activities and civic life. Policies to reduce poverty and social exclusion should also reduce financial exclusion among some groups but, our analysis suggests, by no means all.

APPENDIX 1 CREATION OF THE FINANCIAL EXCLUSION INDEX

INTRODUCTION

All the financial indicators were retained for consideration in the index. These indicators were assessed to establish if they were measuring the same single dimension of financial exclusion. An exploration was undertaken to establish the appropriate number of indicators at which a household would be classified as financially excluded. The indicators were not tested for their validity against a range of income poverty measures as financial exclusion cannot be assumed to be measuring the same thing as poverty.

THE RELIABILITY OF THE SCALE

Reliability can be measured in a number of ways. Of concern here was the internal consistency of the indicators making up the scale (the extent to which the indicators are measuring the same construct), which can be assessed by Cronbach's alpha. This is a statistic that varies between zero and unity, the higher the value the more internally consistent are the indicators.

Table 1 Reliability Analysis

	Corrected Item Total Correlation	Alpha if Item Removed
Borrowing	.5222	.6669
Bank account	.4015	.7010
Home insurance	.4635	.6839
Savings	.4273	.7078
Seriously behind with bill payments	.5718	.6494
Disconnection	.4309	.7000
Overall alpha 0.7234		

There are no hard and fast rules governing an acceptable level of alpha, however, the overall level was quite respectable at 0.7234. The removal of any of the indicators would have reduced the alpha and therefore the scale is at its optimum level including all six indicators.

IDENTIFYING A FINANCIAL EXCLUSION THRESHOLD

Establishing the number of indicators a household should be lacking before being considered financially excluded is not straightforward. The essential concept underlying the scale is that households will be financially excluded because they have a lack of money to afford the indicators or to keep themselves out of debt. From this perspective, it is arguable that the household's current income should be reflected in the financial exclusion indicator score.

In general, it would be expected that households that are financially excluded should be more alike to each other on average than they are to households that are not financially excluded. Income was chosen as a basis for comparing the similarity of households classified as financially excluded and not financially excluded on the financial exclusion scale. A sequential approach was adopted whereby households first were classified as financially excluded if they lacked one or more indicators and not financially excluded otherwise, this was then extended to two or more indicators as financially excluded, and so forth. The extent to which financially excluded households were more similar to each other whereas non-financially excluded households were more similar to each other subsequently maximising differences between the two groups was undertaken using discriminant function analysis (DFA).

DFA predicts group membership (excluded versus not excluded) according to a set of explanatory variables. Income is the main criterion by which the two groups are separated; however controls are also required for family composition. DFA works by assessing the between group differences relative to within group differences, which is equivalent to minimising within group differences. A number of statistics are produced including the eigenvalue (the between group sum of squares relative to the within group sum of squares) relating to the discriminatory function. It is the eigenvalue that enables us to assess the extent to which within group similarities and between group differences vary as the exclusion line is changed from one or more indicators to two or more indicators, and so forth. The results of three sets of analyses are reported varying the minimum number of indicators lacking from one to three. Two models were used for each analysis: the first focused solely on family composition, the second included both family composition and income.

Prior to considering the results, a word of caution is in order. The income variable available was gross of any housing costs; in other words, it was not possible to assess how much income was available to the household after housing costs were accounted for. This is problematic because two households with the same income could have very different housing costs and, thus, one group would have less to spend on themselves after paying the mortgage or rent. Therefore, not all people on high income will necessarily have larger amounts of money potentially available for the payment of financial services or keeping out of debt and, similarly, people on lower incomes with moderate housing costs may actually have relatively large proportions of their gross income available.

The results of the analysis suggested that the appropriate distinction was between no indicators and one or more indicators: the eigenvalue was greatest for the income model applied to this distinction.

Table 2 Eigenvalues Associated With Predicting Financial Exclusion on the Basis of Family Composition and Income Including all Indicators in the Scale

Number of Indicators Making up the Exclusion Group	Model 1	Model 2
One or more	.044	.186
Two or more	.057	.158
Three or more	.052	.119

Note: Model 1 includes the number of adults and the number of children in the family, both measured with three levels, as one, two and three or more. Model 2 adds net household income, transformed to a natural log scale, to Model 1.

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