

BUILDING FINANCIAL INCLUSION IN OUR COMMUNITIES

Access to financial services is essential in our society. We rely on bank accounts to receive our salaries and pay the bills, and financial products such as mortgages and pensions allow us to buy houses and save for our retirement. However, a significant number of people lack access to even the most basic financial products. In 2011/12, 1.87 million adults did not have basic bank accounts in their own name¹ and seven million people used sources of high-cost credit because they could not access or were not aware of sources of affordable credit.²

The causes of financial exclusion are complex and varied. In part, exclusion is the result of high street banks neglecting to serve low income, or 'sub-prime', customers; choosing to close branches in deprived areas³ and limit access to free ATMs in order to maximise profit.⁴ Yet exclusion can also be caused by poor financial literacy, as people struggle to understand which of a bewildering array of financial products offers the best deal. At times, physically accessing services can be difficult, especially for people who live in rural areas or neighbourhoods that are under-served by public transport.

Financial exclusion has a profound impact on individuals, families and communities. It often leads to people paying more for essentials. On average, poorer people (those most likely to be financially excluded) can end up paying 150% more for goods bought on credit and spending 10% more on gas bills paid through pre-payment meters rather than direct debit. This has been called the 'poverty premium'.⁵

It also contributes to the build-up of problem debt, as those refused loans by high street banks are forced to turn to home credit companies, illegal loan sharks or payday lenders to borrow money. The payday lending market has grown rapidly in recent years - in 2013 alone, 1.6 million people took out a total of 10 million payday loans, with a combined value of £2.5 billion.⁶ The astronomical interest rates charged on these loans, of up to 6,000% APR, create a huge burden of debt for those already struggling financially, often leading to stress and relationship breakdown.

It is important that we create a more financially inclusive society, one where *'all people have access to appropriate, desired financial products and services in order to manage their money effectively.'*⁷

Financial inclusion can be built in three ways: ensuring people have a secure, minimum income; increasing access to financial services; and providing financial advice and education. This paper explores these three themes and shares case studies of the exciting and innovative work churches are doing around the country to create a more financially inclusive society.

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1. ENSURING A SECURE, MINIMUM INCOME

People on low incomes are more likely to be financially excluded as high street banks have little incentive to offer poorer people bank accounts or loans – 8% of those with weekly incomes below £100 do not have a bank account, compared with just 1% of those with incomes above £700 per week.⁸ The first building block of financial inclusion is therefore ensuring that people are able to earn a minimum amount and on a stable basis. Yet, now more than ever, people are struggling to earn enough money to make ends meet.

Over the last few years there has been a significant increase of in-work poverty: half of the 13 million people living in poverty in this country now live in a household where someone works. This is largely due to the increase of temporary jobs, zero-hour contracts and underemployment (where people who would like to work full-time are only able to find part-time work). Work has become more insecure, with increasing numbers of people cycling in and out of short-term, low-paid jobs.

Incomes have also been under pressure in recent years as, since the recent economic crisis, wages have not kept pace with inflation and so have declined in value. At the same time, there have been sharp increases in the prices of essential goods – food prices rising by 27%, electricity and gas by 32% and transport by 40% since 2008. On top of this, welfare reforms have reduced the value of benefits for working-age households. All of these factors combined mean that incomes are not stretching as far as they did previously, and that even those who are working are struggling to make ends meet.

Establishing a secure minimum income is a crucial component of financial inclusion, ensuring that people are able to earn enough to meet their basic needs and to access the financial services that would help prevent them falling into further financial distress.

WHAT ARE CHURCHES DOING?

Churches around the country support the Living Wage - an hourly wage that enables people to secure a basic standard of living (currently £8.80 for London and £7.65 for the rest of the UK). Many churches choose to pay their staff the Living Wage and some go on to become accredited Living Wage employers.

'We think it's important that if you're in employment, you receive a decent wage for a decent day's work,' says Phil from Grace Church in Nottingham – a Living Wage employer. 'There are thousands of families nationwide who are in employment, but only getting the minimum wage or even being employed illegally below the minimum wage. This means that they're working countless hours, but still not earning enough to feed their families, pay the bills or spend time at home.'

'One of our congregation says that she used to have to work two jobs to get by, but now that she gets the Living Wage, she is able to sustain herself with just one. Because of this her quality of life has improved and she's able to spend more time with her children, to be at home when they come back from school.'

'We believe the Living Wage gives people a chance to put food on the table, clothe their families, give their families some form of holiday and give them a dignified family life. We believe that's what Jesus would want for his creation.'



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2. INCREASING ACCESS TO FINANCIAL SERVICES

In order for people to survive on low incomes, they must be able to manage day-to-day financial transactions easily and without unnecessary costs. This means having access to appropriate financial services such as transactional accounts that can pay bills and hold income securely, savings accounts and affordable credit.⁹

Access to basic bank accounts has significantly increased over the last few years, leaving just 1% of the population without an account. Yet having a bank account does not guarantee full engagement with the financial system: 43% of the newly banked continue to manage entirely in cash, only one in five of the poorest are able to save money and half of households in the bottom half of the income distribution do not have home insurance.¹⁰

In searching for ways to increase access to financial services, the Department for Work and Pensions (DWP) have concluded that 'credit unions appear to be the only other realistic solution' that can provide a range of financial services.¹¹ However, in order for the credit union sector to become more sustainable, it needs to double its membership to two million people in the next five to seven years. Credit unions will need to professionalise services and cut running costs in order to attract these new members.

The Archbishop of Canterbury has encouraged churches and churchgoers to become active members of their local credit unions and, where they exist, to support other community-based credit providers. By doing so, the hope is that the Church can help to increase people's access to financial services.

WHAT ARE CHURCHES DOING?

Some churches are involved in providing financial services.

All Saints Church in Murston, Kent, has recently opened a Community Bank to enable people in their parish to open accounts, save money and apply for affordable loans. 'We have opened this facility,' says vicar Lesley Jones, 'Because so many people told us that it was difficult to save, that times were tough and that more often than not they would turn to payday lenders for short-term loans at huge interest rates.'

Alongside the Bank, the church runs a coffee morning and book borrowing service; it also encourages the local Citizens Advice Bureau, Job Centre and Community Police officer to drop in and talk to people. 'We have people here who are trained to help with financial and debt questions and we have wonderful volunteers who can help with those bigger questions about faith. What we want to say to people is - if you're feeling isolated and that there's nowhere else to turn, come and talk to us, we're here for you.'

Others are involved in supporting local credit unions.

The Diocese of Southwell and Notts ran a campaign called '100 x 100', asking 100 people to save £100 with a credit union. The money raised would help credit unions lend to others. The interest in this campaign led to a second, '25 x 5k', which encourages local organisations and churches to open a corporate account.

The Church Credit Champions Network has been launched this year by The Centre for Theology and Community in east London with the aim of matching the resources of local churches – their volunteers, buildings and skills – with the needs of local credit unions. Currently being piloted in London and Liverpool, this network will be rolled out further next year through the Church Urban Fund network.

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3. PROVIDING FINANCIAL ADVICE AND EDUCATION

One of the major consequences of financial exclusion is 'problem debt', when people are unable to make payments on credit, rent or bills and so their debts build up and often spiral out of control.

This kind of debt is more common in poor households, as people on low incomes cannot access affordable credit and so are forced to turn to take out expensive loans to pay for essentials. A recent survey suggests that 38% of payday loans are taken out to pay for food or fuel, while 24% are used to repay existing payday borrowing.¹² The extremely high rates of interest on these loans often serve to push people further into debt, trapping them in cycles of further loans and mounting repayments.

Debt causes huge problems in people's lives. Research from the Children's Society shows that families trapped in problem debt are twice as likely to argue about money problems, putting stress on relationships and causing emotional distress for children.¹³

The provision of budgeting and financial literacy courses can stop people falling into debt by building their capacity to manage money and make good financial decisions, while debt advice services can help those who are already in debt to consolidate and negotiate repayments with creditors. As government funding for these kinds of activities is increasingly under threat, the services provided by charities and churches are ever more in demand.

WHAT ARE CHURCHES DOING?



Several churches in Nottingham provide budgeting and debt support services. Trent Vineyard runs a Money Course that provides simple budgeting and financial education, trying to prevent people slipping into debt. Susie wrote and delivers the course: 'We don't tell people what to do with their money, but encourage them to think about the implications of their decisions. The course is very practical – we work through case studies, asking people to work out how long it might take to pay back something bought on credit or to calculate the monthly repayments on a loan. We want to give people the tools to understand the decisions they're making and the chance to make good choices.' With the support of Transforming Notts Together, Trent Vineyard are hoping to roll this course out across the city.

58i is a church-based charity that runs the Change debt advice programme. 'We spend time talking with people about how they could better manage their money and also act as intermediaries with their creditors,' says Luke, a member of staff at the charity, 'Some of our clients have been afraid to open the door or answer the phone, and we can help them to manage these difficult situations. We want to see people move from that place of despair, to seeing the light at the end of the tunnel.'

Churches across the city have made a concerted effort to work in partnership with one another. Lynne, manager at 58i, says 'The Bible tells us how good it is when people dwell together in unity, and I think this is at its most powerful when churches are working together. It's been fantastic working with other churches to tackle debt, to support one another and to share our expertise.'

Hundreds more churches across the country are helping people in financial difficulty, often working with Christians Against Poverty or Community Money Advice to set up debt advice centres, run money courses or start jobs clubs. This work is changing lives on a daily basis, freeing people from the burden of debt.

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Endnotes

- 1 'Financial Inclusion Annual Monitoring Report', University of Birmingham, 2014
- 2 'Credit Union Expansion Project Feasibility Study Report', Department for Work and Pensions, 2011
- 3 Of the 7,500 bank and building society branches shut between 1989 and 2012, two thirds were in deprived areas. Taken from 'The Changing Geography of British Bank and Building Society Branch Networks 2003–2012', Leyshon et al, 2013
- 4 An article in the Independent condemned the 'grotesque practice' of charging low-income people to withdraw money, 2014, <http://ind.pn/19RZr14>.
- 5 'The Poverty Premium', Save the Children, 2007
- 6 'Proposals for a price cap on high-cost short-term credit', Financial Conduct Authority, 2014
- 7 'Developing a vision for financial inclusion', Kempson, E and Collard, S, 2012
- 8 Family Resources Survey, Department for Work and Pensions, 2013
- 9 'Financial Inclusion Annual Monitoring Report', University of Birmingham, 2014
- 10 *ibid*
- 11 'Credit Union Expansion Project Feasibility Study Report', Department for Work and Pensions, 2011
- 12 Research conducted by Which?, 2012, <http://buff.ly/1rEyoXW>
- 13 'The Debt Trap', The Children's Society, 2014

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