

Poverty, Debt and Financial Exclusion

Glen Bramley & Kirsten Besemer
(Heriot-Watt University)

- Use of financial services – banking, insurance
- Use of informal credit
- Problem debt and arrears
- Experience of financial pressures
- Coping strategies
- Wider impacts of financial pressures



Third Peter Townsend Memorial Conference
Poverty and Social Exclusion in the UK



Financial Services Exclusion

- In 1990s concern rose about two dimensions of problem
 - exclusion from financial services e.g. banks
 - 'problem debt', partly linked thru' forced use of informal lenders
- Social & technological change led to rapid shift to use of banks, credit cards, on-line payment, & away from cash-based economy
- Also raised concerns about 'digital exclusion' and about financial awareness & management skills (aspect of 'financialisation')
- 2012 PSE has some comparable indicators with 1999

Changes in Financial Service Exclusion

- Static picture overall on *bank accounts*, but poor have converged on overall pattern – few now have no account
- Overall more people now find *banks' services* inadequate, unavailable or unaffordable (!); but again the poor have seen a relative improvement/convergence
- There has been a worsening in ability to afford home contents *insurance*; although poor are much less likely to be able to afford HCI, their position is static; whereas for nonpoor many more now cannot afford HCI

Financial Services Exclusion indicators	All		Poor Arop AHC		Poor PSI
	1999	2012	1999	2012	2012
No Bank Account (Indiv)	5	5	16	6	7
Limited/Inadequate Banks	13	16	19	15	13
Cannot Afford HCI	8	13	30	31	44



Use of Informal Lenders

Type of loan	Percent of all using		PSEPoor	Not Poor
	1999	2012	2012	2012
Pawnbroker/A&B/ Cash				
Conv	1	2	8	1
Money Lender/Payday/				
Doorstep	2	5	15	2
Unlicensed (loan shark)		0.1	0.2	0.1
Social fund loan		4	14	1
Credit union		1	3	0
Friends	5	7	22	2
Family	8	17	44	9
Any of 'these'	11	22	60	11

Patterns with Informal Borrowing

- Quite strong growth in use of informal lenders since 1999
- This includes pawnbrokers etc. and money lenders (inc payday loans)
- Notable increase in use of loans from family
- Increase for both poor and nonpoor, but latter increase greater
- Nearly all informal loans much more likely to be used by the poor – risk ratios of 13 for pawnbrokers, 9-10 for moneylenders, credit unions & friends, and 5 x for family
- Unlicensed lender use appears rare with lower risk ratio
- Families with children are 7-8 times more likely to use most of these than older households, but 22 x more likely to use moneylenders
- Social renters are 7-10 times more likely than owner occupiers to use most of these, and private renters 6-8 times.
- Association is stronger with PSE poverty than AHC low income, and even stronger with perceived poor 'most of the time'.

Problem Debt and Arrears

- Most types of debt/arrears have increased since 1999
- Most notable increases are for mortgage/rent, energy/fuel, consumer credit, credit card and TV license
- Noteworthy that quite a lot of these bills are directly or indirectly governed by public policies
- Mortgage arrears despite record low interest rates

Type of arrears	1999	2012
Mortgage / rent*	2	7
Council Tax	6	7
Electricity, gas, fuel**	3	7
Water Rates	5	7
Phone bills	5	5
Income Tax / VAT	-	1
Hire purchase	1	3
Bank Loan	-	3
Credit card	3	5
Other loans	2	2
Tv license	2	5
Private educ / health	-	0.2
Child Support/Maint	-	0.2
Any arrears	14	21

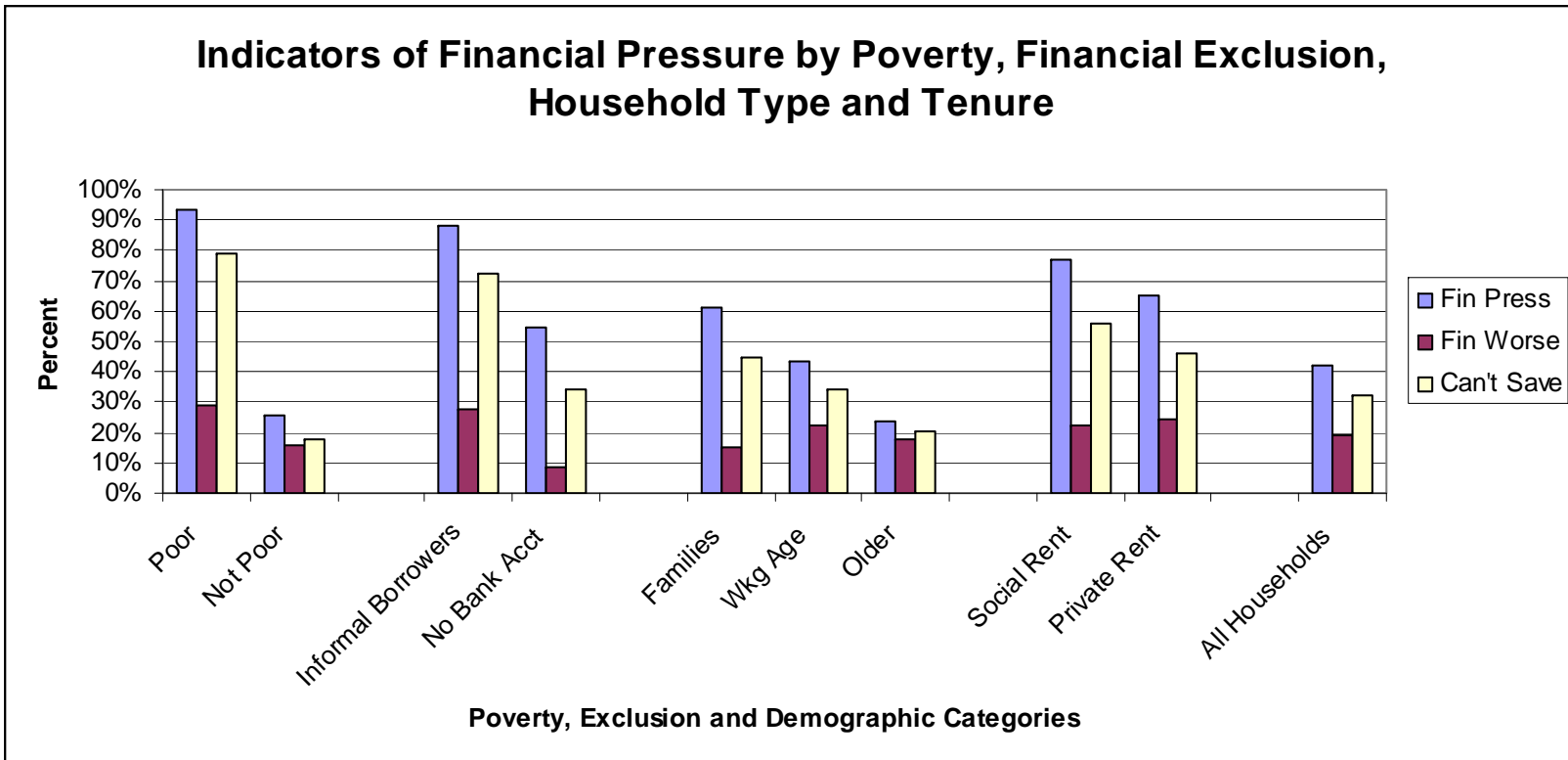
Problem Debt Risks by Poverty Measures

Type of Bill in Arrears	PSE Poor	Not Poor	Risk Ratio	AROP AHC Poor	Risk Ratio	Feel Poor all the time	Risk Ratio	All House- holds
Mortgage / Rent	20%	3%	7.2	14%	3.0	26%	21.3	6.8%
Council Tax/Local Rates	18%	3%	6.1	14%	3.3	21%	15.5	6.6%
Electricity, gas, fuel bills	21%	3%	7.3	17%	4.1	27%	21.1	7.3%
Water Rates	23%	2%	12.3	16%	4.1	30%	25.2	6.8%
Telephone bills (inc mob, b-b	14%	1%	10.1	11%	4.7	21%	24.4	4.5%
Income Tax, VAT	1%	1%	2.3	1%	1.8	3%	12.2	0.7%
Hire purchase, cons credit	10%	1%	15.3	7%	4.1	11%	31.8	2.9%
Loans from Banks, B S or C I	9%	1%	8.3	6%	3.0	12%	22.7	3.1%
Credit card payments	10%	3%	3.4	7%	2.0	14%	12.5	4.6%
Other loans/bills	7%	1%	10.1	5%	3.4	10%	25.9	2.3%
TV Licence	18%	1%	15.7	12%	4.7	23%	54.9	5.0%
Private education, health bills	1%	0%	6.8	1%	6.7	1%	10.6	0.2%
Child Support, Maintenance	1%	0%	85.3	0%	3.1	1%	5.0	0.2%

Problem debt & poverty

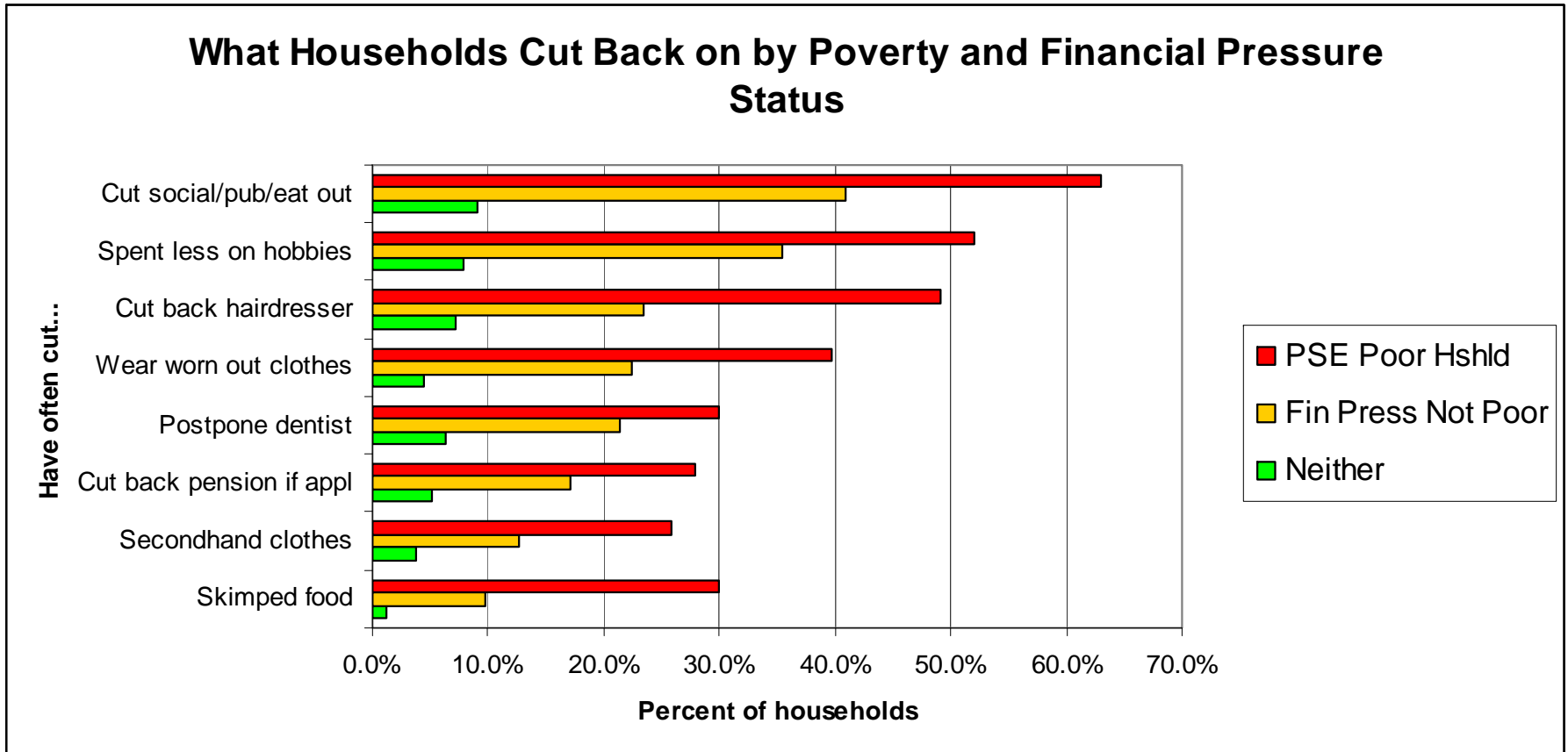
- The risk of experiencing problem debt/arrears is greatly magnified if your household is in *poverty*
- This is more true using PSE poverty than using low income 'at risk of poverty' (even after housing costs)
- It is even more true using *subjective* perceived poverty 'most of the time'
- Risk ratios for poor vs nonpoor particularly *high* for TV license, HP/CC, water rates, phone & other bills; relatively *low* for credit cards.
- Problem debts are *strongly related* to having any *informal borrowing*
- Problem debts are *not much related* to having no bank account or limited bank service
- *Families* with children are much more likely than older or other households to have problem debts in most categories
- *Social renters* more likely than owners to have most types, but *private renters* even more likely to have Council Tax or fuel debt

Overall financial pressure and change



* Financial pressure if constant struggle or not keeping up, or could not meet major expense £500; or cannot spend money on self, or income a lot below amount needed to avoid poverty.

Household responses



Household responses - comments

- The patterns of response are broadly as expected
- PSE Poor households have to make stronger responses – 25-30% skimp food, cut clothes, dentist, pension contribn; 50-60% cut hairdresser, hobbies, social life/pub/meals out
- Financially stressed households who are not PSE poor still have to make similar adjustments, although the proportion making these is rather less than those who are PSE poor as well.
- Financially pressured households account for 43% of whom 23% are PSE poor and 20% are not. This is a key group whose position appears to have deteriorated quite a lot.