



Financial Inclusion Taskforce Mapping the supply of, and demand for, third sector affordable credit

Briefing Note, EURIM Transformational Government

Background

Many consumers on low incomes require credit products with particular features that are not offered by mainstream providers. Specifically, these are small, unsecured cash loans (typically under £500) repayable over short periods (usually six months to a year).

Reliance on alternative credit sources, such as home credit companies and pawnbrokers, means that the most vulnerable consumers typically pay APRs in excess of 100 per cent. Such financial commitments possibly exacerbate an individual's financial hardship and subsequently make it more difficult to set-up basic current and savings accounts and escape the cycle of poverty.

Third sector, not-for-profit, lenders such as credit unions (CU's) and community development finance institutions (CDFI's) are designed to offer an alternative for financial support. In comparison to some credit sources these lenders are more affordable, better regulated and demographically targeted, as such contribute to alleviating financial hardship to neighbourhood, workplace and association-based communities.

Introduction

The Financial Inclusion Taskforce is an independent advisory body established in February 2005 to monitor Government initiatives to promote financial inclusion and advise on prioritising policy decisions.

HM Treasury, on behalf of the Financial Inclusion Taskforce, commissioned Experian to help 'map' the current extent of provision of third sector credit against the demand for affordable credit. This consultancy work will contribute towards defining the step change that is required to achieve a nationwide increase in the coverage and capacity of third sector lenders and help identify those geographic localities and neighbourhood communities potentially most in need of financial support and where action should be focussed.

Third Sector Lending, Provision

Through a combination of desktop research, telephone interviews and e-based surveys the current scale of third sector lending, through CU's and CDFI's, has been quantified by Experian.

Where these lenders have been identified, their geographic coverage has been mapped and a range of indicators used to distinguish between those that are already making a significant contribution to tackling financial exclusion, those that are operationally preparing themselves to go to scale and those are less well placed to do so. Such indicators have included;

- Membership and financial performance growth
- Employee, Volunteer and trading offices diagnostics
- Aspirations to develop the service and grow in size

This data collation and analysis process has provided a comprehensive picture of current (and to an extent, future) levels of third sector lending. For geographic areas, such as Wards or Local Authorities, the Taskforce can identify levels of provision and quantify the potential ability of those providers of going to scale.

Affordable Credit, Demand

Experian have constructed an Affordable Credit Exclusion Index which enables the Taskforce to identify the location, scale and intensity of financial exclusion in Great Britain. Super Output Areas, Wards and Local Authority areas are characterised by a wide variety of socio-demographics, attitudes and behaviours which collectively contribute to ranking and benchmarking these places based upon the likelihood, or volume, of financial exclusion. Such data includes;

- Experian's Demographic segmentation solutions
- Household Income, Financial Instability and Income Security
- The FSA Financial Capability Survey
- The BMRB Access to Affordable Credit Survey
- Customer Data and Store Location catchment profiles

Both the supply and demand models can subsequently be linked to provide an indication of places with a significant discord between under-supply of affordable credit provision but with proportionately high levels of demand. Such information is integral in informing the Taskforce of the step-change required to improve third sector credit provision and the providers and geographic areas that should be focussed on.

Summary of some of the findings

1. Some of the Local Authorities that display the highest likely requirement for third sector affordable credit solutions include:-

- Blaenau Gwent
- Manchester
- Easington
- South Tyneside
- Stoke-on-Trent
- Merthyr Tydfil
- Knowsley

2. Some of the Wards that display the highest likely requirement for third sector affordable credit solutions include:-

- Windmill Hill (Halton LA)
- Plas Madoc (Wrexham)
- Orchard Park & Greenwood (Hull)
- Parkhead (Glasgow)
- Grangetown (Redcar & Cleveland)

3. All CU's/CDFI's have been allocated into one of 5 quintiles, based upon current and projected ability and capacity to serve the financially excluded. Of these circa 410, a handful (approximately 15) were given the 'top' score - effectively identified as flagship operators. These included:-

- Leeds City CU
- Sheffield CU
- Bristol CU
- Portsmouth Savers CU
- South Coast Moneyline

4. The 'mismatch' between supply and demand - namely those places with the greatest perceived demand and inadequate existing CU offer - is an element that will not be released before the final report is published in December 2007.