

RURAL FINANCIAL INCLUSION

Financial inclusion is the capability and opportunity to access the financial services and products which are needed to achieve an acceptable standard of living.

Key points

- The key services and products for which access is considered essential in order to be financially included are a bank account, affordable credit, face-to-face debt advice, home contents insurance and savings.
 - Financial exclusion can be a particular problem in rural areas as financial services are normally located in towns and cities, and physical distance makes accessing services more difficult and expensive.
 - People affected by financial exclusion in rural areas are often scattered over wide areas. Concentration of services in larger areas of financial exclusion in urban areas can result in rural people being missed by service providers.
 - People on low incomes, the unemployed, people in receipt of benefits, older people and people living in social housing are all more at risk from various aspects of financial exclusion.
 - The recession has brought additional pressure on services, with more affluent people and homeowners now often seeking debt advice.
 - In Herefordshire there are small pockets of financial exclusion found in a number of villages, as well as areas in Hereford City and the market towns.
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The information in this article is largely a synopsis of a report by the Commission for Rural Communities, entitled “Rural Money Matters: A support guide to rural financial inclusion”. The full report is available on the CRC website:

<http://www.ruralcommunities.gov.uk/publications/ruralmoneymatters>

This synopsis also includes further information from a number of other sources; where this is the case, the sources are identified in the text.

What is financial inclusion?

Financial inclusion is “the capability and opportunity to access the financial services and products needed to participate fully in modern day society”. People are financially excluded when they do not have access to the following:

- Access to an appropriate bank account
Access to banking is a fundamental aspect of financial inclusion and can act as a gateway to further products and services. People who do not have a bank account are unable to take part in a wide range of everyday financial transactions, and often lack security in storing money, leaving them vulnerable to theft or loss.
- Access to affordable and responsible credit
For low-income consumers without savings, borrowing is often the only option. People on low incomes are often denied access to high-street credit, forcing them to turn to high interest doorstep lenders or even illegal “loan shark” money lenders. As a result, a high proportion of their income goes towards paying off interest on loans.
- Access to face-to-face debt advice
People with severe or complicated debt often need to talk to someone face-to-face, and are often the hardest to reach. The financially excluded are much less likely to have contact with financial professionals, and may find self-help materials difficult to use if they lack basic skills.
- Access to basic home contents insurance
Less than half of low-income households have home contents insurance compared to over 80% of those with average incomes. One third of low-income households without contents insurance borrow money to replace stolen or damaged household items, further increasing their level of debt.
- Access to savings
People with no savings find it difficult to manage through peaks and troughs in spending and as a result are more likely to borrow money. A lack of savings invariably means that in later life such people have no pension and must rely on the state for support.

Measuring financial inclusion

The Treasury worked with Experian, a credit reference agency, to develop a measure of financial exclusion based on a number of existing datasets. These included survey data, customer segmentation profiles, and information on household income. Different datasets were given a weighting depending on their importance in determining overall financial exclusion. More details of the information used can be found in the “Rural Money Matters” report (available via the link at the top of this page).

Financial inclusion in rural areas

People living in rural areas experience the same financial challenges as those in towns and cities, but living in a rural area brings additional challenges. Financial exclusion is less visible in rural areas, which makes it harder for service providers to target support to the people who most need it. This means that policy and programmes can end up focusing mainly on urban areas.

Mainstream financial services are more often than not located in towns and cities; poor public transport and long journey times can make access expensive and difficult for people living in rural communities. Higher costs involved in delivering outreach services to a scattered population can be a real challenge; a result of this is that the infrastructure required to promote financial inclusion is often weak or missing in rural areas.

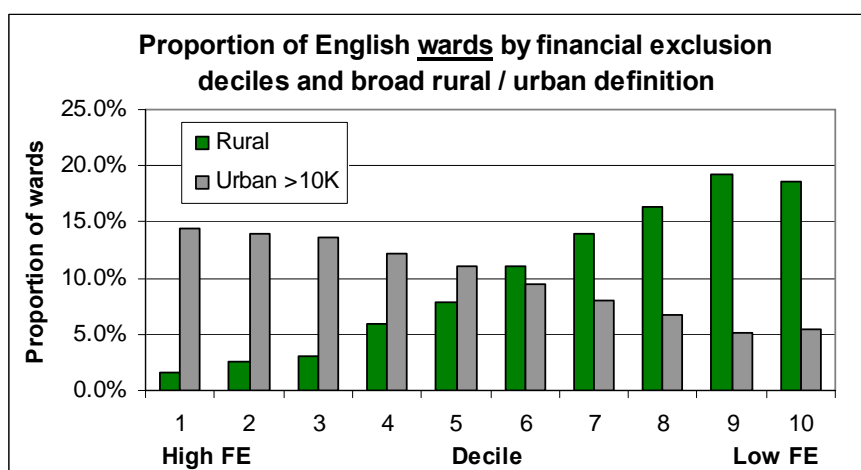
Credit unions in rural areas face problems linked to growth and becoming financially sustainable. Operating in a sparsely populated area makes it difficult to reach the critical mass of membership and available funds that would make it possible for them to employ full-time staff.

The majority of people who are financially excluded live in urban areas¹; 41.9% of urban wards in England fall into the most financially excluded three deciles² nationally. In contrast, 7.3% of rural wards fall into these three deciles. The concentration of financial exclusion in urban areas can often mean that financially excluded rural areas are overlooked when it comes to policy making.

Table 1. Proportion of English wards by financial exclusion deciles and urban / rural classification

	High FE						Low FE			
	Decile 1	Decile 2	Decile 3	Decile 4	Decile 5	Decile 6	Decile 7	Decile 8	Decile 9	Decile 10
Rural	1.6%	2.6%	3.1%	5.9%	7.9%	11.0%	13.9%	16.3%	19.3%	18.6%
Urban >10K	14.4%	13.9%	13.6%	12.2%	11.1%	9.5%	8.0%	6.7%	5.2%	5.4%

Chart 2.



Furthermore, there is a difference in the distribution of people who are financially excluded between urban and rural areas. In urban areas, it is common to find relatively large groups of people all experiencing financial exclusion (FE) in one place. In rural areas, they are more likely to be scattered, or to be found in much smaller pockets. For this reason, the use of large areas

¹ In this context, “urban” refers to settlements with a population of 10,000 or more; “rural” is smaller settlements and open countryside.

² A decile is any of the 9 values that divide the sorted data into 10 equal parts, so that each part represents 1/10th of the sample or population. For example, the 1st decile cuts off the lowest 10% of data, i.e. the 10th percentile.

like wards is less useful in identifying FE in rural areas – small pockets of FE tend to be “lost” by averaging over a large area.

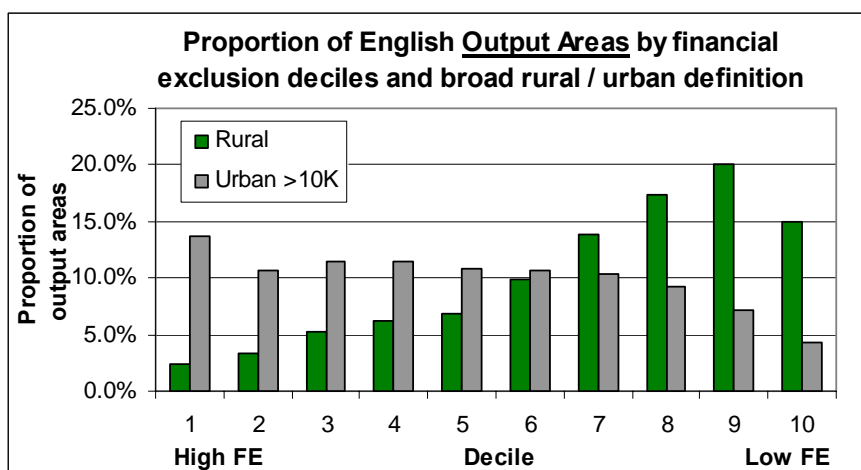
It is possible to use Output Areas, which are a smaller functional geography than wards, to get round this problem. Output Areas are defined physical areas, each containing an average of 125 households. There are 633 Output Areas in Herefordshire, compared to 40 wards.

10.9% of all English rural Output Areas fall into the most financially excluded three deciles, compared to 7.3% of all rural wards (table 3, chart 4). This is the equivalent of an additional 380,000 people who were missed at ward level.

Table 3. Proportion of English Output Areas by financial exclusion deciles and urban / rural classification

	High FE						Low FE			
	Decile 1	Decile 2	Decile 3	Decile 4	Decile 5	Decile 6	Decile 7	Decile 8	Decile 9	Decile 10
Rural	2.4%	3.3%	5.2%	6.2%	6.9%	9.8%	13.8%	17.3%	20.1%	14.9%
Urban >10K	13.7%	10.6%	11.5%	11.5%	10.9%	10.7%	10.4%	9.2%	7.1%	4.3%

Chart 4.



National trends

Unsurprisingly, people living on low incomes are the most likely to be affected by financial exclusion. Other trends seen nationally are that:

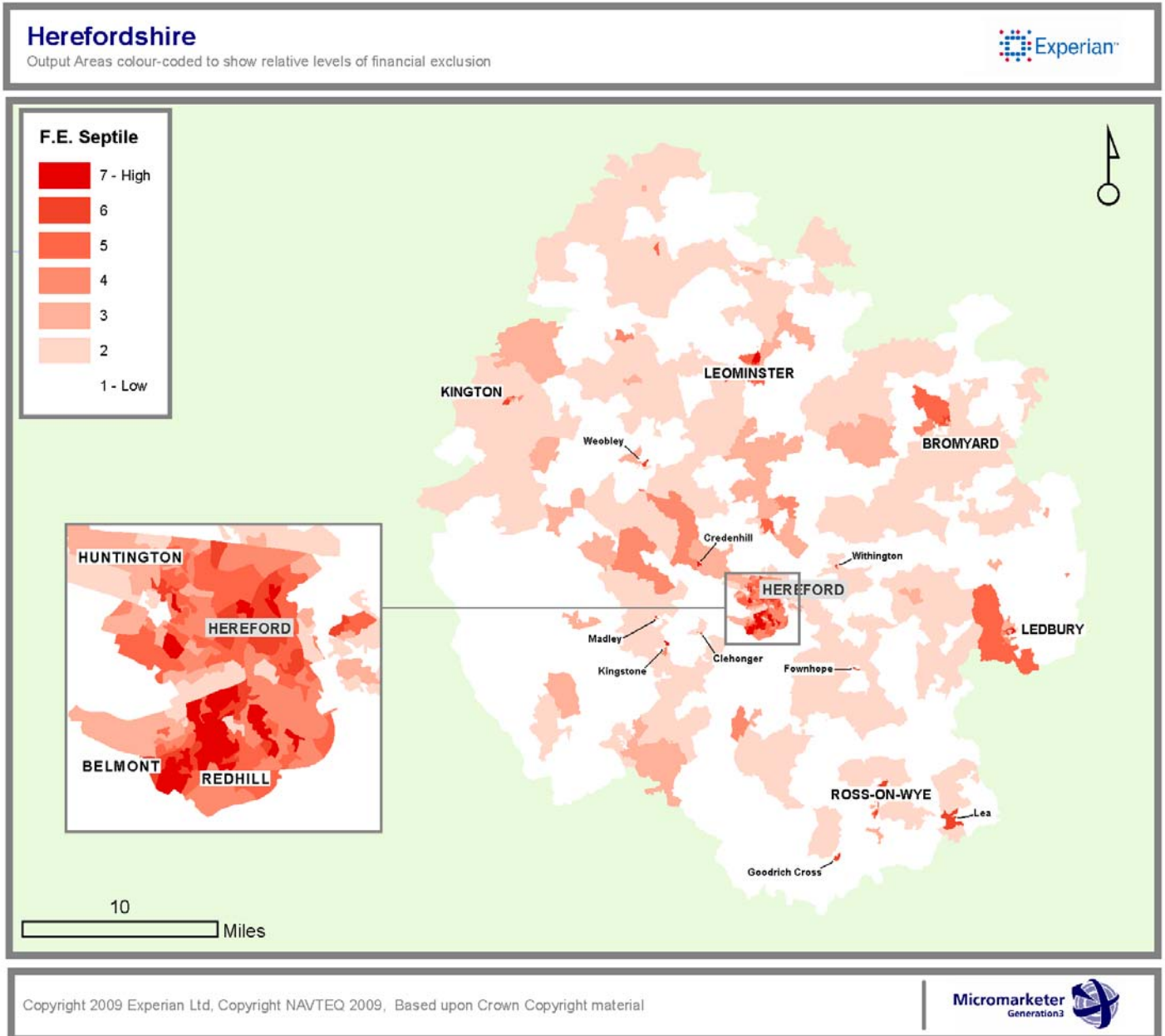
- people in receipt of benefits, those living in social housing (Council and Housing Association housing), and the unemployed are more likely to have no bank account (“unbanked”) and no savings.
- older people are more likely to have a bank account but not use it regularly to manage their money (“underbanked”), and have no access to credit
- people in receipt of benefits and the unemployed are more likely to need money management advice
- people living in social housing are less likely to have home contents insurance.

The recession has changed the picture of financial exclusion, with new groups now at risk. Unemployment has risen considerably, particularly in rural areas. Combined with a falling housing market, this has led to the more affluent and homeowners becoming more likely to seek debt advice. Self-employed people and small business owners are becoming vulnerable due to increasing personal debt or the loss of their business.

The picture in Herefordshire

Using Output Area level data to plot financial exclusion in Herefordshire, it is possible to pinpoint smaller areas of financial exclusion in the county (map 5).

Map 5. Financial Exclusion septile³ at Output Area level in Herefordshire



Source: Experian Ltd

As well as areas in Hereford and the market towns, parts of the following villages showed high levels of financial exclusion: Clehonger, Credenhill, Fownhope, Goodrich Cross (just outside the main village of Goodrich) Kingstone, Lea, Madley, Weobley and Withington.

While the areas of Hereford affected are predominantly south of the river, there were also areas of financial exclusion in the suburbs of Whitecross, Three Elms, College Estate, Moorfields and Tupsley.

³ A septile is any of the 6 values that divide the sorted data into 7 equal parts, so that each part represents 1/7th of the sample or population.

Post Offices

There are currently 64 Post Offices in Herefordshire, with 9 “outreach” locations and 5 temporarily closed. In the last year, 20 Post Offices were closed in Herefordshire as part of a national programme of closures, 18 of which were in rural areas. The 9 outreach locations offer a very limited service of typically a few hours a week, offering fewer hours than the permanent Post Offices they replaced. While there are no official plans for a further programme of closures in the foreseeable future, the reality is that most rural Post Offices are on the cusp of viability, and are vulnerable to individual pressures such as retirement.

Source: Community Regeneration, Herefordshire Council

Advice

There are Citizens Advice Bureaux in Hereford and Leominster, with outreach services to the other market towns and Newton Farm in Hereford. In the period October – December 2009, the CAB reported a 16% increase in enquiries compared to the same period in 2008. This compared with a 21% increase in enquiries in England & Wales as a whole. The following table shows how enquiries relating to specific areas have increased or decreased over this time period.

Table 6. Increase / decrease in enquiries to Citizens Advice relating to specific areas between October – December 2008 and October – December 2009, for Herefordshire and England & Wales

	Herefordshire	England & Wales
Benefits	41% ↑	23% ↑
Debt	16% ↑	26% ↑
Employment	12% ↓	3% ↑
Relationships	25% ↑	21% ↑
Utilities	78% ↑	2% ↑

Source: Citizens Advice Bureau

Banking facilities

There are high street banks in Hereford and the five market towns, and a bank in Leintwardine opens for one morning a week. In addition, a number of towns in other counties close to the Herefordshire border have banks, including Hay-on-Wye, Presteigne, Ludlow, Tenbury Wells and Malvern. There is a reasonable spread of cash machines across Herefordshire, but the majority of those in rural areas charge a fee for transactions. Post Offices offer a range of banking facilities, and there is a national initiative to locate free cash machines in more Post Offices.

Credit Unions

Credit Unions are savings and loans co-operatives. There are two which operate in Herefordshire: Marches Credit Union operates in the area around Kington, Knighton and Presteigne; Moneybox Credit Union operates across Herefordshire.

Online services and broadband

While many financial organisations offer services online, for example online banking, the availability of these is dependent on access to a computer and the internet. Many websites are built on the assumption that users will be accessing them via broadband, so using dial-up can often be unworkably slow. Significant areas of rural Herefordshire have no broadband availability or a limited service. Even in areas where potential service is good, people on low incomes may

find it difficult or impossible to pay for a computer and a broadband connection. There are also issues with familiarity with ICT and trust of online services to manage money.

Source: BT's online ADSL checker and www.samknows.com/broadband

Earnings

Earnings in Herefordshire are 16% lower than the West Midlands region as a whole and 23% lower than England; these gaps have widened over the last 3 years.

Source: Annual Survey of Hours and Earnings (ASHE)

Unemployment

Seasonally adjusted unemployment figures⁴ saw a large increase from July 2008 associated with the recession, reaching a peak in June 2009. Since then there has been a slow decrease in unemployment in Herefordshire.

Source: Office for National Statistics, Crown copyright

Remediation

The Government has key goals for financial inclusion, which aim to ensure 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
- deal effectively with financial distress, should unexpected events lead to serious financial difficulty.

To achieve this the Government has committed more than £150 million between 2008 and 2011 to promote financial inclusion by:

- funding free face-to-face money advice to financially excluded people
- increasing consumer access to affordable credit through credit unions and other third sector (not for profit) lenders
- funding dedicated Financial Inclusion Champion teams to work to promote financial inclusion locally
- increasing financial capability by helping people with money issues online, over the phone and face-to-face
- kick-starting a saving habit among working age people on lower incomes, by providing a strong incentive to save through a Government contribution for each pound saved.

For further information on the data in this article, please contact the Research Team on 01432 260495 or e-mail researchteam@herefordshire.gov.uk

⁴ Measured as claimants of Jobseekers Allowance (JSA). Seasonally adjusted figures iron out the normal seasonal variation seen in JSA claimants to give a truer picture of the unemployment situation.