Financial inclusion among social housing tenants: implications for policy and practice

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Introduction

This paper analyses the issues of financial inclusion, financial exclusion, and financial capability, and is based on research that took place between March and December 2020 that examined the levels of financial inclusion among social housing tenants. The study was conducted by researchers at University College Cork (UCC) and was jointly funded by Clúid Housing and the Housing Finance Agency. It aimed to: 1) examine the key challenges relating to financial inclusion faced by Clúid Housing residents and 2) identify potential strategies to address these challenges and build capability.

The research found that there are mixed levels of financial inclusion among social housing tenants. Over one-third of residents showed signs of weak inclusion or exclusion, and one in 8 residents did not have a bank, credit union, or post office account. These findings indicate the need to improve the financial capability of social housing tenants and the need to tackle the root causes of financial exclusion. The paper concludes that there is a need to design more appropriate financial services for those on lower incomes, and that there is a need for further work and research to be done on how to deliver financial capability education, and on how to prompt behaviour changes. The researchers also call for research and policy interventions to place far greater attention on the local context.

Background to the research

Financial exclusion is "a process whereby a person… lacks or is denied access to affordable, appropriate and fair financial products and services. Addressing financial exclusion is not merely about service provision; it also includes capacity building and structural change" (Burkett and Sheehan, 2009, p. V). People on low incomes are at greatest risk of financial exclusion (Corr, 2006; Russell *et al*., 2011). In Ireland, research shows that those living in rented accommodation, including local authority housing and social housing, are financially vulnerable and suffer from exclusion (European Commission, 2008).

Research conducted in 2011 found that 50% of local authority tenants in Ireland did not have a bank current account, 38% were credit excluded, and 89% lacked insurance (Russell *et al*., 2011). The study also found that local authority tenants were at high risk of over-indebtedness, and twice as likely to be excluded from savings as private homeowners, which implies that this group may benefit from targeted interventions to improve financial inclusion.

Access to financial services is one part of achieving financial inclusion: building capacity to use financial services effectively and changing policy and banking structures are also essential. In the UK and elsewhere, housing bodies have partnered with community-based financial service providers, such as credit unions, to support the financial inclusion of their tenants. The use of Fintech can potentially be leveraged to facilitate unbanked individuals to receive online payments to ring-fenced wallets and to

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make disbursements to creditors (including rent). Fintech can address the requirements of the financially vulnerable to micro-manage their resources and, by using notifications and real-time access, help reduce the incidence of arrears and interest accruals.

Understanding financial exclusion and inclusion to achieve financial capability and well-being

Financial exclusion can be caused by a range of issues, including location, price, terms and conditions of financial services, risk assessment procedures, targeted marketing, and restricted access to electronic services (Corr, 2006). Self-exclusion is another important dimension to financial exclusion and it can occur for a number of reasons: people believing they will be refused a product or service because they or a peer were refused in the past; people believing they are not viewed as an acceptable client; psychological barriers; mistrust of financial institutions; language barriers; cultural factors; and poor levels of knowledge (Kempson *et al*., 2000). Self-exclusion can also occur because some people prefer to operate on a cash budget, or they believe it is unnecessary to have a bank account to manage a small budget, or they may lack the confidence to engage with financial institutions, believing that banks are not interested in people on low incomes (TASC, 2010).

Geographical exclusion—as a contributing factor to financial exclusion—is highlighted in several publications (Kempson *et al*., 2000; Corr, 2006; European Commission, 2008, Atkinson & Messy, 2013). Geographical exclusion is driven by three factors: a reduction in financial retail outlets in poorer communities; closures of bank and building society branches; and low levels of car ownership in poorer communities which results in reliance on expensive and often unreliable public transport (Kempson *et al*., 2000).

Both financial exclusion and financial inclusion focus on access to financial products and services. The World Bank defines financial inclusion as: “access to useful and affordable financial products and services that meet (peoples’) needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way” (World Bank, 2020). There are numerous benefits to financial inclusion for low-income households. For example, quality of life is improved when financial services are used to gain access to education, health care and other necessities. Protection against vulnerability is enhanced through savings, credit, insurance, and remittances. Financial inclusion also builds economic citizenship when financial services foster independence and give people the ability to actively participate in their communities (International Finance Corporation, 2011).

Financial capability is a key concept that focuses on behaviour and the factors that influence behaviour (Kempson, 2019) and it emerged through research conducted for the UK’s Financial Services Authority (FSA) in 2005. Financial capability changes over people’s lifetime and it is interlinked with people’s environmental and personal circumstances (Accion, 2013). Financial capability aims to capture the idea that the effective use of increased financial service options (i.e. financial inclusion) will lead to improved well-being. However, increasing the availability of financial services is only valuable if it enables people to pursue their well-being goals.

Kempson & Poppe (2018) developed a conceptual model showing the interplay between an individual’s socio-economic environment, personality traits, knowledge and experience, and financial attitudes and confidence, to show how these elements drive financially capable behaviour that impact on the goal of financial well-being. Improving a person’s financial capability can lead to increased financial well-

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being. Financial well-being is defined as: "the extent to which someone is able to meet all their current commitments and needs comfortably and has the financial resilience to maintain this in the future" (Kempson & Poppe, 2018, p. 14).

Financial exclusion 'does not happen in a vacuum' (Salignac *et al*., 2015, p. 278) and financial capability can be affected by structural settings outside of a person's control which can affect the use, appropriateness, and acceptability, of available financial products and services (Salignac *et al*., 2015). Age, gender, family circumstances, income, changes in income and expenditure, economic activity status, educational level, housing tenure, and geographical area may all play a role (Kempson, 2019). These factors can affect people's attitudes, motivations, biases and behaviours, which, in turn, impact their financial well-being.

Social capital directly influences a person's financial resilience. Social capital includes social connections, access to support in times of crisis, and access to community and government support when needed. An individual's network can provide access to information, advice, and assistance.

Appropriate solutions to financial exclusion depend in part on what problem we are trying to solve. If the focus is on a narrow definition of financial exclusion, the solution is to increase access (or access and use, depending on the definition used) to financial products and services including bank accounts, savings, credit, and insurance. This can be done by reviewing the supply, demand and societal factors causing financial exclusion. If the focus is on changing behaviour amongst those who are currently financially excluded, designing behaviour change interventions may be an appropriate starting point for considering how to solve the problem. If the problem to be solved is improving a person's financial capability or financial well-being, a broader, more holistic approach is required, which considers not just individual behaviour, and access and use of financial products and services, but also socioeconomic and cultural factors, and the structure of financial service provision and its role in shaping financial behaviour.

Methodology

The study used a mixed method approach for data collection. Primary data was collected in three ways. Firstly, interviews were conducted with 33 key stakeholders across 22 different organisations which included housing associations and organisations providing various supports to housing associations in both Ireland and the UK. Secondly, an in-depth survey was administered to all residents in 12 Clúid Housing estates across Dublin and Cork which elicited 154 responses. The survey questions covered a range of issues designed to collect information on participants' experiences of accessing and using financial services, general money management in their household, and their wider community context. Thirdly, two focus groups comprising of social housing residents were held. The objective of the focus groups was to explore the requirements of financially excluded households to save, to budget, to receive payments, and to plan for regular payments to both creditors (including utilities and rent) and savings schemes.

Main findings

The findings showed mixed levels of financial inclusion among social housing residents (Figure 1), with over one-third (37%) showing signs of weak inclusion or exclusion. Women were statistically more likely to suffer from lower levels of inclusion or from exclusion than men. One in 8 (12%) residents stated that they did not have a bank, credit union, or post office account.

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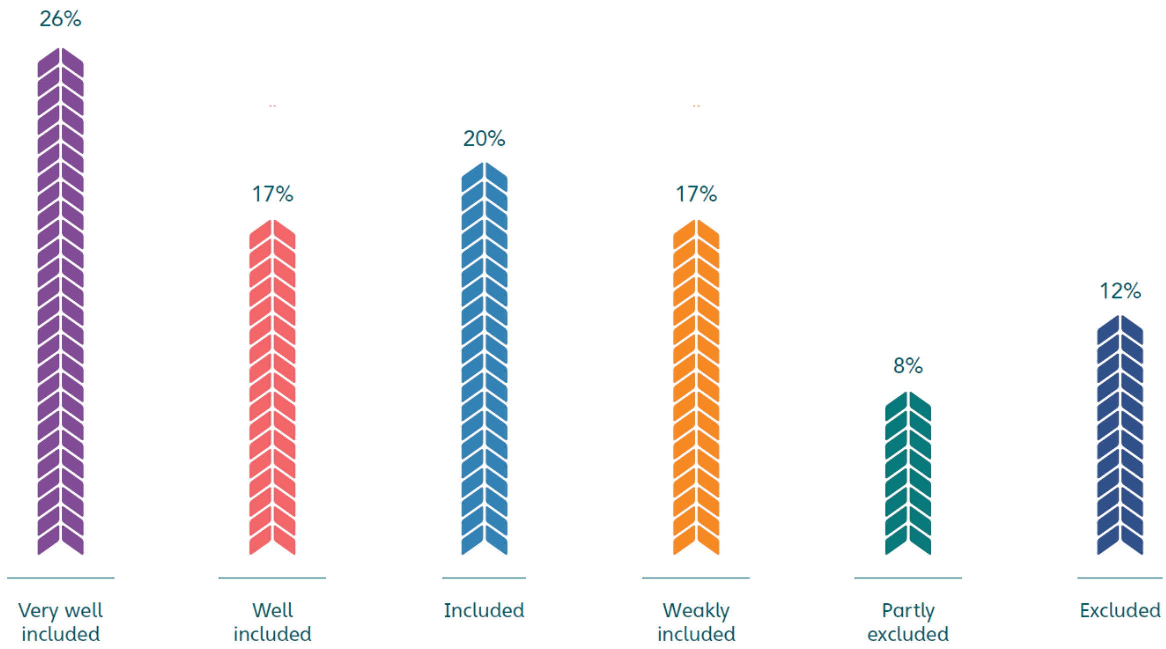
Despite these low levels of inclusion, 80% of respondents said they engaged in some form of saving. However, of these, only about half saved regularly. There was a strong desire among residents to save and the findings point clearly towards the need to support regular, formalised and secure savings mechanisms for residents.

Figure 1: Levels of financial exclusion/inclusion



About half of all residents are currently borrowing and have access to a range of different credit sources. Credit unions were the most common source of credit, followed by high cost credit (moneylenders and catalogues), family and friends, and banks. Emergency borrowing was less evident although problem debt was an issue for at least 20% of residents, suggesting scope for targeted supports for those who find themselves struggling to access more affordable or more serviceable debt.

Levels of insurance were extremely low overall, with 90% living without home contents insurance and 84% without life assurance. There is wide scope to support residents in accessing appropriate insurance policies to support households in the event of unexpected loss, thereby building resilience and reducing dependence on higher cost credit.

Financial capability, measured by the ability to 'consistently make end meets', to 'keep track of finances' and to 'plan ahead', showed considerable room for improvement. As shown in Figure 2, only 9% of residents were deemed to have good financial capability. 64% had some financial capability and 27% had poor financial capability. Crucially, residents were stronger in terms of making ends meet (45%) than they were in keeping track of finances (25%) and planning ahead (9%). The ability of

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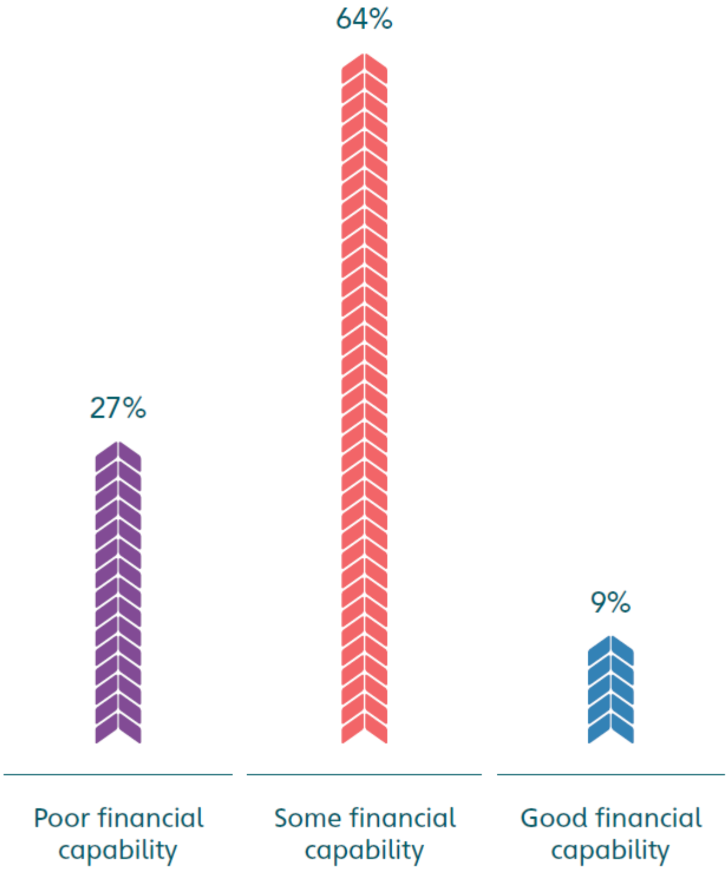
residents to cope week-to-week through careful household budgeting and limiting consumption masks the underlying problem that many do not have sufficient income to live comfortably.

Figure 2: Levels of financial capability



The relationship between financial inclusion and financial capability was found to be statistically significant at *p=.002*. Financial inclusion has a positive impact on financial capability in that those who are well included are more likely to have good financial capability. The well included group have access to a wide variety of financial institutions and are regularly saving. Those with weaker financial inclusion, or who were excluded, had lower levels of financial capability. In addition, those with weaker financial inclusion or who were excluded also had little by way of provisions for household shocks, showing these households as being financially vulnerable.

Given the context of the study in social housing, and the importance of social capital to building financial resilience, some elements of the supportive social context of the estates were also studied. More than half viewed their estates as not having a supportive social context. The findings show that

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there is value in building the supportive social context of the housing estates, particularly by promoting awareness of tenant committees.

Implications for policy and practice

At a broad policy level, the root causes of financial exclusion need to be addressed. Further work is required to prompt behaviours that encourage saving, lower dependence on credit, and curb advertising and marketing of inappropriate products to vulnerable households. The delivery mechanisms for local financial capability education should be explored. Innovation around the provision of financial autonomy, such as the universal basic income, are worthy of deeper examination if persistent and recurring poverty cycles are to be avoided for the most vulnerable members of the community.

Appropriate financial services must be designed according to the needs of those on lower incomes to ensure better access to, and use of, appropriate services. In other words, the services need to match, and be designed out of, the lived experiences of low-income consumers. This will require a radical rethink of the design of existing offerings by financial service providers, factoring in the cost, cadence, utility, relevance, flexibility, and accessibility of those services. It may also require specific services for those on low income. This is essential, as access to financial services that do not match the reality of living on a low income is not just of little value, but on the contrary, it exacerbates financial problems.

A range of financial tools and other supports should be provided to residents to build financial capability, enabling better money management and longer-term resilience. Financial and digital literacy should be promoted to allow both residents and their support groups to better understand spending, saving and borrowing behaviours. These capabilities will, in turn, promote improved decision making around appropriate solutions. However, caution needs to be exercised that such services are not acting as a gateway towards more incursive for-profit credit platforms.

The important role of local context needs far greater attention both at a research and policy level. Enabling a supportive context within housing estates would make a significant and sustainable contribution to both financial inclusion and financial capability. A starting point could be the development of active and participative tenant committees, which, as our research indicates, is likely to have an impact on reducing the prevalence of moneylending and improving social connectedness. A targeted local approach, rather than a blanket approach, is central to the development of a supportive social context. Part of this could involve identifying leaders within the community to develop community initiatives that particular estates are interested in, such as childcare, peer-to-peer sharing groups, bulk buying groups and so on. Furthermore, greater attention needs to be given to capacity training amongst residents.

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