

## Financial Exclusion in Ireland: An exploratory study

Combat Poverty, 28<sup>th</sup> March, 2006  
 Caroline Corr, Research Officer  
 Vanessa Coffey, Research Officer

## Overview of presentation

- Defining financial exclusion & its dimensions
- Policy context
- Overview of products & services
- Extent of financial exclusion in Ireland
- Preliminary findings in relation to barriers to banks and credit unions
- Policy options (national & international)

## Defining financial exclusion

- Early literature concentrated on '**access**' to financial services
- **Financial exclusion** refers broadly to 'the inability (however occasioned) of some societal groups to access the financial system [...] and is invariably experienced by poorer members of society' (Carbo et al., 2005: 4)
  - **Wider definitions:** recognise it is multi-faceted
  - **Financial system:** Range of institutions providing a variety of services and products: current accounts, savings accounts, loans, insurance, pensions, bill payment facilities, money transfer & financial advice
  - **Operational definition:** financial exclusion refers to exclusion from affordable and appropriate financial products & services

## Dimensions of financial exclusion

- Geographical isolation
- Access exclusion
- Condition exclusion
- Price exclusion
- Marketing exclusion
- Self-exclusion
- Electronic exclusion
- Financial literacy

## Social causes of financial exclusion

- **Poverty and income inequality**
- **Labour market changes:** 'flexible' labour market; an increase in female employment; decline in cash wages
- **Demographic changes:** lone parents; young people living independently; more older people
- **Increase in home ownership**
- **Risk factors:** Low income; unemployment; low-waged employment; lone parenthood; age (young/old); ill-health/disability; homelessness; ethnicity

## Why a study on financial exclusion?

- Important global issue – high on EU agenda
- Financial exclusion both contributes to, and reinforces, different aspects of social exclusion
- Bank account gateway to other financial products
- Access to financial services essential for managing personal finances
- Consequences of financial exclusion are serious
- Consequences also negatively impact on local communities

## Policy Context

- Little recognition of financial exclusion in key policy frameworks (NAPS & NAPS/incl)
- Recent consultations on NAPS/incl 2006 – 2008 recommended:
  - a greater focus on the relationship between financial exclusion and social exclusion in Ireland, with a particular 'commitment to identifying and addressing barriers to financial services' (OSI, 2006: 71)
- British Irish Council
- Financial Regulator (May, 2003)
- IBF – proposals & fact file on financial inclusion (May, 2005)

## Combat Poverty & financial exclusion

- Informs work on tackling social exclusion
- Strategic Objective 1: Income & Employment
  - 1.1.2 Low Income Consumption
- *Moneylending and Low Income Families* (Daly & Walsh, 1988)
- Recent studies:
  - *Meeting the Credit Needs of Low Income Groups: Credit Unions versus Moneylenders* (Byrne, et al., 2005).
  - *The Elderly Poor and their Access to Grocery and Financial Services in Dublin* (Centre for Retail Studies, UCD, 2005)
  - *Creditable Alternatives: An exploration of new models of affordable savings and credit options in use worldwide which may be adapted by the Traveller community in Ireland.* (Quinn, & NiGhabhann, 2004)
- Current funded research:
  - UI; FLAC

## Overview of Research

- Exploratory study

### Aim

- to examine financial exclusion among low income groups

### Objectives

- to develop a conceptual framework and shared understanding of financial exclusion in Ireland
- to examine the extent and effects of financial exclusion
- to identify barriers and establish diverse needs in relation to financial services
- to present some key recommendations that could be implemented to make financial services more accessible

## Methodology

- Extensive literature review & policy analysis
- Overview of financial services & providers
- Analysis of secondary data in order to examine the extent of financial exclusion in Ireland
- Qualitative research

## External Environment for Financial Services

- Regulation
- Globalisation & Competition
- Delivery & Interaction

## Diversity of Products & Institutions

Institutions	Products							
	Accounts			Insurance	Pension	BPF	MT	FAD
	Current	Savings	Loan					
Retail Banks <sup>1</sup>	✓	✓	✓	✓	✓	✓	✓	◇
Building Societies <sup>2</sup>	x	✓	✓	✓	✓	✓	✓	◇
Credit Unions	x	✓	✓	✓	x	✓	✓	◇
An Post	x	✓	x	x	x	✓	✓	◇
Home Credit	x	x	✓	x	x	x	x	x
State <sup>3</sup>	x	x	x	x	x	✓	x	✓

### Notes:

◇ Financial advice given in relation to products only; BPF: Bill Paying Facilities; MT: Money Transfers; FAD: Financial Advice  
 1. AIB/BOI/ULB/PTSB/NIB/FA; 2. EBS/INBS/IGS; 3. DSFA - MABS/Household Budget; Local Authority Rents/ ES&Bord Gais Payments

## Quantifying Financial Exclusion

- Need to quantify financial exclusion
- Measuring financial exclusion
- Current data limitations

## Extent of Financial Exclusion

- **Financial Regulator Omnibus Survey, 2004** - 1,000 adults 18+years
  - 10% of respondents have no current account
- **Irish Bankers Federation Study, 2003** - 1,200 adults
  - 30% of respondents are without a current account
- **Household Budget Survey CSO – 1999-2000** - 7,644 households
  - 23.7% of households without a current account
- **IPSO, Annual Review of IPSO 2004/2005**
  - approximately 20% of population are without a bank account
- **Eurobarometer Survey, 56, Financial Services, Europeans & Financial Services, 2000** average 1,000 adult respondents
  - 16.7% of respondents are without a bank account.

## Qualitative Research

- 8 focus groups
  - 59 low income consumers
  - 25 social welfare recipients (13 unemployed)
  - 25 Community Employment workers
  - 5 full time/2 part-time employment/2 students
  - 8 disadvantaged areas in Ireland (urban, provincial & rural)
  - focus on banking (as well as credit unions, post offices, welfare payments, insurance, pensions, savings and affordable credit)
- 26 in-depth interviews
  - Key informants from a range of financial services, government departments and organisations working with low income groups
  - Discussions on international policy developments and policy options

## Access to bank accounts

- 7 respondents did not have any bank account
- Most of these respondents made a conscious decision not to use banks due to their low income and unemployment
- 52 respondents had bank accounts
  - (27 current/11 savings/8 student/6 unsure of type)
- Many of the respondents opened a bank account when they started working or became involved in an organisation

## Opening a bank account

- Most of those that did *not* have difficulties opened accounts pre-1994 (i.e. before Money Laundering Legislation)
- The most pertinent issue that was raised in all focus groups was the difficulties in producing driving license or passport
- Most respondents also had difficulties producing a utility bill for name verification
- Main obstacle – perception that bank officials were not always making alternative options available to low income customers

## Vulnerable groups

- Unemployed
- Members of the Travelling Community
- Young people
- Asylum seekers

## Barriers (1)

### Access

- Risk-based assessments

### Price

- Range of charges: (ATM withdrawals; statements; transactions in branches; government stamp duty on cards; interest rates)

### Conditions

- Not always appropriate to the needs of low income consumers (bank holidays; no direct debit facilities; overdrafts)

### Geographical isolation

- 2 urban areas not serviced by a bank
- Lack of transport main obstacle (particularly for those living in rural areas)

## Barriers (2)

### Technology

- Difficulties with ATMs
- Very little use of telephone and internet banking (due to access and affordability)

### Self-exclusion

- A certain degree of disengagement from banks
- Felt that banks were not interested in people on low incomes
- Antipathy and mistrust of financial services

### Marketing

- Inappropriate to their needs

## Use of bank accounts

- Despite having a bank account, many respondents were not using it to manage their money
- Under-use also associated with low financial literacy

## Credit Unions

- 435 credit unions with 2.3 million members (approximately 56% of population)
- 36 of the 59 focus group respondents were members of credit unions
- More likely to use credit unions for savings or loans

## Barriers (1)

### Access

- Risk-based money laundering also an issue
- Overall, perception that they are still more flexible than banks
- Common bond a barrier
- Loans perceived as more accessible than banks
- Diversity of opinion on whether credit unions will lend to vulnerable groups

## Barriers (2)

### Price

- Interest rates – perceived to be low & competitive
- No charges for range of services

### Conditions

- Savings record
- Loan repayments generally considered flexible
- Two cases of court orders for non-repayment of debt
- Products becoming less appropriate
- European Consumer Credit Directive

### Marketing

- Information irrelevant to needs of low income consumers

### Barriers (3)

#### Self-exclusion

- Some felt would not be able to save
- Others 'afraid' to go to credit union & lacked confidence
- Two polarised views on whether credit unions still interested in people on low incomes

#### Technology

- The majority of credit unions not clearing system

#### Other barriers

- Irish credit union movement perceived to be disparate and uncoordinated

### Policy responses – national & international

- Legislation
- Basic banking
- Universal banking
- Partnership approaches
- The role of credit unions
- Providing affordable credit
- Financial education & the role of MABS
- Direct payment of benefits
- Special savings schemes

### DISCUSSION

Thank you

Caroline Corr, [corr@cpa.ie](mailto:corr@cpa.ie), tel: 6026622

Vanessa Coffey, [coffeyv@cpa.ie](mailto:coffeyv@cpa.ie), tel: 6026627