‘The future of data disclosure by banks in Britain’ roundtable discussion – 20th March 2014.

Summary of contributions

The roundtable brought together a range of academics, policy influencers and practitioners working on financial inclusion issues. The event considered the bank lending data recently released by the seven main high street lenders, activity already underway to analyse the data, what more analysis was needed and what other data sets were required to help effective interventions in underserved financial markets. The event was sponsored by CIC partner CCLA.

Key points raised in presentations

Niamh Goggin – Small Change Ltd & Local Trust

Background to Big Local

- Funded by the National Lottery.
- Residents using at least £1 million to make a massive and lasting difference to their communities.
- Reaching 150 areas across England.
- Communities are able to identify local needs and take action in response to them.
- Enables people to increase skills and confidence so that they can continue to identify and respond to their community’s needs in the future.

Examples of Big Local projects

- Credit union junior savers club in Peterborough.
- Community volunteer finance buddy scheme in Greatfield.
- Business loans with Oldham Enterprise Fund.
- Home improvement loans in Leigh West.

Economic issues affecting Big Local areas

- Encouraging communities to be more entrepreneurial.
- 25 per cent of individuals in Big Local areas interested in establishing enterprises in their communities.

Financial issues affecting Big Local areas

- Lack of free ATMs.
- Lack of physical access to financial service providers – transport to institutions a particular problem.
- Increasing lack of personal services that are tailored to the needs of residents – person-to-person service is frequently cited as a key component of successful financial providers.
- The increasing move towards online banking is seen as dangerous: could result in even more closure of bank branches.
- Low access to fair credit.
- Predatory lending to communities by high-cost lenders.
- Poor credit histories as a result of mobile phone judgements (whereby the non-payment of mobile phone bills results in significant damage of an individual's credit history).
- Financial capability – strong interest in providing support at groups such as children, young parents and older people.

Richard Browne – Birmingham City Council

Background and findings of report

- ***'Personal Loan Data in Birmingham'*** can be found here.
- ***CIC briefing on data disclosure*** can be found here.

- Participating lenders – **Barclays**, **Lloyds Banking Group**, **HSBC**, **RBS**, **Santander**, **Clydesdale and Yorkshire Bank** and **Nationwide**.
- Data shows the level of outstanding balances based on Bank of England reporting classifications by postcode sector – does not show the number of loans in each postcode sector.
- The total value of personal unsecured loans in Birmingham amounted to £463 million.
- Generally less lending in Birmingham than in England on average.
- Birmingham = £552.22 per adult (18+), compared to the England average per adult of £621.40.
- It is difficult to obtain a true picture of average lending as factors such as payday lending is not included in the figures.
- Less affordable lending was available in Birmingham's most deprived areas.

Postcode difficulties

- The UK's 9,000 postcode sectors are not uniform in size or population.
- The UK's postcode sectors are not coterminous with other boundaries. In practical terms, there are 228 sectors 'Birmingham' postcode area, yet only 126 in the Birmingham Local Authority boundary – this makes data analysis difficult.

Lending vs Deprivation

- Analysis undertaken sought to establish relationship between value of personal loans per adult (18+) and the average loan vs England average (18+) against the Index of Multiple Deprivation.
- Although there was some correlation between lending and deprivation – the relationship being that less affordable lending was being made available in deprived communities, the results were not statistically significant.
- Furthermore, data compared lending habits of Citysave credit union and high street banks: results suggested that both of these institutions were in fact lending in the same areas.

Additional thoughts

- More data is needed so that a) analysis can be more effective in influencing policy on financial inclusion and b) local authorities are encouraged to utilise the data.
- Additional information that would be useful:
    - Number of transactions;
    - Individual loan amounts;
    - Markers of level of interest.
- More granular data is needed: i.e. needs to be more specific to postcodes rather than individual bank data.
- The Home Mortgage Disclosure Act (HMDA) in the United States could act as a good guide for the UK.
- Local authorities and high street banks should engage in closer dialogue in regards to lending data.
- It should be recognised that different datasets are needed to effectively analyse the different lending trends i.e. SME lending, personal lending and mortgage lending.
- Lending demographics in urban areas such as Birmingham and London must be considered. For example, credit unions lend little to areas with high Muslim populations, due to their preference for Islamic financial services.

- In addition to credit provision, data should be collected on savings levels. Anecdotal evidence suggests that banks shift poorer communities' savings towards loans for individuals in more affluent areas. However robust data is needed to support this case.
- Real time data (as opposed to the current time-lagged data sets) would make analysis and policy making more effective.

Andrew Leyshon – University of Nottingham

Background

- Geographies of financial exclusion – the study of the physical access to financial services.
- Focus: the re-evaluation of the branch in light of the financial crisis.
- In recent months: Labour has advocated the establishment of 'challenger banks'.
- EU competition ruling: RBS and Lloyds TSB were forced to divest hundreds of branches.

Research findings

- Between 1989 and 2012 there were more bank branch closures (a 43 per cent decline) than building society branch closures (a 33 per cent decline).
- 'Traditional Manufacturing', 'Built-up Areas' and 'Prospering Metropolitan' areas were most heavily affected by bank and building society branch closures between 2003 and 2012, suffering declines of around 20 per cent.
- On the other hand, 'Suburbs and Small Towns' and 'Coastal and Countryside' areas were the least affected, with only 6-7 per cent declines in the number of bank and building society branches.
- Data showed that unsecured personal lending from banks (in terms of the **total amount of borrowing outstanding by postcode district**) was higher in areas where there were a greater number of bank branches.
- There was no relationship between the number of banks branches and unsecured personal lending from banks (in terms of **borrowing outstanding per person by postcode district**).
- There was a moderately positive correlation between the change in the number of bank branches between 2003 and 2012, and the level of unsecured personal lending by banks (in terms of **borrowing outstanding per person**). That is, as in areas where there was a rise in the number of bank branches, a higher level of unsecured personal lending existed.
- In areas where there were less bank branches in 2012 than in 2003, there was a higher number of alternative financial services providers (AFSPs) i.e. payday lenders etc.

- These findings highlight the importance of backing up anecdotal evidence with empirical data.

Reasons and consequences of bank closures

- Are bank closures creating a vacuum in communities? That is to say: a bank withdraws from the high street, and is subsequently replaced by pay day lenders, or other AFSPs. Comparing the experiences in different local authority areas could help shed light on this.
- Findings could help local and national governments form policies that ensure that if banks close branches, they are replaced by credit unions and community development finance institutions (CDFIs) instead of AFSPs.

Additional data sets needed

- Cost of credit available (i.e. interest rate costs): comparing AFSPs against high street banks, CDFIs and credit unions.
- Which sections of the community are using bank branches?

Additional thoughts

- Are banks tacitly synchronising branch closures or devising competitive strategies to close branches in deprived areas (as they are the loss-making elements of their business)?
- Point in question: no-one wants to be the last bank in town, otherwise the community becomes dependent on them [the bank], and as such banks do not want to attract the negative publicity/political pressure of 'abandoning' a community.

[N.B. Report by Shaun French, Andrew Leyshon and Sam Meek due for release later this year]

Jonathan Diggines – Enterprise Ventures Group UK

SMEs in the United Kingdom

- 4.8 million in the UK.
- Represent 99.99% of all businesses.
- Of these, 90% are small businesses.
- Essential to any recovery of the UK economy.

The Bank of England in January 2014

- The rate at which lending is falling slowed in the year to November 2013, compared to 2012.
- The stock of lending to UK businesses fell by £4.3 billion between September and November 2013.
- The average net monthly flow of lending was slightly less negative across firms of all sizes.
- Larger businesses have more access to funding than smaller businesses.

Department for Business, Innovation and Skills in May 2013

- Economic uncertainty appears to affect bank lending to SMEs disproportionately compared to large firms.
- Higher capital adequacy amongst banks appears to affect bank lending to SMEs disproportionately compared to large firms.

Additional thoughts

- RBS confirmed that they withdrew £2.2 billion of credit from small businesses between April and December 2013.
- Across all banks, loans fell to SMEs by £300 million in January 2014.
- UK, USA and Hungary only OECD countries where SME lending is lower than before the recession.
- Banks have not referred as many customers as expected to CDFIs through the referral scheme co-ordinated by the CDFA and the British Bankers' Association (BBA).
- Everyone should welcome the Chancellor's support for a comprehensive review of SME lending.
- However, a change in culture is needed in the UK, in addition to political will to tackle the dearth in SME lending.
- Vital to develop the awareness and knowledge of data disclosure within Government and the civil service.
- A significant lack of political will in the UK to address this issue: compared to the United States, where UCLA is given significant resources to address SME lending.
- Further Government support would allow the UK's 'credit deserts' to be identified, which would allow CDFIs and credit unions to better target their resources.

Robin Brownsell - Tusmor

Implications of 2014 Budget

- Page 85 of the UK Government's 2014 Budget, a new agreement with the major banks to process most claims for a 'deed of priority' or 'waiver' within 7 working days was announced, as well as for each bank to provide standardised documentation to simplify the process. This will speed up the process for SMEs seeking finance from challenger banks or other alternative finance providers.
- Important to note that current accounts are loss-making products for banks.
- Provision of current accounts is essential for financial inclusion.

Competition in the current account market

- One of the major problems is that the UK's major banks own the payment system, which the majority of consumers use to pay for goods and services. This almost always results in the customer paying many multiples of what it costs the bank per transaction.
- For new entrants: obtaining their own sort codes from the Bank of England is vital – this is the single biggest obstacle to competition in the current account market.
- Tusmor is set to undertake more work in this area over the next six months.

Key actions to take away

David Boyle: to write a blog piece on data disclosure.

Azlina Bulmer: to investigate how Charity Bank can use its data more effectively in credit decisions and encourage others to do the same.

Alison Seabrooke & Niamh Goggin: to draft and fundraise for national comparative analysis of bank lending data.

Simon Rowell: to raise social enterprise lending/borrowing data required for the Social Investment Forum.

Joel Benjamin: to challenge the 35 per cent of councils that bank with the Co-operative Bank to consider postcode data when they re-tender bank contracts this year.

For more information

For more information, please contact Jennifer Tankard, Community Development Foundation (CDF) on 020 7812 5430 or jennifer.tankard@cdf.org.uk, visit our web site: http://www.communityinvestment.org.uk or follow the campaign on Twitter @BankingBetter.