

# FAIR BANKING FOR ALL

## Why the UK needs a Fair Banking Act to tackle financial exclusion

### People and businesses are suffering due to the UK's high levels of financial exclusion

The UK suffers from some of the worst levels of financial exclusion in relation to comparable economies. Despite government initiatives and commitments, millions of people do not have access to the financial services they need for day-to-day living. This is a serious, but hidden part of the cost of living crisis.

- Even before the pandemic, over 10 million people could not access affordable credit, forcing over 3 million people to turn to very high-cost providers like pay-day lenders where interest rates can be over 1,000%.
- Research suggests that over 3 million people in Great Britain may have borrowed from an illegal moneylender, often known as a loan shark, in the last three years.
- Small and medium sized enterprises (SMEs) and social enterprises receive a tiny share of bank lending and face a multi-billion pound financing gap, holding back economic development, particularly affecting underserved regions outside London and the South East and marginalised communities.

“ I needed to borrow money and went to my bank. I was working and they could see I could afford it, but I was refused. I had to use a payday loan, I'm not proud of it. The problem is though, little things can happen, that's how they get you and they keep you in that kind of loop - getting the money, paying it back, but then getting halfway through the month and having nothing left. I got stuck in this cycle of payday loans. ”

Workshop participant with experience of financial exclusion

### A banking system which works for everyone and supports local economies to flourish

Inspired by the success of the US Community Reinvestment Act, the Fair Banking Act would create a stepchange for the purpose-driven banking sector in the UK. This includes mutuals and financial co-operatives such as credit unions, and institutions specialised in SME and social enterprise lending, such as CDFIs. The Fair Banking Act would do this by:

- Requiring mainstream banking institutions to disclose their performance on financial exclusion, in a transparent, publicly available, data disclosure framework.
- Creating a system for clear ratings, that show which banks are doing well and which need to improve, with the FCA having regulatory tools and incentives to drive change.

Mainstream banking institutions could improve their rating by:

- Creating partnerships with purpose-driven banking institutions to enable these specialised organisations to expand their services and support for financially excluded people and businesses.
- Expanding their own provision of affordable and ethical lending to underserved communities and businesses, giving fair access to credit regardless of people's backgrounds or where they live.

Once the Fair Banking Act is established, at an appropriate point, the criteria could be expanded so that mainstream banking institutions could also improve their rating by:

- Providing fair services to those who are underserved and excluded, either directly or via a partnership.

In the US, the Community Reinvestment Act is attributed with creating a significant increase in

# The Fair Banking Act

bank funding of financial institutions such as credit unions and CDFIs (Community Development Finance Institutions). As a result, in 2020, US banks provided \$271 billion to low and moderate income communities, and in 2019, CDFIs and credit unions managed more than \$150 billion, including lending to SMEs.

As part of a national financial inclusion strategy, a Fair Banking Act would help the new government promote growth and tackle poverty.

## A Fair Banking Act would dramatically increase individual financial inclusion

- Millions of people across the UK would be able to access affordable credit, preventing families spiralling into bad debt and financial crisis.
- Poor people would no longer be forced to pay more for credit from high-cost credit providers, reducing the poverty premium and meaning people on low incomes are better off.
- Millions of people would have greater financial resilience, needing lower levels of support in the long term.

“ I felt shameful.. I was really nervous.. But they [The Co-op Credit Union] welcomed me with open arms, told me not to worry, that they would help me. They were really fantastic.

Since using the credit union I now own my own house, I've set up my own business. Without the help from the credit union I don't think I'd be where I am today. I can't thank them enough. ”

Workshop participant with experience of financial exclusion

## A Fair Banking Act would drive regional growth and unlock the potential of SMEs

- SMEs are the heart of our economy, and provide around 60% of private sector employment, yet they have suffered from chronically low investment and struggle to secure bank loans. Various estimates have suggested this funding gap is in the tens of billions.
- The Act would lead to significant growth to financial institutions that are specialised in SME services, such as CDFIs. 99% of businesses supported by CDFIs in 2023 had

already been declined by a mainstream finance provider, yet they went on to create or safeguard 11,813 jobs. 93% of CDFI business lending was made outside London and the South East. CDFIs are much more likely than mainstream banks to lend to ethnic minority-led businesses, women-led businesses, and businesses in the UK's most deprived areas.

“ Purple Shoots [a CDFI] understood that with a little humanity I could turn things around for me and my daughter, and I did. It saved my life. Within 18 months of Purple Shoots helping me with only £3,000 I'd paid them back early, I was free of benefits, and I was running a successful business. ”

Julie Hawkins, UK business owner

## Creating a stepchange for the purpose-driven finance sector

Co-operatives and mutuals in the UK (such as credit unions and the mutual banks movement), and CDFIs currently cannot compete with retail banks or high-cost credit providers.

The Fair Banking Act would redress this imbalance of power, channelling significant resource and capital into purpose-driven finance institutions. These banking institutions can provide a lifeline for individuals, families and businesses, partly because they are often much better able to assess an individual or small business' needs holistically, and provide wraparound support.

## Support for a Fair Banking Act

A Fair Banking Act has the potential to transform the lives of millions of people, and can help all political parties meet their ambitions for economic growth. We believe it should be a key commitment for the new UK government.

The Fair Banking for All Campaign is an alliance of 25 organisations, including civil society organisations, anti-poverty groups, academics, and purpose-driven banking institutions such as co-operative financial institutions and CDFIs.

Visit [www.fairbankingforall.org](http://www.fairbankingforall.org) for more information and a full policy paper.

We would very much welcome a meeting with you to discuss the Fair Banking Act - please email [sam-kay@financeinnovationlab.org](mailto:sam-kay@financeinnovationlab.org).