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A Detailed Study of Financial Exclusion in the UK

ABSTRACT. The concept of financial exclusion has been the subject of increasing interest and debate and is characterised as a situation where a proportion of the population have limited access to mainstream financial services. Previous studies of financial exclusion in the UK have generally focused on a particular financial service, such as bank accounts, and have incorporated differing methods and models of investigation. Thus, comparing and contrasting significant influences on exclusion across a range of financial services proves problematic. The current study uses a common model to test and compare influences on exclusion for a wide range of financial services. Findings show that the most consistent and significant influences on financial exclusion are employment status, household income, and housing tenure, closely followed by marital status, age, and level of academic qualification. A more complex relationship with the remaining explanatory variables is apparent.

The debate surrounding the poor and their use of financial services has been the subject of increasing attention (Hogarth & O' Donnell, 2000; Lee, 2002). Relatedly, the concept of financial exclusion has also been the focus of increased discussions (FSA, 2000a; Kempson & Whyley, 1999a, b). According to the Financial Services Authority (FSA, 2000a), financial exclusion is currently the subject of widespread debate and interest, as those who lack access to even basic financial services are also often excluded in other areas, thus re-enforcing wider social exclusion. Financial exclusion has been identified as a multidimensional construct (Kempson & Whyley, 1999a, b) and as a result, providing a simplistic definition is somewhat problematic. Such challenges notwithstanding, Panigyrakis, Theodoridis, and Veloutsou (2002) characterised "total" financial exclusion as a situation where a proportion of potential consumers have no access to, and consequently no usage of, mainstream financial services in an appropriate form.

Some research has focused upon financial exclusion in a UK context and efforts have been made to draw together disparate strands of literature (FSA, 2000a; Kempson & Whyley, 1999a, b). However, it is apparent that such research efforts have been piecemeal in nature, with

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different models and approaches being adopted to study exclusion in the context of a number of individual financial services. As a result it is not clear precisely what factors influence exclusion from particular financial services products. In addition, efforts to compare and contrast influences on financial exclusion across financial services categories prove difficult. Moreover, results regarding the influence upon financial exclusion of certain factors such as gender and age have, thus far, proved equivocal.

Thus, the primary objective of the current study is to provide a detailed understanding of financial exclusion in a UK context by employing a common model to test influences on financial exclusion for a range of financial services generally viewed as beneficial in helping to meet fundamental consumer needs of money management, protection against unforeseen events, and income and wealth smoothing. In this manner, valuable insights are provided as to which factors are particularly important in influencing financial exclusion in all cases and which are relevant in only certain contexts. In the process, further understanding of the role of factors subject to contradictory previous findings will also be provided. Overall, a comprehensive analysis and discussion of financial exclusion for a range of financial services is offered.

PREVIOUS STUDIES

Financial exclusion is currently the focus of debate amongst financial services industry participants, the UK government, regulatory agencies such as the FSA, and consumer groups. Providing a precise definition of financial exclusion is somewhat problematic. However, it is apparent that the term refers to those with few or no financial services holdings. Panigyrakis et al. (2002, p. 55) stated that the key characteristic of financial exclusion is the *''inability of some financial services segments to access financial services in an appropriate form.''* In some cases, this includes the lack of even a basic transaction banking account. However, it should be noted that the debate has moved on from a focus on mere geographical access and has looked more comprehensively at the processes of financial exclusion and who is excluded and why (FSA, 2000a).

Kempson and Whyley (1999a, b) found that financial exclusion comprises a number of aspects. *Access exclusion* is, as the name sug-

gests, a restriction of access to financial services which may be due to such factors as branch closures or unfavourable risk assessments. *Condition exclusion* is where individuals are excluded from financial services due to conditions attached to the product offering. *Price exclusion* is where certain individuals cannot afford financial offerings at the current price. *Marketing exclusion* refers to the overlooking of certain groups by the marketing activities of financial services firms. Kempson and Whyley (1999a) also pointed out that the financially excluded include households who have disengaged as well as those who have never engaged in financial services and that financial exclusion can be a temporary or virtually permanent condition.

It should also be noted that there is a subtle but important difference between financial exclusion and the broader concept of non-use of financial services. Non-use may be due to the various types of exclusion noted above, but it may also be due to voluntary non-use, a lack of resources, or a lack of need for a particular type of product. Voluntary non-use has been termed *self-exclusion* (Kempson & Whyley, 1999a) and happens when certain individuals choose not to use a financial service, despite a need, perhaps due to past refusal, negative word of mouth, confusion, or lack of trust. As an example of lack of resources, people may have an inherent need to save for the future to provide for themselves and their family but may not have the discretionary income to do so. Such a situation does not represent a lack of need or desire to save per se, and could be characterised as *resource exclusion*. Finally certain people may simply have no need for, say, a personal loan and cannot be considered as excluded from such a market if not using that product type.

It is apparent, therefore, that the debate surrounding financial exclusion has moved on markedly from its initial focus on location-based exclusion (Leyshorn & Thrift, 1993; Morrison & O'Brien, 2001). In addition, according to the FSA (2000a), the issue of financial exclusion has, paradoxically, become more prominent due to the fact that financial product ownership has grown markedly amongst most consumers over the past thirty years. As a result, those left with few or no financial services now stand out in a more pronounced manner.

Evidence of financial exclusion is presented in the literature and is an international phenomenon. In the US, where the study of financial exclusion is arguably more advanced than elsewhere, roughly 9.1% of households have no transaction bank account with a mainstream financial institution (Aizcorbe, Kennickell, & Moore, 2003). Jacobson

(1995) found a decrease in bank account usage amongst low income households in the period proceeding 1990. In addition, according the Hogarth and O' Donnell (1999), low to moderate income households hold other financial services, such as savings bonds and mutual funds, in only modest proportions. Conversely, Caskey (1997) found reasonable use of credit cards and other credit products amongst such households, but Lee (2002) offered evidence that credit card ownership is significantly reduced amongst lower income homes. Those with an annual income of less than $10,000 had an ownership level of 6.6% in 1995, whilst in the same year those with an income of $10,000–$24,000 had 21.3% penetration. Lee (2002) found little change in the use of financial services by poorer sectors of society in the period 1995–1998 despite a number of relevant policy initiatives in the US. One exception was savings accounts, the use of which grew amongst both the ''poor'' and ''non-poor.''

Focusing specifically on the UK, according to the FSA (2000a), 1.5 million or 7% of households in the UK have no financial services, whilst a further 4.4 million or 20% are ''on the margins of financial services'' (FSA, 2000a, p. 21), having a very small number of financial services holdings. Related and other literature provides further evidence, as discussed in detail in FSA (2000a). Specifically, Kempson and Whyley (1998) found that approximately 6–9% of adults have no bank account, a figure which rises to around 20% for transaction current accounts. Almost 30% of individuals have no access to credit from conventional mainstream providers, according to the Office of Fair Trading (1999). Over 25% of employees have no significant pension provision, either private or occupational (Budd & Campbell, 1998), whilst the figure is even higher for savings or investment products, at between 30% and 40% (Kempson, 1998; Rowlingson, Whyley, & Warren, 1999). Approximately 25% of households have no home insurance cover, and this figure rises to over 40% for life insurance (Whyley, McCormick, & Kempson, 1998; Office of Fair Trading, 1999). Whilst the majority of these figures are somewhat less than contemporary, it is apparent that significant evidence exists to substantiate the claim that financial exclusion remains a significant issue in a UK context.

As there are a number of dimensions of financial exclusion, it is perhaps no surprise that a number of potential antecedents, or causes, have also been identified in the literature. In general terms, the FSA (2000a) notes some economic, socio-cultural, and demographic trends

which may have helped foster financial exclusion. These include the group of individuals left behind in the recent era of economic growth, increasingly referred to as "the underclass." In addition, the resultant income growth has been distributed unevenly and there is low income mobility amongst the lowest income groups. There have also been significant demographic changes including more lone parents and older people living alone, as well as a rise in homelessness, all of which may have further fuelled financial exclusion.

More specifically, factors which have been found to impact upon the level of ownership of various financial services products include: income, employment status, region, race and ethnicity and marital status (FSA, 2000a; Hogarth & O'Donnell, 1997). Hogarth and O'Donnell (1997) also found that gender, net worth, age, and household size had an impact upon bank financial services ownership in the US. In contrast, the FSA (2000a) concluded that gender *per se* does not impact significantly upon financial exclusion in the UK and was also equivocal about the role played by age. Its findings concurred with earlier research which showed that there was a geographical element which helps explain the average number of products held and noted that financial services tended to be held in a hierarchy, moving from current accounts to more sophisticated products. A similar point was made by Harrison (1994). On a related theme, Hogarth and O'Donnell (2000) investigated whether ownership of a transaction bank account amongst the poor is a "gateway" to further financial services product usage. They found that having a bank account was an important determinant of use of credit and savings products in the US. Other factors posited to influence financial exclusion in some, if not all, financial services markets are social class, level of educational attainment and type of housing tenure (FSA, 2000a; Office of Fair Trading, 1999). Finally, and perhaps not surprisingly, Caskey (1997) and Hogarth and O'Donnell (1999) found that respondents generally explained their lack engagement in the market for financial provision in terms of having insufficient funds to participate.

The aforementioned factors are best described as "demand side" and will form the main focus of the investigation reported below. However for completeness, it should be noted that a number of supply side influences on financial exclusion have also been highlighted in the existing literature. Avery, Bostic, Calem, and Canner (1999) discussed the high level of consolidation which has occurred in financial services markets in recent decades and speculated upon the detrimental effect

of such consolidation on the availability of financial services to the poor. The financial services sector has seen huge structural change in the past three decades (Devlin & Wright, 1995; Harrison, 2000) as a result of factors such as regulatory change, the breaking down of demarcation between firms, the rise of retail financial supermarkets, more specialist low cost direct suppliers, technological advances, and entry to the market by non-traditional suppliers. The net result has been vastly increased competition and increased pressure upon margins and profitability. In such a climate, it is almost inevitable that institutions will begin to pay more attention to the profitability of individual consumers and will tacitly, or explicitly, withdraw from servicing less profitable segments.

Kempson and Whyley (1999a, b) suggested that the product needs of low income groups are modest and are unlikely to bring high profitability to financial services organisations, resulting in a lack of supply of financial services targeting such groups. The FSA (2000a) noted the increased segmentation and targeting apparent in financial services marketing, with most companies appearing to focus on what they perceive to be the most profitable customers, a process known as "cherry picking." The net result may represent an increasing polarisation into the "super included" (FSA, 2000a, p. 18) and the excluded. With particular reference to branch location and location of other premises, the report talked of "desertification" of certain low income areas (FSA, 2000a, p. 26), thus creating both physical and psychological barriers to financial services use.

It should be noted that commenting upon the role of financial services organisations in increasing the chances of exclusion for some customers is not analogous to laying the blame for financial exclusion at the door of financial services firms. Firms' legitimate commercial activities may have consequences that are less than ideal from a wider societal perspective. Firms are not responsible for fundamental imbalances in resources and opportunities in society and they defend vigorously their right to target profitable customer segments, a valid point provided that such an agenda is not pursued on unjustified or discriminatory grounds. In addition, commercial firms would argue strongly that they have little role to play in providing "social goods or services." It is a moot point whether some commentators use the problem of financial exclusion, with its admittedly emotive language, as a convenient issue with which to criticise financial services firms and pursue a particular agenda. However, resultant negative consequences

of firms' actions, even if legitimate, may well still require policy responses, as individuals may find themselves excluded from markets where participation is generally considered socially desirable and beneficial.

Hogarth and O'Donnell (2000) argued that the increasingly technological orientation of mainstream financial services providers may also be adding to financial exclusion of the poor and disadvantaged, who are less likely to have access to such channels. Lee (2002) found that the poor were significantly less likely to use electronic banking, with the exception of ATMs. Technology has also increased the industry's ability to collect and analyse customer data and to identify those whose exclusion may boost profitability (FSA, 2000a).

Thus, a number of factors have been noted as influencing the level of financial exclusion in various financial services markets in both UK and international contexts. The following section introduces and develops a model designed to test influences on financial exclusion for a range of financial services. The model incorporates many of the factors above highlighted as being important in explaining financial exclusion.

MODEL AND MEASUREMENT

According to FSA (2000a), the majority of studies of financial exclusion in the UK are piecemeal and study access to specific types of financial service in isolation. As, in the main, these studies adopt different methodologies and incorporate different explanatory variables into their models, comparison of results and analysis of the relative importance of influences on exclusion from various financial services proves problematic. The analysis presented below incorporates an approach which measures financial exclusion from a range of financial services using a common model. As a result, cross-product comparisons are possible, meaning that influences on financial exclusion in various contexts can be compared and contrasted and important insights derived. The variables incorporated into the generic model have been shown as important in a different context, such as the US, or in the case of specific product categories. The general model used in the analysis is specified as follows:

$$EXCLUDED^{(a-e)} = f(\text{gender, social class, age, household status, household income, ethnicity, region, educational attainment, employment status, number in household, housing tenure, current account})$$

Where:

EXCLUDED$^{(a-e)}$ represents a measure of whether or not respondents use a particular financial service, for a range of financial services. Those respondents who did not use a particular financial service were classified as excluded from that financial service. As acknowledged previously, exclusion cannot necessarily be equated with non-usage of a financial service, as certain product types may not be needed by all. However, the products covered by the study were chosen judiciously to overcome this issue. Five types of financial service were included; current account, savings account, home contents insurance, life assurance, and a pension (in addition to the state pension).

Having a bank account is seen as essential in managing money effectively, paying bills, etc., and can act as a passport to other financial services (FSA, 2000a). Savings have in the past been perceived as desirable rather than essential, however they have been viewed as increasingly essential in providing actual and psychological security and funds for emergencies (FSA, 2000a). According the FSA (2000a), problems associated with financial exclusion relate particularly to house and life insurance and research is referred to which indicates that only a very small minority of those without insurance have chosen to go without. The vast majority of those without are likely to be so due to access exclusion, marketing exclusion, price exclusion, and/or resource exclusion. With respect to pensions, the government has argued strongly that the vast majority of individuals have a desire to build up assets for their retirement, probably in the form of a pension, and that it is important that people save for retirement whenever they can afford to (Department of Work and Pensions, 2002). The government has also calculated that most people will need some form of enhanced pension to provide an income which is roughly two thirds the level of their working income, considered to be a reasonable ratio of retirement income to that of pre-retirement (Department of Work and Pensions, 2002).

Thus, by focusing the study on a number of financial services where, on balance, usage is deemed far more preferable than non-usage, to the extent that such usage is viewed as essential to the efficient functioning and wellbeing of the household, non-usage due to lack of need can be largely discounted as a factor. Therefore, for the services covered, non-usage can be reasonably equated to a great extent with exclusion, including resource and self-exclusion, rather than a lack of need.

Variables Measured

The first measurement required is one of *financial ownership* for the range of financial services covered in the study. Ownership of the various financial services was measured as a 0–1 variable. The five financial services incorporated into the study were: current (checking) account, savings account, home contents insurance, life assurance, and pension (in addition to state pension). Participants were asked whether they owned/used each of the listed financial services, either individually or where appropriate, jointly with a spouse/partner. The five categories of financial service used in the measurement cover a broad range of services, varying in both complexity and purpose, and includes services aimed at banking, saving, pension provision, and protection.

Gender is a measure of the sex of respondents. Hogarth and O'Donnell (1997) found gender to be an important predictor of bank service usage, with females more likely to be excluded. Others (FSA, 2000a) have suggested that gender per se is not an important predictor of financial exclusion. The current study will clarify the importance of gender in helping to explain financial exclusion for a broad range of financial services. Gender was measured as a dummy variable, 1 being male and 0 being female.

Social class represents the social standing of individuals, previously identified as potentially important in explaining financial exclusion in the case of savings products by FSA (2000a), with those from lower classes more likely to be excluded. Class was measured using the standard A–E six point approach, with a being the highest social class and E the lowest.[1] As with all the categorical variables included in the study, this variable was modelled using the standard dummy variable procedure, omitting the first mentioned category in this and each case as the reference category in the final model.

Age is a measure of the age of respondents and according to Hogarth and O'Donnell (1997, 2000), in a US context, younger individuals are more likely to be financially excluded. However, FSA (2000a) was less convinced as to whether age helps explain financial exclusion in a UK context. The current study will isolate those financial services for which age is important in explaining financial exclusion. Age was grouped in ten-year bands beginning at age 16 and rising to 65+.

Household status is a measure of the marital status of individuals. Divorced individuals, particularly those with children, may well be

more likely to be financially excluded (FSA, 2000a; Hogarth & O'Donnell, 1997). In the current study, household status was a dummy variable measuring those living in a single adult household and those married or cohabiting.

Household income represents the total household income and those with a lower household income are more likely to be financially excluded (FSA, 2000a; Hogarth & O'Donnell, 1997). Household income was measured as a grouping variable with groups of less than £10,000 classified as low, £10,000–£30,000 as medium , and greater than £30,000 as high.

Ethnicity is a measure of the ethnicity of individuals. Both Hogarth and O'Donnell (1997) and FSA (2000a) suggest that race and ethnicity can influence financial exclusion and, in a UK context, consumer behaviour in financial services has been linked to ethnicity (Burton, 1996). In the present analysis, ethnicity was measured and grouped according to the following criteria. One group represents those of white ethnicity. The second classification represents those of African or Afro-Caribbean ethnicity and the final classification comprises those of Asian ethnicity. In grouping respondents according to ethnicity the researchers were faced with the challenge of producing groups large enough to allow statistical analysis, whilst not resorting to a level of aggregation which renders the testing of ethnicity meaningless. It is acknowledged that the resulting categorisations are a compromise, however, it is hoped that useful insights will be provided by the analysis incorporating this measure.

Region is a classification of the area in which an individual lives. Hogarth and O'Donnell (2000) found regional variations in a US context and some evidence of regional variations in UK financial exclusion has also emerged (FSA, 2000a), although not particularly in the case of current accounts. Region was measured according to the following areas: Southeast (including London), Scotland, North, Midlands, Wales, East Anglia, Southwest.

Educational attainment is a measure of the level of academic qualifications achieved. Previous research showed that those of a lesser educational achievement are more likely to be financially excluded in the case of insurance (Office of Fair Trading, 1999). Educational attainment was also a grouped variable with low representing no formal qualifications, medium representing CSE/GCSE/O Level/ A Level/ City and Guilds or equivalent (roughly equivalent to high school graduation), and high representing attainment of a first degree or higher.

Employment status represents the employment status of individuals. Those of a more secure status are less likely to be financially excluded (FSA, 2000a; Hogarth & O'Donnell, 1997). In the current study, employment status was measured according to the following criteria: in employment, retired, housewife/student/other, and unemployed.

Number in household is a measure of the total number residing in an individual's household. Greater numbers may well be associated with greater financial exclusion (FSA, 2000a). Number in household was measured as the absolute number of people in the family unit residing at a household.

Housing tenure is a classification of the type of housing tenure of individuals. It has been shown that those who are not owner-occupiers are more likely to be excluded from certain financial services (FSA, 2000a). Housing tenure was measured according to whether the household was owner occupied, private rented accommodation, local authority housing, or housing association rented.

Data Collection and Sampling Procedure

The data used in this study were collected by means of a questionnaire completed during a face-to-face interview, with questions posed verbally by trained researchers who noted responses on forms. Questionnaires are a useful tool for gathering data and are frequently used with success in management, marketing, consumer and policy research (Easterby-Smith, Thorpe, & Lowe, 1993). The data were collected early in the year 2000 throughout the UK in conjunction with a specialist market research and data collection agency. The questionnaire was designed to generate both general demographic information and data related to ownership of various financial services.

The sample was constructed by a commercial market research agency with the aim of ensuring that it was broadly representative of the population (see Table I, which also provides details for all dependent variables employed in the study). For instance, according to Mintel,[2] the UK population is comprised of 48% males and 52% females, meaning that females are slightly over-represented in the sample. Mintel further reports that in 2001, 15.10% of the adult population were 15–24 years old, 17.80% were 25-34 years old, 18.90% were 35–44 years old, 16.16% were 45–54 years old, 12.82% were 55–64 years old, and 19.22% were of retirement age or older. The sample is broadly similar with some under-representation of the very young and very old. Finally, Jobber (2004)

states that the percentage of the adult population in social classes A–E, respectively, is 3.2%, 20.5%, 27.7%, 20.9%, 17.6%, and 10%. The sample employed in the current study is slightly under-representative of class A and over-representative of class E.

The approach taken to surveying was a sophisticated one which defies simple labelling, blending elements of random sampling with quota or judgemental surveying. Initially, 210 parliamentary constituencies, roughly one third of the total, were chosen as main sampling points. These constituencies were chosen to be representative of the whole country by region, class, voting pattern, and other demographic variables. With each constituency, two areas containing 5,000 households each were selected to ensure representativeness of the socio-

TABLE I
Frequencies

	Full sample (%)	With current account (%)	Without current account (%)
	$N = 15{,}880$	83.6	16.4
Gender			
Male	44.0	86.9	13.1
Female	56.0	80.9	19.1
Class			
A	2.5	97.7	2.3
B	17.0	97.7	2.3
C1	25.5	94.7	5.3
C2	21.8	87.7	12.2
D	15.0	80.1	19.9
E	18.2	50.8	49.2
Age			
16–25	11.8	78.7	21.3
26–35	24.5	84.6	15.4
36–45	21.1	86.0	14.0
46–55	15.6	87.4	12.6
56–65	11.6	85.0	15.0
66+	15.4	77.3	22.7
Income			
Low	32.2	63.1	36.9
Medium	44.9	91.1	8.9
High	22.8	97.6	2.4
Ethnicity			
White	96.0	83.6	16.2
Afr/AfrCar	1.9	75.8	24.2
Asian	2.2	81.0	19.0

TABLE I (Continued)

Region			
Scotland	8.0	79.7	20.3
North	23.4	82.4	17.6
Midlands	16.8	80.6	19.4
Wales	6.2	78.1	21.9
East Anglia	7.2	88.6	11.4
Southwest	10.1	87.9	12.1
Southeast	26.3	86.3	13.7
Not disclosed	2.0	–	–
Educational attainment			
Low	30.2	69.1	30.9
Medium	54.4	87.7	12.3
High	15.1	97.7	2.3
Not Disclosed	0.2	–	–
Employment status			
Employed	50.5	94.1	5.9
Retired	20.1	80.5	19.5
Student/House-person/Other	24.1	68.4	31.6
Unemployed	5.3	54.7	42.6
Household status			
Married/co-habiting	63.7	88.4	11.6
Single adult	36.3	75.1	24.9
Housing tenure			
Owner occupied	63.3	94.6	5.4
Private rented	7.7	82.5	17.5
Local authority	22.9	58.3	41.7
Housing association	6.1	65.6	34.4
Savings account			
Used	58.4	86.9	13.1
Not used	41.6	78.9	21.1
House insurance			
Used	51.2	88.7	11.3
Not used	48.8	81.7	18.3
Life insurance			
Used	29.4	89.3	10.7
Not used	70.6	81.2	18.8
Enhanced pension			
Used	38.1	95.3	4.7
Not used	61.9	76.3	23.7

demographic makeup of that constituency. Households were then approached at random and selected by means of a quota system to further ensure representativeness in terms of gender, age, household

tenure, and working status. In summary, the sample method and quota system was designed to ensure that the sample characteristics roughly matched those of the actual profile of the country. The market research agency was investigating usage and other consumer behaviour issues across a range of financial services with the primary objective of providing data to financial services organisations and other interested parties on a commercial basis. There was no follow-up approach to those not taking part in the survey. As a result it is not possible to test statistically for non-response bias. However the methodology of sample construction and data collection lessens the risk of any major non-response bias. The total number of usable responses was 15,880.

STATISTICAL METHODOLOGY

As in each case the dependent variable is a dichotomous measure of financial service ownership, then for each financial service a binary logistic, or logit analysis, was used to test the model. According to Hair, Anderson, Tatham, and Black (1998) logit analysis is an ideal complement to multiple regression due to its ability to utilise a binary dependent variable. The overall significance of each model was assessed using a chi-square test, as recommended by Anderson (2003). This test rejects the null hypothesis that the dependent and independent variables are not related, if the chi-square is of a significant value. As can be seen from Table II, all models proved highly significant in this respect. Table II also lists the percentage of cases classified correctly, which shows the proportion of cases correctly classified by each model. Larger percentages are indicative of more powerful models. Values range from 68.9% to 86.0%, and in most cases represent a significant increase over pre-model classifications.

A standard R squared cannot be computed for a logit analysis but according to Hair et al. (1998) the Nagelkerke R squared is similar to a standard R squared and is thus suitable for assessing the goodness of fit for logit models. The Nagelkerke R squared is particularly useful in that it varies between 0 and 1 and can be interpreted in the standard manner (Hair et al., 1998). As shown in Table II, the Nagelkerke R squared varies from 0.11 to 0.49 for the models reported and generally represents acceptable explanatory power for a cross-sectional study.

According to Hair et al. (1998), the most straightforward means of identifying multi-collinearity between the independent variables is visual inspection of the relevant correlation matrix. According to Hair

TABLE II
Logistic Regression Results

	Current account	Savings account	Contents insurance	Life assurance	Pension
Male	0.04(0.56)	**−0.21(32.85)**	−0.07(2.72)	0.04(0.91)	**0.61(190.6)**
Social class B	0.11(0.77)	−0.09(0.52)	−0.10(0.72)	0.09(0.53)	0.00(0.00)
Social class C1	−0.05(0.02)	**−0.27(3.89)**	0.00(0.00)	0.18(2.28)	0.15(1.90)
Social class C2	−0.57(2.57)	**−0.42(8.98)**	0.08(0.39)	**0.28(5.30)**	0.14(1.53)
Social class D	**−0.77(4.68)**	**−0.58(16.83)**	0.06(0.17)	0.10(0.65)	−0.03(0.08)
Social class E	**−1.26(12.66)**	**−0.98(43.89)**	−0.14(1.10)	0.06(0.22)	0.15(1.39)
Age 26–35	0.01(0.01)	**0.28(19.43)**	**0.82(105.57)**	**1.06(121.4)**	**0.97(142.2)**
Age 36–45	−0.03(0.07)	**0.34(26.20)**	**1.03(156.67)**	**1.38(202.4)**	**1.18(195.1)**
Age 46–55	0.02(0.05)	**0.55(59.53)**	**1.26(213.36)**	**1.53(236.1)**	**1.00(127.0)**
Age 56–65	−0.08(0.47)	**0.59(47.20)**	**1.28(168.91)**	**1.80(265.9)**	**0.39(13.40)**
Age 66+	**−0.41(8.11)**	**0.55(26.49)**	**1.42(150.86)**	**1.95(244.6)**	0.12(0.75)
Married/co-habiting	**0.12(3.85)**	**0.17(14.19)**	−0.08(2.88)	**0.44(77.08)**	**0.12(4.81)**
Household income medium	**0.59(70.08)**	**0.27(24.21)**	−0.04(0.06)	−0.12(3.72)	**0.41(34.34)**
Household income high	**1.00(53.26)**	**0.56(60.73)**	−0.11(2.22)	**0.30(15.65)**	**0.91(111.26)**
Afro-Caribbean African ethnicity	−0.17(0.97).	−0.04(0.07)	**−0.44(8.19)**	**−0.54(9.46)**	−0.05(0.09)
Asian ethnicity	−0.24(2.03)	**−0.54(19.31)**	0.02(0.02)	−0.64(16.18)	−0. 20(1.77)
Region Scotland	−0.12(1.47)	−0.07(1.04)	**0.21(7.73)**	**0.48(44.93)**	−0.15(3.11)
Region North	0.02(0.05)	**0.24(22.40)**	**0.11(4.06)**	**0.19(13.11)**	**−0.29(22.53)**
Region Midlands	−0.14(2.93)	**0.12(4.32)**	**0.14(5.66)**	0.05(0.75)	**−0.20(8.76)**
Region Wales	−0.14(1.69)	0.12(2.26)	**0.23(8.16)**	0.03(0.14)	0.14(2.07)
Region East Anglia	**0.31(6.73)**	0.09(1.50)	−0.08(1.135)	0.11(2.18)	**−0.22(6.45)**
Region Southwest	0.19(3.41)	−0.03(0.15)	−0.03(0.17)	0.04(0.27)	**−0.33(18.03)**
Medium qualifications	**0.53(81.80)**	**0.39(74.11)**	**0.18(14.15)**	0.04(0.61)	**0.30(27.24)**
High qualifications	**1.26(63.90)**	**0.56(61.78)**	**0.48(46.59)**	0.03(0.22)	**0.60(57.84)**
Housing tenure private rented	**−0.84(67.92)**	**−0.61(78.77)**	**0.62(69.75)**	**−0.28(10.11)**	**−0.68(60.34)**
Housing tenure local authority	**−1.36(428.6)**	**−0.89(305.9)**	**0.79(206.4)**	0.08(1.20)	**−0.66(95.56)**

TABLE II (Continued)

	Current account	Savings account	Contents insurance	Life assurance	Pension
Housing tenure housing association	**−1.11(138.6)**	**−0.70(79.55)**	**0.80(90.47)**	−0.02(.03)	**−0.54(24.76)**
Retired	−0.20(2.36)	**0.17(4.29)**	−0.05(0.35)	−0.16(3.75)	**−1.48(239.1)**
Student/housewife Other	**−0.64(68.97)**	**−0.12(5.78)**	**−0.27(16.29)**	**−0.37(41.72)**	**−2.52(1131.8)**
Unemployed	**−0.80(55.80)**	**−0.31(12.02)**	**−0.63(34.46)**	**−0.82(46.64)**	**−2.46(283.1)**
Number in household	**−0.15(42.85)**	**−0.09(27.13)**	−0.02(0.88)	**0.04(6.12)**	**−0.15(58.19)**
Current account held	N/A	**−0.59(112.9)**	**0.80(161.6)**	**0.39(38.18)**	**0.50(36.49)**
Constant	2.99	0.85	−2.93	−3.16	−1.38
% Correctly classified	86.0	68.9	73.2	70.4	80.1
R squared	0.40	0.19	0.11	0.13	0.49
Chi-squared (Significance)	4202(0.00)	2445(0.00)	833(0.00)	1461(0.00)	7006(0.00)

Figure given is Beta; figure in brackets is Wald statistic.
Figures in **bold** are significant at the 5% level.

et al. (1998) high correlations, roughly in the order of 0.7, are a primary indication of problematic collinearity. For the models employed in the current study, the vast majority of correlations were below 0.2, with only a handful of correlations above 0.5. All were significantly below the level identified as problematic and it was therefore considered appropriate to proceed to consideration of the significance of individual explanatory variables.

The statistical significance of the estimated coefficients for each explanatory variable was tested using the Wald statistic, the standard procedure for a logistic regression.

Finally, Hogarth and O'Donnell (2000) found that a current, or checking, account could act as a gateway financial service, making it more likely that an individual will use various other financial services such as credit cards, mortgages, and others. Therefore, a 0–1 dummy variable for current account ownership was initially included in the models for savings, contents insurance, life assurance, and pensions to test for a current account effect. However, such a course of action may lead to inaccurate estimation of the coefficients for the remaining explanatory variables in the models other than those pertaining to current accounts, as the impact of any remaining variable is applied partly directly and partly through the current account ownership measure. To provide an example using gender as an exemplar explanatory variable, the model states that:

$$\text{Current account exclusion} = d + f * \text{gender} + u$$

and

$$\text{Exclusion from remaining services} = a + b * \text{gender} + c * \text{current account ownership} + e$$

In effect, this is a recursive model which states that current account ownership/exclusion is a function of various demographic explanatory variables and that exclusion from other financial services is dependent on the same explanatory variables and current account ownership. In the example provided above part of the effect of gender on exclusion from remaining services is working through the current account ownership variable. To account for this fact, a composite coefficient could be calculated according to the formula $b + c * f$, thus capturing both direct and indirect effects. However, using such a approach there is no obvious method of assessing significance. Therefore, as an

alternative, the relevant models for savings accounts, contents insurance, life assurance, and pensions were re-run with the current account ownership explanatory variable excluded. Using such a procedure, and assuming linear relationships, the combined direct and indirect effect (via current account) of any demographic variable is captured and can be tested for significance.

Table II provides results for the current account equation and the significance of the current account effect. Table III provides details of the models for the other financial services investigated, which were re-estimated following removal of the current account ownership variable, as described above.

RESULTS

Results will now be presented on a service-by-service basis prior to discussion of notable findings. All results are shown in Tables II and III.

Current Accounts

The results for current account are provided in the first column of Table II. First, it is interesting to note that gender is not a significant influence on exclusion for current accounts. For social class, those from the lower social classes, D and E are more likely to be excluded than those from social class A. For age, those aged 66+ were significantly less likely to have a current account than others in the survey. Household status does have an impact on exclusion from current accounts, with those married or cohabiting being significantly more likely than single adult households to have an account. Those of medium and high household income are also less likely to be excluded than those on a low income. Ethnicity is not shown to be an important influence on exclusion from current accounts. Region is not generally a factor in explaining exclusion from current accounts, the only apparent difference being that those in East Anglia are more likely to have an account than those in the Southeast. Those of medium and high academic achievement are significantly less likely to be excluded compared with others. Housing tenure also has a marked effect on exclusion from current accounts with those renting and particularly those in public housing, namely housing association and local

TABLE III
Combined Direct and Indirect Effects

	Savings account	Contents insurance	Life assurance	Pension
Male	**−0.215**	−0.046	0.037	**0.608**
Social class B	−0.102	−0.162	0.085	0.096
Social class C1	**−0.282**	0.004	0.180	**0.300**
Social class C2	**−0.415**	−0.034	**0.274**	**0.312**
Social class D	**−0.572**	−0.086	0.092	0.160
Social class E	**−0.860**	**−0.359**	−0.009	0.253
Age 26–35	**0.280**	**0.829**	**1.051**	**0.967**
Age 36–45	**0.338**	**0.966**	**1.370**	**1.170**
Age 46–55	**0.548**	**1.028**	**1.530**	**1.000**
Age 56–65	**0.590**	**1.140**	**1.790**	**0.383**
Age 66+	**0.559**	**1.318**	**1.937**	0.103
Married/co-habiting	**0.165**	0.071	**0.446**	**0.125**
Household income Medium	**0.217**	**0.139**	−0.081	**0.443**
Household income High	**0.515**	**0.151**	**0.333**	**0.948**
Afro-Caribbean				
African ethnicity	0.031	**−0.491**	**−0.533**	−0.051
Asian ethnicity	**−0.523**	−0.190	**−0.645**	−0.206
Region Scotland	−0.065	**0.213**	**0.475**	**−0.158**
Region North	**0.240**	**0.278**	**0.187**	**−0.286**
Region Midlands	**0.124**	**0.238**	0.042	**−0.202**
Region Wales	0.130	**0.540**	0.023	0.127
Region East Anglia	0.075	**0.265**	0.120	**−0.213**
Region Southwest	−0.034	**0.187**	0.038	**−0.327**
Medium qualifications	**0.346**	**0.209**	0.060	**0.315**
High qualifications	**0.501**	**0.520**	0.058	**0.631**
Housing tenure private rented	**−0.569**	**−0.674**	**−0.306**	**−0.702**
Housing tenure local authority	**−0.771**	**−0.652**	0.006	**−0.729**
Housing tenure housing association	**−0.613**	**−0.559**	−0.071	**−0.601**
Retired	**0.177**	0.014	**−0.156**	**−1.473**
Student/housewife				
Other	−0.089	**−0.191**	**−0.384**	**−2.535**
Unemployed	**−0.261**	**−0.572**	**−0.845**	**−2.485**
Number in household	**−0.076**	**−0.088**	**0.039**	**−0.156**
Constant	0.330	−0.811	−2.804	−0.938

Figures provided are beta coefficients.
Figures in **bold** are indicative of significance at the 5% level.

authority tenants, having a higher chance of exclusion than owner occupiers. Those other than in employment or retired are also more

likely to be excluded and the chances of exclusion also increase with the number of people in the household.

Savings Accounts

For savings accounts as for all remaining financial services analysed, interpretive results are provided in Table III. In the case of savings accounts, gender is an important influence on exclusion, with women more likely to use a savings account than men. Social class is also a significant influence on exclusion from savings, with those from classes C1, C2, D, and E more likely than class A to be excluded. Age has a far more marked influence in the case of savings accounts as compared to current accounts, with prospects of usage generally increasing with age. Those of medium and high income are also significantly less likely to be excluded from savings, as are those who are married or cohabiting rather than living in a single adult household. Ethnicity has a less marked impact on savings. Those of African or Afro-Caribbean ethnicity are no less likely to save than those of white ethnicity; however, those of Asian ethnicity are significantly less likely to have a savings account. With respect to region, the differences apparent are that those from the North and the Midlands are more likely to save than those from the Southeast. Those of medium and high academic achievement are significantly less likely to be excluded and housing tenure is a good predictor of exclusion, with those renting more likely to be excluded. The unemployed are more likely than those in work to be excluded from savings, but the retired are more likely to have savings. Those from larger households are again more likely to be excluded. From Table II it can be seen that having a current account makes savings account usage significantly less likely.

Home Contents Insurance

Gender does not influence exclusion from home contents insurance. The same is true in the main for social class, with only those from the lowest social class more likely to be excluded. Conversely, age is a strong influence on home contents insurance exclusion with the probability of having such insurance increasing markedly with age. Marital status does not influence exclusion from home contents insurance; however, household income exerts a significant influence. Those of African or Afro-Caribbean ethnicity are more likely to be

excluded from home contents insurance as compared to those of white ethnicity, but Asians are no more likely to be excluded. For region, all other regions are less likely to be excluded from house insurance than London and the Southeast. Those of medium and high academic achievement are significantly less likely to be excluded, as are owner occupiers compared to those renting, either in the private or public sector. Students, housewives, and the unemployed are more likely to be excluded as compared to those in work, and size of household does impact negatively on access to home contents insurance. Table II shows that having a current account makes exclusion from home contents insurance less likely.

Life Assurance

In the case of life assurance, neither gender nor, in the main, social class are significant influences on exclusion. Age has a very strong influence on the usage of life assurance, with the chances of having life assurance increasing strongly with age. Those who are married or cohabiting are significantly more likely to have life assurance than single adult households. Having a high household income is also a significant influence on life insurance exclusion, with those on higher incomes more likely to have such insurance, compared to low and medium incomes. Ethnicity has a reasonably strong influence on life assurance usage, with those of other than white ethnicity significantly more likely to be excluded. The evidence of the impact of region is mixed, with those from Scotland and the North significantly more likely to have life assurance than those from the Southeast. The level of academic qualification has no bearing on whether or not exclusion from life assurance is likely. Those in private rented housing are less likely than owner occupiers to be using life assurance, although those in local authority and housing association accommodation show no significant difference. Those other than in full time employment are significantly less likely to have life assurance, particularly the unemployed. Being a large household decreases the chances of being excluded from life assurance, as does having a current account.

Pensions

For pensions, gender is a significant predictor of exclusion, with males more likely to have a pension. Social class impacts to an extent on

exclusion with those from classes C1 and C2 being significantly more likely to have a pension than those from the highest class. Age also impacts significantly on pension usage, with in particular those in the mid-age ranges being more likely to have a pension. Those who are married or cohabiting are significantly less likely to be excluded from pensions, as are those on medium and particularly high incomes. Ethnicity does not influence exclusion from pensions. The majority of regions, namely the North, the Midlands, East Anglia, and the Southwest are significantly more likely to be excluded from pensions than London and the Southeast, whilst those of medium and high academic qualifications are more likely to have pensions. Those other than in owner-occupied property are significantly less likely to have a pension, as are those other than in full time employment. Perhaps not surprisingly, employment status is highly influential in exclusion from pensions. Larger households are significantly less likely to have a pension, as are those who do not have a current account.

DISCUSSION

The results show that ownership of, and exclusion from, the various financial services investigated are explained by varying subsets of the independent variables. Concomitantly, certain variables exhibited a consistent and significant effect on exclusion from most or all of the financial services, whilst others were found to vary in significance and even in the direction of influence. In order to elucidate fully the relationships and differences apparent in the findings without undue repetition, the discussion will examine the findings primarily with reference to each independent variable in turn, rather than on a service by service basis. However, findings relating to particular services will also be discussed where pertinent.

The data showed that the most consistent and marked influences on financial exclusion were employment status, household income and housing tenure. Particularly those who are classified as unemployed were more likely to be excluded from all of the financial services covered by the study. Hogarth and O'Donnell (2000) have suggested that employment status is important in explaining current account ownership in a US context and FSA (2000a) pointed towards the fact that unemployed people exhibit low levels of engagement with financial services. The current study indicated that employment status is an

important influence on financial exclusion across a broad range of financial services, with those registered or unregistered as unemployed being far more likely to be excluded from the services covered by the study. It is likely that the influence of employment status is due to more than just resource exclusion. Marketing exclusion, condition exclusion, and self-exclusion are likely to be important contributory factors. Most accounts and policies will not be targeted at the unemployed and those not working, as these groups are likely to be viewed as potentially problematic and unattractive in terms of cross-selling opportunities by financial services organisations. For similar reasons, some financial services may well have conditions, such as minimum monthly income payments into the account in question, which will effectively bar the account to the unemployed. Finally, the unemployed may well have a perception that they are generally disenfranchised by the system and may choose to withdraw from participation, leading to self-exclusion.

Household income was also a highly significant influence on exclusion from all services, although in the case of life assurance only high income households exhibited a significant difference from low income households. It is apparent that low household income is instrumental in leading to exclusion from transaction banking services, savings, insurance, and pensions and that resource exclusion in the form of a lack of disposable income means that individuals have trouble accessing financial services.

Housing tenure was also a significant and consistent influence on financial exclusion. Except for life assurance, where only those in private rented accommodation were more likely to be excluded, housing tenure was a significant predictor from all other services covered by the study. This corresponds with previous arguments espoused in the literature (FSA, 2000a), with those in local authority or housing association accommodation and, to a lesser extent, private rented accommodations being far more likely to be financially excluded than owner occupiers. As such properties are often to be found in relatively deprived areas across the UK, with postcodes (ZIP codes) unattractive to financial institutions, then it is perhaps to be expected that housing tenure exerts such an influence on financial exclusion, not least due to marketing and condition exclusion as financial services firms choose not to target such individuals.

Marital status, age, and educational attainment were also among the more consistently significant explanatory variables. Marital status

was also significant in helping explain financial exclusion for all financial services covered by the study except home contents insurance and consistent in the direction of its impact, with those married or living together being less likely to be financially excluded than those living in a single adult household, such as those divorced or separated. Marital status was found to be important in explaining exclusion in the context of bank accounts in the US (Hogarth & O'Donnell, 2000) but was not prominent in the discussion presented in FSA (2000a) of financial exclusion in the UK and is perhaps a more important factor than hitherto assumed. The reasons that those who are married are living together are less likely to be excluded may well comprise both supply and demand side exclusion factors. That is to say, in some cases, individuals may be self-excluded due to a judgement that they do not have a pressing need for, or have less of a responsibility to organise ownership of, a particular service, such as life assurance. Marketing exclusion may also help explain the relationship between marital status and financial services usage, as those married or living together are viewed by financial services organisations as having greater financial responsibilities and are therefore targeted to a greater degree.

Age also had a consistent and relatively large impact on exclusion from the financial services covered by the study except current accounts. Previous studies suggest that there is not a particularly strong relationship between age and financial exclusion in the UK (FSA, 2000a). The findings presented here show that age did not in the main influence exclusion from current account ownership, in contrast to findings based on US data (Hogarth & O'Donnell, 2000). For the other financial services covered by the study, those aged 16–25 were more likely to be excluded compared to other age groups, with the chances of exclusion generally falling slightly with age. This pattern was particularly marked in the case of life assurance. Whilst it may be argued that younger people are less likely to require protection policies such as life assurance, it is of more concern to note age-based exclusion in, for instance, the pensions market, where funds invested early have the potential to bring a far greater return. Overall, it is apparent that the current study indicated that in a UK context age is more important than previously thought in helping explain exclusion. Voluntary exclusion and marketing exclusion are probable explanatory factors for age-related non-usage. Younger consumers are arguably less likely to appreciate the need for protection and pension policies and are

likely to self-exclude, choosing instead to use their financial resources for more immediate consumption. With this in mind, financial services companies may well target younger consumers to a lesser extent, meaning that marketing exclusion is likely to exacerbate the age-related exclusion.

The level of academic achievement also impacted significantly on financial exclusion in all cases except for life assurance. In all other cases, greater academic achievement was associated with a lesser chance of financial exclusion. Such findings indicate that a lack of knowledge and understanding may be fuelling financial exclusion. Indeed, research commissioned and reported by the FSA (2000b) based on in-depth qualitative interviews with 36 individuals concluded that the factor that sets apart knowledgeable and sophisticated financial services consumers "is often their basic education level" (p. 35*)*. The link between educational attainment and non-usage of a range of financial services is probably due to a form of self-exclusion as individuals find themselves lacking understanding and are, therefore, reluctant to engage. Such as situation could be characterised as "confusion exclusion." It should be noted that the current findings, which indicate that when controlling for a variety of other factors, life assurance is amongst the minority of services whose ownership is not related to educational attainment contradict those of the Office of Fair Trading (1999), which found that educational attainment impacted significantly on ownership of life assurance policies.

Ethnicity and social class had a less prevalent impact on levels of financial exclusion. Race and ethnicity has previously been cited as important in explaining current account ownership in a US context (Hogarth & O'Donnell, 2000) and the FSA (2000a) stated that in the UK, the relationship between ethnicity and financial exclusion is less than straightforward, a contention that is supported by the results of the current study. As the FSA (2000a) suggest, language, culture, and religious factors all help explain the impact of ethnicity on financial exclusion. Social class was shown to influence financial exclusion from savings accounts and current accounts, lower social class being associated with greater financial exclusion, which is arguably in the main due to marketing exclusion. However, for the remaining services covered in the study the relationship between social class and financial exclusion was less clear-cut.

Other explanatory variables exhibited a more complex relationship with financial exclusion. Previous research in the UK (FSA, 2000a)

stated that financial exclusion is higher in Scotland and Wales than it is in England. The picture which emerged from the current study was far more mixed. There was no support for the contention that Scotland or Wales are more prone to exclusion for the services covered, indeed, both were less likely to be excluded than London and the Southeast in some cases. Elsewhere the picture is also mixed, with no strong patterns emerging. It may well be the case that the level of aggregation used is too great to allow for accurate testing of regional differences and the influence which pockets of deprivation may have in various parts of the country. A detailed study focussing upon the role of region in financial exclusion would yield important insights and is, thus, a recommendation for future research.

Household size was previously identified as influencing current account ownership in a US setting (Hogarth & O'Donnell, 2000), with those from large households more likely to be excluded. The current study supports such a finding for all services covered by the study except life assurance. It is apparent that, in the main, those from relatively large households are more likely to be excluded and this may well be due to resource exclusion as disposable income is channelled into areas perceived to be more pressing. However, a notable exception is life assurance, where a positive relationship between size and usage is found. In the case of life assurance, a perceived need to protect the family appears to be exerting a stronger influence than resource limitations.

The current study also identified a heterogeneous relationship between gender and financial exclusion. Previous research has identified gender as an explanatory factor in account ownership in the US (Hogarth & O'Donnell, 2000) whilst in the UK is has been suggested that being female does not in itself increase the chances of financial exclusion (FSA 2000a). The current study shows that females are more likely to be excluded in the case of pensions, but less likely to be excluded from savings accounts. For other services, no significant differences were apparent. Previous literature (FSA, 2001) has suggested that for financial services, women are more cautious, careful, and traditional than men and this may well help account for some differences, particularly a greater propensity to have a savings account, as women would be less likely to self-exclude.

Finally, Hogarth and O'Donnell (2000) found that a current or checking account increased the likelihood of holding certain other financial services in the US. The present study confirms the presence of

the current account effect in the UK for most of the services covered by the study. The one exception was shown to be savings account use, which was made less likely by current account ownership. Given the blurring of the distinction between current and savings accounts in a UK context, with more current accounts offering, albeit derisory, interest and more savings accounts offering payment card options, the two may be increasingly viewed in some senses as substitutes.

POLICY IMPLICATIONS

Turning to policy implications, it is apparent that policy prescriptions must be designed to deal with a complex set of related problems and that simplistic, short-term answers are not available. Policy prescriptions also need to deal with involuntary dimensions of exclusion, such as access, condition, price, and marketing exclusion (FSA 2000a) as well as self-exclusion, resource exclusion, and even confusion exclusion. Forms of involuntary exclusion require the attention of the government, other policy makers, and regulatory authorities, consumer groups, pressure groups, and industry participants and representatives. Self-exclusion and confusion exclusion can be addressed through education, advice, and other confidence building measures targeted at consumers and non-consumers. Resource exclusion can be tackled with policies aimed at removing households from poverty. Concerted efforts to tackle financial exclusion require both demand side measures, aimed at consumers, and supply side initiatives, aimed at financial service providers.

The prominent role of factors such as employment status, household income, and educational attainment in contributing to financial exclusion highlights the importance of tackling poverty and social exclusion more generally when attempting to solve the problem of financial exclusion. The UK Government established a Social Exclusion Unit to tackle the broader problems of deprivation and lack of engagement and opportunity when it took office in 1997. According to FSA (2000a), financial exclusion has become increasingly central to the social exclusion debate. As part of the National Strategy for Neighbourhood Renewal, Policy Action Team 14 has been given responsibility for tackling financial exclusion in the UK (Policy Action Team 14, undated). The action team has made 44 separate policy recommendations grouped into the areas of credit unions, insurance,

banking, regulatory issues, financial education and money advice, ethnic minority issues, and gender issues. Whilst it would not be practical to evaluate or comment upon these policy recommendations here, it should be noted that the measures attempt to tackle both involuntary exclusion of the various forms discussed above, as well as signalling the role of the FSA in helping to tackle voluntary and confusion exclusion.

Of perhaps greater concern, responsibility for implementing and monitoring the policy team's recommendations is currently shared between government departments, in particular HM Treasury, local government, the Financial Services Authority, industry trade associations such as the Association of British Insurers and the British Bankers Association, and companies operating in the financial services sector. Implementation and monitoring is arguably the greatest policy challenge and policy writers have acknowledged the difficulty of monitoring and assessing the success of policy campaigns (Bloom, 1997; Mazis, 1997) and have stressed the need to focus on changes in attitudes and behaviour of consumers, potential consumers and other parties (Day, 1976; Day & Brandt, 1974; McCarthy & Turner, 2000).

HM Treasury, through Policy Action Team 14, has not published a report on access to financial services since 1999 (see HM Treasury, 1999) and it is apparent that little formal monitoring and reporting of progress towards stated aims is being undertaken. Without such measures in place, forming judgements as to the success of eliminating financial exclusion will be problematic. Objective based monitoring of consumers, non-consumers, and other relevant parties, such as industry participants, should be undertaken and rather than having a number of organisations responsible for monitoring different aspects of policy, one agency, to a greater extent than presently, should assume explicit responsibility for monitoring progress.

The FSA could, and arguably should, assume a greater role in, and responsibility for, co-ordinating the campaign to reduce financial exclusion. The FSA is the main statutory body responsible for the regulation and supervision of financial services markets in the UK; however tackling financial exclusion is not at present a statutory or direct responsibility of the FSA (2000c). Notwithstanding this lack of responsibility, the FSA has signalled its interest in the area by publishing a comprehensive discussion paper on financial exclusion (FSA, 2000a). In addition, the FSA notes that its consumer education efforts

should focus upon "the needs of inexperienced and vulnerable consumers of financial services" (FSA, 2003a) and that its consumer protection and education efforts need to take the differing experiences and expertise of consumers and the impact of FSA policies and actions on the more vulnerable members of society into account (FSA, 2000c). The FSA's ongoing efforts to educate and provide generic advice to the public should help to tackle self-exclusion and confusion exclusion, in particular, provided adequate efforts are undertaken to make such efforts accessible to the financially excluded. The FSA should also consider investigating and isolating the precise role of marketing and condition exclusion. The results of this study suggest that such factors play a reasonably prominent role in helping to explain exclusion from a number of financial services. Whilst commercial firms are perfectly entitled to target and encourage usage of their services by certain segments of the market, if such actions are contributing significantly to exclusion, then policy remedies aimed primarily at tackling self-exclusion and at educating consumers will only be effective to an extent.

The Government has signalled further efforts to combat access, price, and confusion exclusion. As part of a major review of retail savings and investment known as the Sandler Review, which produced proposals aimed at making the savings market in the UK more simple, transparent, and competitive (HM Treasury, 2002), the need to make retail savings products more accessible to those on low and middle incomes was a recurring theme. The main recommendations included making financial services products more simple and accessible, under the "stakeholder" umbrella with minimum cost and regulation involved (HM Treasury, 2002). "Stakeholder" is the UK Government's preferred generic descriptor or label for a suite of products which would be marketed by financial services organisations and would adhere to relatively simple, government specified fee regimes, access terms, and other product features. The range is set to include unit linked funds, as well as "with-profits" based products. Whilst the degree to which such measures would help counter financial exclusion is debatable, the FSA (2003b) is now considering the merits of simplifying the sale and regulation of savings products, whilst maintaining consumer protection.

The Government is also introducing a Child Trust Fund which will allow relatives to save up to £1,200 per annum into a tax free savings plan for a child, with the government also contributing a one-off (one-

time) payment of up to £500.[3] In addition, a Green Paper (discussion document) concerning aspects of pension provision in the UK was published recently by the government (Green Paper, 2002). According to Noble and Knights (2003), the Government proposes to increase the general level of pension provision by: simplifying the decision facing the individual; reforming the tax regime and encouraging simpler and more accessible products; improving the general level of financial education and finally, providing information and generic advice. Noble and Knights (2003) are sceptical as to whether the proposals will improve the pension provision of many individuals as they are based erroneously on the notion of consumers acting rationally and also confuse offering advice with true consumer education.

The Government has also decreed that by 2005 all state benefits will be paid only by electronic transfer directly into an account either at a bank, building society (home loan institution) or the Post Office.[4] This measure should ensure that anybody in receipt of state benefits of any kind will have a basic bank account at least. The findings from the current study indicate that such accounts are likely act as a "gateway" to other financial services and as a result the role of such accounts in helping to reduce wider financial exclusion may be significant in the longer term. Additionally, the Government could use the data held on such accounts to facilitate education about, and promotion of, other financial services. Finally, given the important impact of age on financial exclusion from all services covered by the study accept for current accounts, a logical response from government would be to concentrate personal finance education efforts on the relatively young. It is perhaps not surprising that there is pressure to increase the coverage of personal finance matters in schools and colleges and such efforts could usefully be augmented by greater efforts to inform young workers through workplace education.

Overall, it is apparent that there are a number of policy initiatives in place which aim to reduce financial exclusion, which is in turn seen as a central element of the wider problem of social exclusion. Many require the co-operation of multiple agencies, often in the form of public/private partnerships and it is apparent that perhaps the biggest challenge is in the co-ordination of policy initiatives and the monitoring and evaluation of policy success. Policy makers in the UK should also note that more progress has been made internationally and in particular in the US. A number of states have enacted legislation pro-

moting basic banking services and affordable bank accounts (Hogarth & O'Donnell, 2000). Also, many states have raised the limits on the asset value above which an individual would lose benefits and established programmes to encourage engagement with the financial sector (Hogarth & O'Donnell, 2000). The Community Reinvestment Act of 1977 (revised 1995) requires a demonstration from financial institutions that their facilities serve the needs of the communities in which they conduct business.[5] In addition, the Assets for Independence Act (1998) includes provision for matched savings accounts aimed at the poor.[6] Should the public/private partnership approach advocated in the UK, based mainly on voluntary methods, fail to reduce financial exclusion, then similar statutory measures should be considered.

SUMMING-UP

First, it is conceded that, in common with all cross-sectional studies, the current analysis presents a snapshot of financial exclusion and does not account for individuals moving in and out of exclusion for certain services. Longitudinal studies of financial exclusion are required to further augment understanding of financial exclusion. Second, further studies with a lesser degree of aggregation of data for certain categories, such as region and ethnicity, would provide a more detailed analysis of the precise impact of such variables on exclusion.

In conclusion, it is apparent that exclusion from different financial services is influenced by distinct factors and that not all variables posited to be important *ex ante* were found to be explanatory factors in all cases. The most consistent and significant influence on financial exclusion, according to the current study, were employment status, household income, and housing tenure, closely followed by marital status, age and the level of academic qualification attained. Previous UK based studies had suggested a weak relationship between age and financial exclusion; however, the current study indicates that this link is significant and consistent. The study showed that ethnicity and social class had a less prevalent impact of financial exclusion and that having a current account was, in the main, shown to be important in explaining use of other financial services. A more complex relationship with the remaining explanatory variables was apparent. The impact of region on exclusion was less clear and the relationship between gender and exclusion was also varied, with males more likely to have a pen-

sion, but more likely to be excluded from savings, with no other significant differences appearing.

NOTES

[1] A = Upper Middle Class (Higher managerial, administrative or professional), B = Middle Class (Intermediate managerial, administrative or professional), C1 = Lower Middle Class (Supervisory, Clerical and junior managerial, administrative or professional), C2 = Skilled Working Class (Skilled manual workers), D = Working Class (Semi or unskilled manual workers), E = Lowest level of subsistence (State pensioners, welfare recipients, casual or lowest grade workers).
[2] http://reports.mintel.com/sinatra/mintel/databases; downloaded 02/08/04.
[3] http://www.hmtreasury.gov.uk/topics/topics_savings/topics_savings_trustfund.cfm; downloaded 11/03/2004.
[4] http://www.adviceguide.org.uk/index/life/benefits/payment_of_benefits_state_pensions_and_tax_credits.htm#paymentsbenefitsPaymentsintoyouraccount; downloaded 19/02/2004.
[5] http://www.federalreserve.gov/dcca/cra/; downloaded 11/03/2004.
[6] http://www.acf.dhhs.gov/programs/ocs/01comply/aid.htm; downloaded 11/03/2004.

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