



**Life and Debt 2010 —
Financial exclusion in the age of NAMA**

AUGUST 2010

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Preface

During the past two years, there has been much debate regarding the crucial role played by financial institutions in our economy. When it seemed that our banks were on the verge of collapse due to a combination of inadequate regulation and risky lending practices, the Government stepped in with an unprecedented package of bail-out measures: the bank guarantee was quickly followed by a recapitalisation package, which in turn was followed by NAMA.

NAMA may or may not succeed in its stated aim – to get banks lending again. What is certain, however, is that the banking debate is of little relevance to those on the financial margins: the one in ten of us suffering financial exclusion.

What is financial exclusion?

The European Commission defines financial exclusion as *“a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs”*¹.

What does that mean in practice? It means lack of access to any form of bank account. It means not having a bank card. It means being unable to avail of any form of overdraft or borrowing facility.

Essentially, being financially excluded means having to live in a cash economy. It means being dependent for credit on legal and illegal moneylenders (there are currently 52 licensed moneylenders in Ireland, 36 of whom operate ‘doorstep collection’ businesses) charging exorbitant rates of interest. Without access to a bank account, the financially excluded may rely on cheque-cashing operations for access to cash – at a price.

The pamphlet published today by TASC – *Life and Debt 2010: Combating financial exclusion in the age of NAMA* – is an attempt to move the banking debate from the macro to the micro, and to examine how banks and other lenders interact with financially vulnerable groups.

This pamphlet has its origins in a seminar on women and financial exclusion organised jointly by TASC and the National Women’s Council of Ireland at the end of 2008. The papers presented by Pauline Conroy of Ralaheen Research and Caroline Corr of Combat Poverty on that occasion have now been updated, and we have included a brief list of policy recommendations.

While the banks spent the boom years inventing ever new financial products, around one in ten of us was unable to access the most basic of banking services.

And this brings us back to the package of measures designed to bail-out our banks. When the bank recapitalisation scheme was originally announced in December 2008, it included a requirement for the banks being recapitalised to ‘provide and promote’ basic bank accounts. Little has happened since then.

¹ Financial Services Provision and Prevention of Financial Exclusion, European Commission, March 2008

In accordance with European best practice, the key features of a basic bank account should, in addition to a cash card, include the following: no minimum opening or monthly balance; free transactions, and flexible account opening requirements.

The provision of a basic bank account would improve banking access for economically disadvantaged groups.

But it would not address another growing problem: the lack of physical access to banking services due to branch closures and/or the absence of ATMs in many areas.

Recent months have seen the closure of 25 National Irish Bank branches, and of Royal Bank of Scotland's subsidiary, Halifax. In addition, Postbank – which operates through local post offices – is now set to close at the end of the year.

The 2007 Survey of Income and Living Conditions found that 22 per cent of respondents reported difficulty accessing banking services. The contraction that is currently taking place within the banking sector is likely to impact disproportionately on low income households, with increasing numbers experiencing difficulty in accessing banking services. The data from 2007 reinforces this assertion – and demonstrates that the difficulties in accessing banking services was greatest amongst the poorest 20 per cent of households (where 34 per cent had difficulty accessing banking services); households with no members working (33 per cent); and single pensioners (40 per cent). However, there was also a striking rural/urban divide: 34 per cent of rural dwellers had difficulty accessing banking services, compared to just 15 per cent of urban dwellers².

As Pauline Conroy noted in her essay *Women: the sub-prime barometer* – people experiencing poverty have long been an extremely lucrative source of considerable profit. And the majority of poor households – whether in Ireland or in the developing world – are actually effectively headed by women. We have heard a lot about the sub-prime mortgage market during the past year. Pauline reminds us that the sub-prime mortgage market was a function of economic disadvantage – and that the majority of sub-prime mortgage lending in the United States was to women and members of ethnic minority group.

The key indicator of financial exclusion, as Caroline Corr pointed out in her essay *financial disservices: the unbanked*, is lack of access to a bank account. In 2005, 23 per cent of households – or nearly a quarter – had no bank account. Many of these households – a large number of which are headed by women – are therefore forced to access financial products at prices they cannot afford. Such 'services' range from high-cost credit to expensive cheque-cashing facilities.

Both Caroline and Pauline included proposals at the end of their papers. Below is a summary of the recommendations which TASC believes are crucial to ensuring that – in this European Year of Social Inclusion – all sectors of society are financially included.

Paula Clancy
Director
TASC

² Central Statistics Office. 2009. *Survey on Income and Living Condition in Irelands: Housing Module 2007*
Cork: Central Statistics Office.

Summary of Recommendations

1. When the bank recapitalisation scheme was originally announced in December 2008, it included a requirement for the banks being recapitalised to ‘provide and promote’ basic bank accounts. There has been virtually no progress on the implementation of this requirement, so enforcement measures need to be put in place. The bank guarantee scheme is due to run out in September 2010 and the indications are that it is likely to be extended to some degree. In the short term, the provision of basic bank accounts should be a condition of any further recapitalisation and/or the extension of the bank guarantee, with a set of time-bound targets being imposed on the banks that will be monitored and assessed. In the medium and longer term, all retail banks should be required to provide and promote basic bank accounts (current accounts) comprising the following minimum features:
 - Free of Stamp Duty
 - Free of Transaction Costs
 - Incorporating a cash card (ATM Card)
 - No minimum opening or monthly balance
 - Flexible account opening requirements
2. At EU level, financial exclusion is regarded as a major element of the fight against social exclusion. Critically, at EU level, strategies to address financial exclusion include facilitating access to a bank account as well as the need for education and information programmes and the provision of debtor advice and guidance. An inter-departmental Working Group on Financial Inclusion should be established, mandated to develop a National Financial Inclusion Action Plan in consultation with stakeholders. This National Financial Inclusion Action Plan should form part of the next National Action Plan for Social Inclusion³.

The Terms of Reference of the Working Group should include:

2.1 Development of a geographical map of financial provision in Ireland, indicating which areas are serviced by (a) bank branches, (b) ATMs, and whether the ATMs in question charge for transactions

2.2 Development of guidelines on financial education, both inside and outside the formal education system

³ The current National Action Plan for Social Inclusion (2007-2016) covers financial inclusion, but only in terms of (1) providing financial information in plain English and (2) the provision of MABS in supporting families with debt difficulties.

2.3 In consultation with the Irish Banking Federation, development of best-practice guidelines for banks and financial institutions on dealing with financially excluded groups and individuals

3. The Financial Regulator should immediately initiate an enquiry, to be conducted by the Competition Authority, as to whether there are one or more dominant players in the home credit market and, if so, whether this represents abuse of a dominant position and effective discouragement of the competition.

Financial Disservices: The Unbanked

Caroline Corr

Introduction

Financial exclusion and over-indebtedness are important issues at both a European policy level and in other European countries, but unfortunately they have yet to be addressed in any comprehensive way in Ireland. The purpose of this paper is to give a general overview of the main issues related to financial exclusion in Ireland today, in particular for women, and to link these to the related issue of over-indebtedness.

This paper will draw on a range of national and European studies Combat Poverty has carried out and participated in on financial exclusion and over-indebtedness. Primarily it will be based on the study we carried out in 2006 on *Financial Exclusion in Ireland* with the support of the Financial Regulator⁴ and on a policy statement based on this study which contains more up-to-date data from the European studies as well as good practice examples.⁵

Defining financial exclusion

When the term ‘financial exclusion’ first appeared in the UK in 1995, it was narrowly viewed in terms of geographical ‘access’. Now commentators recognise that it is more complex and it is not just about *access* but also about *use* of financial services. The definition now proposed by the European Commission is:

*Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs.*⁶

Financial exclusion is therefore multi-dimensional and refers to exclusion from a range of products including banking, credit, savings, insurance and electronic financial services. This paper will concentrate on banking exclusion.

It’s important to note why financial exclusion is an important issue. This is due to what has been referred to as the “financialisation of social relationships”⁷ – that is to say a bank account and other financial products are now considered necessary in order to participate fully in economic and social life.

Financial Exclusion in Europe

Experts at the European level define financially excluded adults as those who do not have a transaction bank account, a savings product and revolving credit (i.e. a credit card or overdraft).

⁴ Corr, C. 2008. *Financial Exclusion in Ireland: An exploratory study and policy review*. Dublin: Combat Poverty.

⁵ Combat Poverty. 2008. *Tackling Financial Exclusion in Ireland*. Dublin: Combat Poverty.

⁶ European Commission. 2008. *Financial Services Provision and Prevention of Financial Exclusion*. Brussels: European Commission.

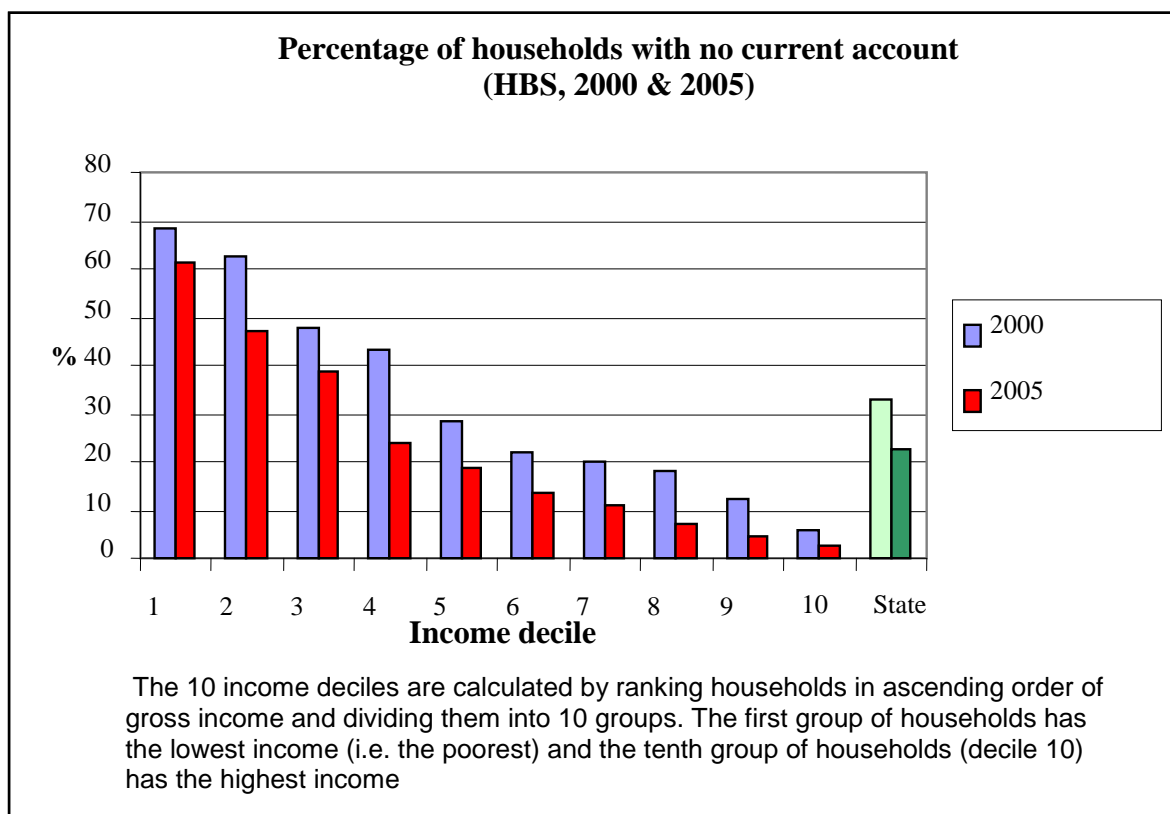
⁷ Gloukoviezoff, G., 2006. ‘From Financial Exclusion to Overindebtedness: The Paradox of Difficulties for People on Low Incomes?’. In Aderloni, L., Braga, M. D. and Carluccio, E. (eds.). *New Frontiers in Banking Services: Emerging Needs and Tailored Products for Untapped Markets*. Berlin: Springer Verlag.

Ireland has the fourth highest level of financial exclusion among the EU-15 at 12% and this is substantially higher than the EU-15 average at 7%⁸.

Further analysis of the data show that women were more likely to be financially excluded than men. However, what was interesting was that this finding was attributed to their work status and income rather than a gender-effect, as people outside the labour force are disproportionately women.⁹

Banking Exclusion

At a national level the key indicator of financial exclusion is ownership of a current account. This is viewed as the most important financial product as it offers a range of services including access to cash, bill payment facilities and money transmission (through direct debits and standing orders). The most reliable source of information on financial exclusion in Ireland is the Household Budget Survey carried out by the Central Statistics Office (CSO) every 5 years, which quantifies the number of households without a current account. The HBS is a representative sample of 7,000 households in Ireland. This survey found that 23% of households did not have a current account in 2005 and this had fallen by 10% from 2000¹⁰.



The graph shows that banking exclusion is clearly a poverty issue. In 2005, 61% of households in the lowest income decile had no current account compared to 2.7% in the highest income decile¹¹.

⁸ Eurobarometer 60.2 and 2003.5

⁹ European Commission. 2008. op. cit.

¹⁰ Central Statistics Office. 2007. *Household Budget Survey 2004-2005, Final Results* Cork. Central Statistics Office.

¹¹ Central Statistics Office. 2007. *Household Budget Survey 2004-2005, Final Results* Cork. Central Statistics Office.

Women and Poverty

Poverty is one of the key reasons why women are financially excluded due to their income and employment status. The most recent figures on poverty in Ireland for 2008 show that women are particularly vulnerable to poverty:

- 14.9% of women are 'at-risk' of poverty and 4.5% are living in consistent poverty. Consistent poverty refers to the proportion of people who are 'at-risk-of-poverty' and experience two or more of a list of 11 deprivation indicators¹².

Among these women, there are certain groups who are particularly vulnerable to poverty.

- Female-headed households are more 'at risk' of poverty (16.7% vs. 13.1%) and consistent poverty (6.2% vs. 3.1%) than male-headed households¹³.
- Over a third (36.4%) of lone parent households, which are predominantly female-headed households, are 'at risk' of poverty. They are also the household type most likely to experience consistent poverty (19.8%)¹⁴.

Women outside the labour market are also 'at risk' of poverty and at risk of being financial excluded.

- People unable to work due to illness or disability are the group at greatest risk of poverty (25.5%) and 9.7% live in consistent poverty. The most recent figures from the Central Statistics Office, covering the period beginning July 2009 and ending September 2009, show the number of unemployed females was 87,900 - an increase of 31,300 or 35.6% from the same 3 month period in 2008¹⁵. The female unemployment rate is currently 9.1% and rising¹⁶.
- The poverty statistics also show that those on home duties, which are also predominantly women, are another vulnerable group ('at-risk' of poverty – 26.3%; consistent poverty – 12.0%)

Employment is the key route out of poverty. The increase in female employment is one of the main reasons given for increased numbers accessing financial services. The female participation rate in Ireland is now 54.3%¹⁷. Notwithstanding this progress, a substantial number of women are working in the flexible labour market as part-time workers or on temporary contracts which makes them at greater risk of poverty and hence of being excluded from financial services.

- For example, of those women currently in part-time work, 6,700 are part-time 'underemployed'; that is to say, they are looking and available for another job and have explicitly stated that the hours worked currently are "too few".

Our qualitative research highlighted a number of vulnerable groups of women at risk of financial exclusion. These include: lone parents, members of the Traveller community, ethnic minorities, homeless women and women with a disability.

Societal factors

¹² Central Statistics Office. 2009. *Survey on Income and Living Conditions (SILC) in Ireland, 2008*. Cork: Central Statistics Office.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Central Statistics Office. 2009. *Quarterly National Household Survey: Quarter 3, 2009*. Cork: Central Statistics Office.

¹⁶ Ibid.

¹⁷ Ibid.

As well as income and employment status, there are a number of factors which explain reasons for high levels of banking exclusion, particularly among women. These are divided into societal, supply and demand factors.

- In 1994 the first Anti-Money Laundering Directive was transposed into Irish legislation under the Criminal Justice Act. As a result, financial institutions are required to obtain 2 separate documents (usually a passport/driving licence and a utility bill) from potential customers to prove their identity and address. This is the main barrier for low-income consumers in accessing bank accounts in Ireland. Many low-income women do not have a passport or driving licence as they do not travel or drive. For married and cohabiting women, producing a utility bill is particularly difficult as utility bills are often in their partner's name and women living in private rented or temporary accommodation also find this a challenge.
- Government stamp duty on payment cards, although reduced in recent Budgets, is still a cost barrier at €5 for a combined ATM/debit card.
- The number and complexity of financial products and providers has increased in Ireland. While beneficial for some consumers, this can lead to confusion, particularly among low-income consumers.
- The demographics of the population are changing which has an impact on banking exclusion.
 - The growing number of older people, particularly older women, are likely to be excluded from new technology
 - Increases in divorce and separation as well as widowhood particularly impact on women as often financial products have been in their partner's name. Furthermore, these women can be left with responsibility for repaying debts or loans taken out by their partner.
 - Even marriage can increase women's likelihood of financial exclusion as research in the UK has found that some married women close an account in their own name when they give up work to have children
- Paying social welfare in cash can deter people from opening a bank account. Female social welfare recipients and social insurance recipients often opt for cash payments. In 2008, 43% of those receiving Child Benefit and 53% of One Parent Family Payment recipients were not receiving their payment electronically¹⁸.

Supply factors

In relation to supply factors:

- Geographical access is an issue for low-income consumers who live in disadvantaged areas not served by banks, or those in rural areas who have difficulties accessing banks. This is a particular problem for women who do not drive and have to depend on poor public transport.
- Access to banking services has improved due to the increase in the number of ATMs and developments in telephone and Internet banking. However, these developments have not necessarily increased access among low-income consumers as they face difficulties accessing money at ATMs (for example ATMs being out of order and not being able to take out small amounts of money). In our research, this proved a particular problem for women who could not get money out to do shopping for their families and did not have other means of payment such as debit or credit cards.

¹⁸ Department of Social and Family Affairs. 2009. *Statistically Information on Social Welfare Services 2008*. <http://www.welfare.ie/EN/Policy/ResearchSurveysAndStatistics/Documents/2008stats.pdf>

- Many low-income consumers are also excluded from telephone and internet banking and payments due to their low income (and hence lack of access). We found high levels of technophobia, especially among our female respondents.
- Despite a move towards 'free' transactional banking, penalty charges for unauthorised overdrafts, failed standing orders/direct debits and bounced cheques remain a barrier to low-income consumers and deter them from opening up bank accounts.
- Terms and conditions attached to current accounts, such as a minimum balance requirement, can also discriminate against low-income consumers.
- Some people risk becoming unbanked as a result of a poor credit rating, and we have recent reports of banks closing accounts when customers have asked for a reduced repayment plan.

Demand factors

In our research we also found a number of demand barriers, or what we refer to as self-exclusion.

- People on low incomes, particularly female-headed households, often prefer to operate a cash budget as they feel they have more control over their limited resources.
- Some also feel that banks are not interested in people on low incomes, particularly lone parents, social welfare recipients, homeless people, members of the Traveller community and asylum seekers.
- Others feel that it is unnecessary to have a bank account to manage a small budget.
- The low-income consumers we met, particularly female respondents, often lacked the confidence to engage with banks and felt mistrustful of financial services.
- Some felt banks are not interested in poor people; and
- Low levels of financial capability are also a problem.

Consequences for low-income women

The consequences of financial exclusion for low-income women are particularly stark. This is because different households manage their money in different ways. But the new research we have commenced¹⁹ on *Managing a Low Income within the Electronic Economy* shows that in low-income households the female is usually in charge of the household budget and manages the household resources by what we refer to as the 'whole wage/allowance system'. Therefore, the negative consequences of financial exclusion particularly impacts on the female head of a low-income household. Within a marriage or co-habiting couple this can lead to tensions between the couple when the male partner thinks there is enough money to make ends meet, or uses a considerable portion of the household income for his own purposes and the female has to struggle to cope.

- Managing these limited household resources outside the banking system has become more difficult. For instance, women on low incomes could receive weekly payments (such as the One Parent Family Payment), monthly payments (e.g. child benefit) and annual payments (e.g. clothing and footwear allowance) and this can be challenging to manage without a bank account.
- Women without bank accounts lack security in holding and storing their money, which is therefore at risk of loss or theft.

¹⁹ Written 2009

- Bill payment can be more difficult and costly without a bank account, given that an increasing number of companies require bills to be paid by direct debit or standing order and often offer discounts for those paying by these methods
- Managing low incomes outside of the mainstream financial services can result in higher charges for basic financial transactions such as money transfers or cheque cashing.
- Lack of a bank account limits access to affordable credit which means that those on low incomes, often women, turn to moneylenders and other sub-prime providers who charge high interest rates.
- It is more difficult to accumulate savings and assets for the future, which can result in people falling into poverty when circumstances change (e.g. loss of job, illness, and of particular importance to women, divorce and separation).
- Lack of home contents insurance means that unexpected events (e.g. fire, burglary) will further compound social exclusion and may lead to over-indebtedness
- Women without a bank account have limited access to employment (as a bank account for receipt of wages is a basic requirement of most employers).
- Lack of access to financial advice can mean that women miss out on information that could improve their financial situation.
- Financial exclusion can therefore not only prevent women from escaping from poverty but can also result in women falling into poverty.
- Finally, financial exclusion is both a cause and consequence of over-indebtedness which I will talk briefly about now.

Defining over-indebtedness

Discussions on debt are becoming increasingly prevalent in the current economic climate and one of the key differences between the current recession and that of the 1980s is the levels of individual debt. But at a policy level it is crucial to distinguish between indebtedness - which refers to secured and unsecured borrowing which may not cause a problem for the consumers concerned - and over-indebtedness - which is defined in a forthcoming²⁰ publication from Combat Poverty as:

a situation where a household's net income, including its realisable assets, is persistently insufficient to meet essential expenses and deferred payments as they fall due without recourse to further borrowing, charity or gifts.²¹

The most recent figures we have are that 8% of households in Ireland are over-indebted but obviously these figures are increasing.²² The issue of over-indebtedness is also a poverty issue as research carried out in Ireland by Stuart Stamp showed that while more affluent households in Ireland can experience over-indebtedness poorer households are much more likely to be in persistent and serious debt (e.g. utilities) and to be going without basic essentials in addition to experiencing over-indebtedness.²³

²⁰ Written 2009

²¹ European Commission. 2007. *Common Operational European Definition of Over-indebtedness*. Brussels: European Commission

²² Stamp, S. 2009. *A Policy Framework for Addressing Overindebtedness*. Dublin: Combat Poverty.

²³ Stamp, S., 2006. 'Research Highlights Need to Focus on Higher Persistent Debt Risk to Poor Households'. *Action on Poverty Today*. 14: 12–13, Autumn.

The link between over-indebtedness and financial exclusion

So how do the two related but distinct issues of financial exclusion and over-indebtedness interact?²⁴

Those on lower incomes are at high risk of being both financially excluded and over-indebted. Consequently, both groups also face difficulties participating fully in economic and social life.

Financial exclusion can cause over-indebtedness among women:

- as women can only access financial products at prices they cannot afford (e.g. high cost credit; cheque cashing)
- women lack the safety nets (e.g. savings, assets, insurance etc.) to cope with unexpected shocks (e.g. illness, divorce, separation)
- Women lack a basic money management tool (i.e. no buffers)

Financial exclusion can also be a consequence of over-indebtedness among women where:

- Women are refused access to financial products because of their poor credit history or bank accounts are closed because of defaults
- Women are unable to settle their debts and make a 'fresh start'
- Women may also not take up financial products because they are inappropriate to the needs of people with debts (e.g. no basic bank accounts)
- Some women may withdraw from social and financial life because of fear, shame, disappointment or resignation as a result of debt

Conclusions

- In the current economic climate financial exclusion and over-indebtedness are likely to increase. At the heart of the problem is low income and innovative measures are now needed in order that welfare policies can protect people from poverty.
- Therefore financial exclusion and over-indebtedness need to become a policy priority in Ireland like they are in other European countries and for the European Commission. They are also two related but different issues which need to be addressed separately. Combat Poverty has recommended several times for a Steering Committee to be set up, including all the key stakeholders, to address these issues in a comprehensive way.
- Combat Poverty has also set out a range of recommendations published in our policy statement. But it is important to underline that financial services need to develop a range of affordable and appropriate financial products which are tailored to meet the needs of vulnerable groups, including women. European research has shown that 'one size' does not fit all.
- In developing a response to over-indebtedness we need a more comprehensive approach which looks at a range of preventative and curative measures so that we move away from our uni-dimensional solution to debt – that is the Money Advice and Budgeting Service (MABS) as MABS cannot take on the responsibility for the range of issues.
- We need to remain aware of the impact of demographic factors such as gender, household status and marital status on financial exclusion, since if we just rely on household level

²⁴Based on Gloukoviezoff, G. 2007. *The Link between Financial Exclusion and Overindebtedness*. <http://www.fininc.eu/gallery/documents/working-papers/working-paper-financial-exclusion-over-indebtedness-final.pdf>

statistics we ignore intra-household inequalities. So when a single member of a household has access to an account, other members become highly dependent and in the event of conflict and/or separation 'these inequalities have highly significant financial consequences'.²⁵

²⁵ Gloukoviezoff, G., 2004. 'The "Caisse d'Epargne" and Households' Financial Exclusion. Which Actions Should Be Taken and What Are the Prospects?'. Paper presented to the Access to Finance Conference, Brussels, 28 to 29 October. Brussels: World Savings Bank Institute – The World Bank.

Women: The sub-prime barometer

Dr Pauline Conroy

Introduction

The pattern of poor women's borrowings and debts was a good barometer of an impending debt crisis. This arises because globally, women actually or effectively head the majority of poor households. This is the case for Ireland as it is for many other parts of the globe. When the middle classes slow down their borrowing, poor households with few tangible assets are a great substitute. Predatory lending to the very poor and the working poor at unsustainable rates of interest is what originally triggered the collapse in US financial services. During 2007 and 2008, women's networks and organisations in the United States were examining and signalling the impact of subprime lending on women and bringing it to the attention of their public representatives in the US.²⁶ By Summer 2008, Heidi Hartmann noted that:

Women of all races are more likely to hold sub-prime mortgages than white men, but African American women fare particularly badly, with approximately 60 percent holding sub-prime mortgages.²⁷

By 2009, the powerful National Governors Association were arguing for Federal support to Government sponsored enterprises which would offer a wider range of housing options than merely purchase through mortgages.²⁸

The debts of low income households to buy houses and make ends meet were vacuum packed along with so-called 'responsible lending' and sold off to debt purchasers, entering the financial food chain and permeating and contaminating it with unknown amounts of toxic debt. The financial chain is no different from the food chain. Contamination often involves slaughter and so it was with the banking and credit institutions, they began to collapse- some were left for dead and others got revived through recapitalisation investments from the taxpayers.

The poor are an extremely lucrative source of considerable profit, even in some cases of unjust enrichment. That was the view taken by consumer lobbies in the US when they campaigned against Warren Buffet's company Berkshire Hathway which had a ten per cent interest in a predatory loan network run by H & R Block Inc. Campaigners persuaded statewide public sector pension funds to withdraw, or threaten to withdraw, investments from these companies since

²⁶ National Council of Women's Organisations (2008) The Female Face of Foreclosure – Congressional Briefing, Washington, DC, July 25. Women of Colour Policy Network (2009) New York, Blog, February 23. Sharon L. Secor (2007) Sub-Prime Lending, Women and the Foreclosure Crisis *American Chronicle*, October 26.

²⁷ Heidi Hartmann (2008) The Impact of the Current Economic Downturn on Women, Institute for Women's Policy Research, Washington DC. IWPR Paper No.B260, June.

²⁸ National Governors Association (2009) Policy Position on Housing Finance, position EDC-12 adopted at their Winter meeting 2009.

they allegedly exploited the poor, through a system of cheque cashing and loans. H&R Block responded by offering one million free bank accounts to the unbanked.²⁹

Findings of the Consumer Federation of America on Gender

The Consumer Federation of America carried out a large research study into the gender disparity in sub-prime loans in the US covering 4.3 million loans taken out during 2005 and using a Disclosure Act to obtain access to the data.³⁰ The results are startling. Although women in general have slightly higher credit scores than men, women were greatly over represented among subprime loan holders.

They found that:

- * women are more likely to be sold a subprime or high cost mortgage product compared to men
- * women are significantly over represented in the pool of subprime mortgages compared to men
- * women are likely to receive a sub-prime mortgage regardless of their income, compared with men
- * women of colour are the most likely to receive a subprime mortgage compared with white men

The statistics are astonishing. African American women were 256.1 per cent more likely to receive subprime mortgages than white men and Latino women were 177.4% more likely to receive subprime mortgages than white men. The monetary implications are vast. Women were paying or supplying to mortgage houses, \$85,000 (subprime) or \$186,000 (high cost) more than the average borrower over the life of a loan. Is it any wonder that women were targeted by predatory lending? This avaricious sex discrimination is at the heart of the current banking crisis. Among the findings was that the greatest gender disparity was between high income women and men. Sex discrimination was not a 'mere' poverty issue. It affected all income levels of women. The Consumer Federation of America proposed stricter enforcement and sanctions against discriminatory credit practices and strengthened consumer protection to curb predatory lending.

Lone parents and Debt

OPEN – the national network of lone parent groups, the Money Advice and Budgeting Service and the Society of St. Vincent de Paul commissioned a study *Do the Poor Pay More?*³¹ which was

²⁹ Pauline Conroy and Helen O'Leary (2006) Credit firms target the poor, *Business and Finance*, 20th April, pp 50-52, and P. Conroy (2006) Fleecing the poor financially, *Business and Finance*, 16th November, p.60.

³⁰ Allen J. Fishbein and Patrick Woodall (2006) Women are Prime Targets for Subprime Lending: women are disproportionately represented in High-Cost Mortgage Market, Consumer Federation of America, Washington DC.

³¹ Pauline Conroy and Helen O'Leary (2006) *Do the Poor Pay More?* OPEN, MABS and SvdeP.

a follow up to OPEN's observations on debt in low-income neighbourhoods during 2004-5. The study examined the profiles of clients coming to seek advice from the Money Advice and Budgeting Service. The study was particularly interested in whether households ran up arrears of bills or resorted to moneylenders, credit cards or overdrafts on bank accounts to meet their needs. Moneylending or home based credit figured in the lives of lone parent households. But this was not necessarily a consumer choice.

Do lone parents, who made up the majority of MABS clients – 70% - in 2000 and 73% in 2004 – have a choice from whom to borrow €500? Can they shop around from one home credit company to another? This is a delusion. Territories are carved out by money lending operations. There was little evidence of competition or use of Credit Unions by lone parents. Some had no bank accounts and used other people's bank accounts when payments had to be made by Direct Debit to obtain a service.

Mother headed households in the study tended to borrow for their children's needs and to pay daily outgoings and utility bills. Much of their debt consisted of arrears to other para-state entities such as rent arrears to Dublin City Council and arrears of Electricity and Gas. Mothers in the study were not aware that if they used a pay-as-you-go meter installed in their house for heating and cooking, the price per unit of energy was higher than for non-metered customers.³²

The largest home credit firm in Ireland is actually an international firm.³³ According to its 2007 Report, the profits of Provident Financial PLC - the largest home credit firm in the UK/Ireland market rose during the financial crisis. Profits before tax were £53 million in 2009. This has been possible even though Provident rejects about 80% of loan applicants using the internet. The rise in demand for small loans and short-term loans by ever-greater tranches of the population is a fact underlined in its 2008 Preliminary results. Provident gained 0.55 million new customers during 2008 adding to its 1.7 million customers who are mainly in the UK and Ireland.³⁴

Provident operates through:

*'a network of over 300 branches and related administrative facilities and provide small, unsecured loans, typically for sums of between £100 and £500.'*³⁵

Provident describes itself as a non-standard lender. It would be interesting to know more about its profits and operations in Ireland. This is not available. It is not obliged to produce such information. An EU company with operations in a second country may, under specific conditions, amalgamate its results for one or more countries or regions. This is not particularly transparent but is perfectly lawful.

The Money Advice and Budgeting Service (MABS) know a lot about household debt. Their offices across the country, mainly staffed by experienced women financial advisors, are able to unravel the spaghetti mess of debt in which some families find themselves. MABS is a free, independent and confidential public service. MABS – held up as an example of good public policy in a European Union peer review on social inclusion – was informed in 2008 that it may be

³² See also P. Conroy and Helen O'Leary (2008) 'A Matter of Life and Debt' in U. Barry, *Where are we now? Feminist perspectives on women in contemporary Ireland*, TASC, Dublin.

³³ There were 47 licensed moneylenders in Ireland in 2007 and 52 in 2010.

³⁴ Provident Financial plc, publication of Preliminary Results for 2008 on 3.03.09 and 2009..

³⁵ Provident Financial plc, description of its operations on its website 2009.

incorporated into the Department of Social and Family Affairs, rather than remain, relatively autonomously, under its auspices.

The resources to debate the debt issue in low income families

The resources available to debate the issue of debt in Ireland are paltry. The majority of research and documentation is focussed on the low-income consumer of loans and not on the suppliers, or the financial relationships between the two. This is all the more surprising as the debt crisis has filled the mass media day after day concentrating on retail banking. An estimated 12 per cent of households have no bank account – they are unbanked – and it is here that we find the absence of transparency in practices.³⁶

- There is a Financial Regulator's report on the Money Lending industry.³⁷ It is just 15 generously laid out pages. The report recommends against an interest rate ceiling on loans, some of which are interest rates of 100 or 188 per cent.
- There has been a consultation paper on the licensed money lending industry, which attracted only 8 replies from all of Ireland.
- There is a new 2009 Consumer Protection Code for Licensed Moneylenders, which permits the charging of interest rates of 150 and 180 per cent on small loans, with no cap. The majority of the 52 Court Licenses for money lending contain specific conditions, waivers and opt-outs such that the consumer has no security of standard.³⁸ The Code came into operation on 30 September 2009.
- There is a promise of enforcement of the Code under Part III of the Central Bank Act of 1942. This is impossible. Enforcement will be under the Central Bank Act 1942 as amended by the Central Bank and Financial Services Authority of Ireland Act 2004, which does have a Part III – 22 pages in length and not written in plain English. These Acts may in turn be amended or repealed in sections, to reform financial regulation during 2009.
- Under the new Consumer Protection Code, home credit companies have been instructed to accumulate very large quantities of data, tracking sheets, reporting and other paper trails from 2009 onwards. This will permit monitoring of home credit. It is not a substitute for enforcement. There has been just one prosecution in relation to home credit – ever. A degree of sympathy can be expressed with the *Association of Home Credit Providers* in Ireland that lever arch files of paper may deter competition rather than enlarge consumer choice.

Women and decision-making

The gender bias in financial services is visible at the highest levels.

- The Central Bank of Ireland is composed of 12 governors of whom 1 is a woman.

³⁶ C. Corr (2006) *Tackling Financial Exclusion in Ireland and exploratory study and policy review*, Combat Poverty Agency, Dublin.

³⁷ Financial Regulator (2007) *A Report on the Licensed Moneylending Industry*, IFSRA, Dublin.

³⁸ For example, in some conditions, loan repayment visits can be made to relatives of the borrower, or can be made to the place of employment of the borrower. The collection of loans can be assigned to another agency.

- AIB (2008) had a Board of 15 persons, of whom 2 were women.
- Bank of Ireland's Directors 2009 come to 15 persons, of whom 2 are women.
- At the European Central Bank, just one of the 21 Governing Council members is a woman.

So in terms of economic decision making, we have 57 men and 6 women. This is not about equality, it is about stupidity in imagining that financial services do not need the talents and vision of half the population when the patriarchy of bankers have shown unfettered greed and unjust enrichment.

The discriminatory tendency in financial services is amplified by the pay of women in financial services compared with men. Women's earnings are only 73% of male earnings - the highest gender pay gap in 12 economic sectors (2007).³⁹ The lowest gap is in public administration and defence, precisely the sector where employment is to be cut.

Is Ireland unique?

Financial exclusion is extensive across the European Union. In the European Union of 15 countries, 10 per cent of adults aged 18 years and over had no bank account at all. These are the unbanked. A further 8 per cent were marginally banked – that is, they had no cheque book or payment card. In Ireland about 19 per cent are marginally banked and over 20 per cent are unbanked.⁴⁰

In September 2009, the European Commission published responses to its consultation document on establishing basic bank accounts in EU countries.⁴¹ The consultation process attracted responses from Member States, local authorities, Civil Society Organisations, Academic bodies and think tanks. There was a wide range of views as to the causes of financial exclusion and convergence as to the need to find a form to redress this deficit such as in a Basic Bank Account.

In Ireland, apparently, work has begun between the Banks to develop a Basic bank Account. This is to involve an industry wide approach as part of the National Payments Implementation Programme. The location of the debate within a clearinghouse infrastructure body for payment transactions is bizarre. It implies that the unbanked are a technical issue rather than people financially excluded.

Concluding proposals

What we need is some of the work and evidence in Ireland done by the UK Cabinet Financial Inclusion Taskforce. The latter mapped out the UK by where there was a Bank or an ATM and where there was not by locality, whether the ATM charged for withdrawals or not, whether it was street or shop based, the price of locating an ATM in an area, the miles between ATMs. The Taskforce forced out evidence of financial exclusion from mainstream banks including Bank of

³⁹ CSO (2008) *National Employment Survey 2007*, Dublin, p.10

⁴⁰ *Financial Inclusion: Ensuring Access to a Basic Bank Account – Consultations Document*, European Commission, 6 February 2009, Brussels, MARKT/H3/MI D(2009).

⁴¹ European Commission (2009) *Summary of Responses to Consultation, Internal Market, Financial Services, Retail Issues*, 14.September, 2009.

Ireland and Allied Irish Bank UK. This would be a geographical map of financial provision to combat financial exclusion in Ireland.

VAT should be removed from the utility bills of welfare-reliant households - this is an indirect tax which they should not be obliged to pay from subsistence level income supports.

Interest rates on money lending transactions should be capped. The interest rates charged - over 100% - are disproportionate to the risk at stake, and particularly as interest rates are now falling. Most branches of industry and services take risks and they do not need a 100 percent mark-up to make a profit.

There should be an inquiry initiated by the Financial Regulator and conducted by the Competition Authority as to whether there are one or more dominant players on the home credit market, such that there is an abuse of a dominant position and effective discouragement of competition. The Regulator believes that there is competition and that customers should shop around. Such a study would be carried out by, for example, the market studies division of the Competition Authority.

If mainstream banks do not want 10 or 20 per cent of potential customers, then the presence of Government appointees on Bank Boards should insist on this. After all, mainstream banks are getting guarantees from us the taxpayers – so we should ask that all taxpayers, citizens and residents be entitled to a mainstream banking service.

The mainstream banking service could take the form of a Basic Bank Account, as argued by the Combat Poverty Agency (now incorporated into the Department of Social and Family Affairs). This account would be a Current Account, have no Stamp Duty, no transaction costs. It would have an electronic facility and a Bank Card for withdrawals.⁴²

The country has been in the grips of a financial crisis and a crisis of financial services and regulatory institutions, in recent months. Many poor and low-income families, especially those headed by women, are perched on the edge of penury most of the time. There is much to learn from their capacity to survive and much to do to incorporate this minority into the mainstream.

⁴² See Combat Poverty (2008) Tackling Financial Exclusion in Ireland, Policy Statement, September. C. Corr (2009) 'Combat Poverty welcomes basic banking services for low-income consumers', *Action on Poverty Today*, Combat Poverty Agency, Spring, p.6.