

**‘Financial Exclusion and Banking Regulation in the United
Kingdom:
A Template Analysis.’**

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Abstract

This thesis examines the self-regulatory nature of the United Kingdom banking industry in relation to its effectiveness at promoting financial inclusion. This exploration is conducted through an examination of the changing culture of the banking industry from the 1600's to the present day whilst considering the effect banking regulation has played on financial exclusion and exploring the expectation gap between bank delivery and customer expectation. The thesis also examines in detail the characteristics of financial exclusion within the United Kingdom in relation to the self-regulatory mechanism, which regulates the industry, namely the Banking Code. Furthermore the thesis questions whether banks have a social responsibility towards customers who experience financial exclusion or difficulties.

This thesis uses template analysis in order to analyse data collected through interviews and surveys. Through template analysis the researcher has produced two main templates which can be used to illustrate the process of the development of financial exclusion and its relationship with banking regulation. Stemming from these templates the thesis puts forward four recommendations which could be adopted by the banking industry to help promote financial inclusion within the United Kingdom.

The thesis makes two essential contributions to knowledge. The first is that financial exclusion has been explored using a novel methodology, namely, template analysis and a greater understanding of this social phenomenon has been uncovered. The second contribution to knowledge is that the research has shown there is an expectation gap between customer and banker which has arisen from the cultural evolution of the banking industry and in turn this has helped promulgate financial exclusion. Financial exclusion is therefore a complex and diverse problem.

The findings in this thesis could be used for further research encompassing an international dimension as well as looking at other areas of the United Kingdom's financial service providers such as insurance. Therefore this piece of research can be used and adapted to examine further avenues of financial exclusion of a cross industry sector and global scale.

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*To Mum and Dad with love.
And now for Bruce who makes my world complete.*

Contents

Chapter One:	8
Introduction	8
Introduction	8
Research aims	9
The changing culture of the banking industry	10
An overview of the thesis	12
Definition of key terms	18
Summary	19
Chapter Two:	20
Methodology	20
Introduction	20
Epistemology and ontology of the research	20
Qualitative research and the research questions	23
Justification for a qualitative study using template analysis	26
The qualitative methods of data collection	30
Interviews	30
Questionnaire surveys	32
Limitations and possible bias	36
Ethical considerations	38
Chapter Three:	41
The Changing Culture of Banking Practices from 1600 to the Present Day	41
Introduction	41
Literature review	41
History of banking within the United Kingdom	48
Bank failure	54
The growth of the savings bank	55
Societal influences	56
Regulation	56
Recent legislation	57
Financial Services Act 1986	58
Bank of England Act 1998	60
Financial Services and Markets Act 2000	60
The Electronic Communication Act 2000	63
The Regulation of Investigatory Powers Act 2000	64
The Postal Services Act 2000	65
Categories of banks	67
Modern banking practices	69
Lack of a suitable definition	69
Branch closures	71
Job losses	75
Internet and other forms of banking	76
Bank charges	79
Profits	80
Conclusion	82
Chapter Four:	83
Government and Banking Policy towards Financial Exclusion	83
Introduction	83
Social trends and facts of financial exclusion	85
Current account	86
Savings account	87
Insurance	88
Short term credit	89

Literature review	92
Social Exclusion Unit – policy action team reports one to eighteen.....	100
PAT 2 Skills	101
PAT 3 Business	102
PAT 4 Neighbourhood management	103
PAT 9 Community self- help.....	103
PAT 11 School plus.....	104
PAT 13 Shops.....	105
PAT 14 Financial services.....	105
PAT 15 Information technology.....	109
PAT 16 Learning lessons.....	110
PAT 17 Joining it up locally.....	111
PAT 18 Better information.....	113
The banking industry’s response to financial inclusion.....	116
Conclusion.....	120
Chapter Five:	122
Rules and Regulation	122
Introduction	122
Literature review	122
Bentham and Austin - command theory of law	127
The nature of rules.....	129
Types of self-regulation.....	134
Advantages and disadvantages of self-regulation.....	137
Self-regulation: the advantages.....	137
Self-regulation: the disadvantages.....	138
Legislation: the advantages	138
Legislation: the disadvantages.....	139
Key factors for self-regulatory good practice: How does the Banking Code measure up?	139
Alternative regulations affecting the banking industry.....	143
Financial Services and Markets Act 2000 (FSMA) – statutory objectives.....	145
Conclusion.....	148
Chapter Six:	150
The United Kingdom’s Banking Regulation: The Banking Code	150
Introduction	150
History of the Banking Code	150
The old Banking Code.....	150
Banking ombudsman report 2000 -2001	153
Financial ombudsman service 2001-2002	154
NCC report on how the Banking Code of practice works for customers in hardship.....	156
Banking code standards board 2001/2002	157
The Cruickshank report: competition in UK banking.....	159
Recommendations for reform – review group 2001 DeAnne Julius report.....	161
Key areas	163
Easy account switching	163
Better customer information	165
Clearer code review	166
More information for the customer on code compliance.....	166
Responses	169
The way ahead.....	169
Kempson’s independent review of the Banking Codes	170
Coverage of codes	170
Presentation and structure of the codes	171
About this code.....	172
BBA ‘s response to the review	174
The new Banking Code March 2003	174
Case Study One: Elderly Low-Income Households	178
Case Study Two: Single Mothers	178
Case Study Three: Ethnic Minorities.....	178

Banks in breach of the Banking Code	182
Conclusion.....	183
Chapter Seven:	185
Corporate Social Responsibility	185
Introduction	185
Literature review	185
Banks and the United Kingdom’s infrastructure	189
Ethical aspects of businesses – the banks’ perspective.....	191
Corporate social responsibility	193
How does the UK banking culture measure up?.....	196
Barclays’ Bank Plc:	198
The Co-operative Bank:.....	202
Conclusion.....	206
Chapter Eight:	208
Template Analysis	208
Introduction	208
Coding	210
Creating a template.....	211
Template interpretation and presentation	214
Data collection for template analysis.....	216
Conclusion.....	227
Chapter Nine	228
Data Analysis and Process Building	228
Introduction	228
Data analysis.....	228
Banking Code questionnaire.....	228
Statistical findings	229
Process building.....	240
T.1	241
T.3	245
T.4	248
T.2	251
Summary	268
Chapter Ten:	269
Conclusion and Recommendations	269
Conclusions	269
Recommendations	273
Recommendation 1, 3 and 4	273
To create a specific Banking Code for financial difficulties	273
Recommendation 2, 3 and 4	278
To increase financial education nationally	278
Areas for future research	280
Concluding remark	282
Bibliography.....	282
Acts of Parliament	294
Case Law	295
Appendices	296
Appendix 1 Industry Interviews (verbatim)	297
Appendix 2 Financially Excluded Interviews.....	319
Appendix 3 Questionnaires	336
Appendix 4 PhD Research Poster for Questionnaires	342

Chapter One:

Introduction

Introduction

Since the 1600s, banks, in some form or other, have been an integral feature of the United Kingdom's infrastructure. However, it was not until the twentieth century that access to banking facilities became available to the majority of the population. This increase in the supply of and demand for the banking industry's facilities involving the ordinary person has considerably changed and shaped the face of the banking industry. Historically, banks were considered to be for the benefit of the rich, but with cultural and evolutionary changes, not only within society but also within the banking industry, the facilities offered by banks have become accessible to the majority in society. Although there has been an enormous increase in the number of people with banking facilities over the last fifty years, there has also been since the 1970's a change occurring within the banking industry. This cultural evolutionary change comes in the form of financial exclusion and the lack of either basic financial products or the total non-participation of some members of society within the financial market. It is this cultural evolutionary change which is examined in this thesis.

In this chapter, the aims and objectives of the research are outlined and key terms and definitions are introduced and the structure of the thesis is outlined. However, it is important at this stage to note that the research is based on two main constituent elements. The first, a normative element, is the presumption that there are people in the United Kingdom who are financially excluded and that the regulation and social responsibility of the banking industry is not sufficient to induce financial inclusion.

The second, an empirical element, examines the phenomenon of financial exclusion with the aim of determining appropriate policy recommendations.

Research aims

Through this research, the researcher will question whether banks as corporate entities hold a social responsibility towards society. There will also be a detailed exploration of the rules and regulations relating to the banking industry and how rules in general are used as a mechanism for control. The Banking Code, the nature and characteristics of financial exclusion and any economic justifications a bank could put forward in response to accusations of failing to meet social obligations will also be examined.

The researcher will explore whether the level or nature of a bank's social responsibility towards society has altered in any way over the last few decades and whether any changes noted correlate with changes of any other form, such as an increase in regulation.

This thesis aims to provide an answer as to whether or not the banking establishment within the United Kingdom has developed to such an extent so as to have circumvented their social responsibility towards society. It also aims to investigate, whether or not the adoption of an alternative approach to regulation of the banking industry, possibly based on differing international models, would forge a more socially responsible banking system within the United Kingdom.

The researcher chose deliberately not to make international comparisons because the main aim of this thesis is to explore the United Kingdom's Banking Code in relation

to financial exclusion. However, the preliminary research around this area does acknowledge that an international comparison could be made with countries such as the United States, which has enacted a Community Reinvestment Act 1977 (CRA 1977) as amended; Canada, which wishes to implement an Act similar to that of the CRA 1977; or Australia, which is also campaigning for a reform of financial service regulation to take account of financial exclusion.

The aims of this thesis are to:

- question whether banks as corporate entities hold a social responsibility towards society
- assess how the banking industry's cultural evolution has led to an expectation gap between the customer and the banking industry regulation
- question whether the regulation currently in place in the banking industry adversely affects people who are classified as being financially excluded
- put forward recommendations for reform to help promote financial inclusion and financial education.

The changing culture of the banking industry

Banks in the United Kingdom were historically seen as a facility used only by the rich or upper classes within society. However, through social and cultural evolution the public perception of banks has changed and they have become an integral feature of society accessible to the majority of the population. The banking industry experienced a massive rate of expansion in the late nineteenth and early twentieth centuries coupled with a cultural change in customers' attitudes toward the use of the banks' facilities. Banks became not just an institution of the middle and upper classes but a

facility that was required by those who were financially mobile. The United Kingdom saw a dramatic increase in bank branches in nearly every city, town or village across the country over the last 50 years. People were using banks to manage their daily finances and to organise their money in a manner which had never been seen before.

These changes reached a plateau in the 1980s which saw only limited technological advances and the banking industry remained relatively unchanged for many years. However, the second half of the twentieth century saw the emergence of what could be the greatest changes the banking industry will ever see. New technologies were introduced to modernise the banking industry, including new systems, methods and techniques which ordinary people could employ to control their own finances.

This was the catalyst for change. The banking industry are now integrally linked to both technology and to society through society's reliance on the banking industry. These technological advances have developed rapidly and will continue to do so. Cranston notes these changes by stating that:

What is happening is a rationalisation of branches, a change in the nature of some branches, greater automation, and telephone banking. (Cranston 1997 p.2)

As such, the traditional role of the bank, the bank manager and the products that banks used to offer have been considerably updated and modernised. Technology has taken the place of these aspects of banking today. As such the term banking can no longer be identified with the historical business of the banking establishment within the United Kingdom. However banking has been revolutionised by modern technologies and these changes have had dramatic consequences. Although it can be said that the majority of people in society are financially included, there is an ever growing

percentage of people who experience financial exclusion and it is this cultural and technological change and the increase in financial exclusion which is examined in this thesis.

The legal nature of the regulation of the banking industry is discussed within this thesis in relation to these cultural changes and increase in financial exclusion. The regulation of the banking establishment has also evolved and developed. Until 1979 and the introduction of the Banking Act, any banking institution could register as a deposit-taker because there was no structured framework to banking regulation. The Bank of England Act 1979 had two conjunctive aspects. Firstly it established a statutory requirement for authorisation by the Bank of England; and secondly, there was stricter regulation over the form, issue and content of advertisements for deposits and controls over methods and descriptions of banks.

The thesis has four main pivotal pillars of research. They are:

- Cultural evolution of the banking industry
- Financial exclusion within the United Kingdom
- The nature of rules and regulation and the Banking Code of the United Kingdom Banking industry
- Corporate social responsibility.

An overview of the thesis

Chapter 2 explores the epistemology and ontology of the thesis as well as the qualitative and quantitative nature of research. Whilst exploring these issues the

chapter sets the scene for the research of the thesis, explains the sampling procedures used, discusses possible limitations of the research and considers ethical issues.

Chapter 3 aims to show how the banking industry has developed over the last four hundred years and how these changes have affected those who are without financial products in modern day society. The development of the banking industry is important to the research because it has fashioned banking culture as it is today. The culture of the banking industry was primarily focused upon the merchant and upper classes. A bank was used for the purpose of depositors and lenders to merchants and others who could afford to use it. The bank was an icon within society; it was an important structural institution holding the social stratum together. The banks at this time did not appear to have social aims and were not used by the poor or even many of the middle classes. Today banking culture appears to dictate that banking facilities should be available to the vast majority of society and this culture has created an ethos of the bank being more than just a corporation. Today, it seems banks have to be concerned with social objectives as well as the level of profit that they are making.

This chapter also contains a literature review, which focuses on the financial revolution of the past two decades and its effect on those classified as being financially excluded. The researcher draws upon the work of Kohler (2000), PriceWaterhouseCoopers (2000) and Mullineux (1999) to illustrate the cultural changes that have taken place within the banking industry.

Chapter 4 is concerned with examining financial exclusion and the banking industry. Financial exclusion is an integral aspect of social exclusion and its meaning is

examined within this chapter. The chapter illustrates the nature of financial exclusion and what steps the government has undertaken to try to combat it. A policy review is undertaken of the Policy Action Team reports (1-18) on how the United Kingdom should tackle social and financial exclusion. Additionally, the chapter focuses upon the social trends and characteristics of financial exclusion, including an examination of three respondent profiles and the banking industry response to financial exclusion. The main aim of the chapter is to examine the nature of the problem of financial exclusion and to see what has already been done to help combat it and why there are still people in society who are financially excluded.

It is also within this chapter that the literature on financial exclusion is reviewed. The literature examined poses three main questions which are covered within the chapter:

- What is financial exclusion?
- Why are people excluded?
- What can be done to stop financial exclusion in the United Kingdom?

Chapter 5 considers various aspects of rules and regulation in relation to the banking industry and financial exclusion. As part of this examination, the researcher discusses briefly the origins of the 'rule' within a jurisprudential context. Furthermore, the researcher examines the nature of rules, discusses how the Banking Code operates in relation to the nature of rules and examines the influences of the Banking Code on the policy makers.

The objective of this chapter is to demonstrate the various methods of regulating the banking industry, both already employed and potential, and whether or not financial

exclusion and difficulties could be dealt with in a more effective manner if the banking industry were regulated differently. The chapter highlights the difficult nature of regulation by examining the differing interpretative communities that use the Banking Code. The literature reviewed within this chapter focuses upon the following aspects of banking law: statutory regulation; banking competition; the common law. It also covers the effect of the decreasing bank branch numbers, financial revolution and the vulnerability of customers. The researcher analyses the work of academics such as McGuire (1993), Ashton (2001) and Mayo (1998).

Chapter 6 is concerned with the Banking Code of conduct which is quintessential to this thesis and as such a chapter is dedicated to its examination. The chapter illustrates the Code's history and development since its introduction in 1992. The researcher examines the various reforms and alterations to the Code which culminated in the introduction of a revised code in March 2003. The researcher critically examines the Code in relation to its content on financial difficulties and its lack of application to financial exclusion. The researcher also critically explores the sanctions open to complainants should they find banks conduct to be unacceptable.

Chapter 7 is concerned with corporate social responsibility and the banking industry. In this chapter the research demonstrates that banks within the United Kingdom are an integral part of society. Banks are viewed as corporate entities which due to the growth of industrial society have become a part of everyday life, altering the preconception of the banks' into utility entities. The researcher also examines the banks' social and ethical policies in order to establish whether the banks are already fulfilling their social responsibility roles. If they can be found to be doing so then the

researcher questions whether it is necessary to increase these social obligations by incorporating all those who are presently deemed to be financially excluded. Furthermore, if the banking industry did try to financially include all members of society, what would be the implications to the rest for the financial world?

The chapter focuses upon the infrastructure of the United Kingdom; the ethical aspects of business; corporate social responsibility; how the United Kingdom's banking culture measures up to ethical standards. It also includes an examination and comparison of the ethical policies and social responsibility roles of Barclays Bank and the Co-operative Bank.

Furthermore the researcher undertakes a literature review focusing upon economic and corporate social responsibility in relation to financial exclusion. The researcher utilises the work of Chatterjee (1996) and Cannon (1994) to depict the many phenomena that stem from corporate social responsibility and financial exclusion.

In chapter 8, template analysis, which is the main method of analysis used in the empirical study, is explained and discussed. Template analysis is a method of analysing data from a textual format to create codes and categories of interrelating importance which can be interpreted by the researcher to *“uncover the real beliefs, attitudes, values and so on of the participants in their research”*. (King 1998 p.119) Template analysis is used within the research, therefore, to ‘uncover the real beliefs, attitudes and values’ of people who have experienced either financial exclusion or financial difficulties and their relationship with their banks.

In order to implement template analysis, two separate questionnaire surveys and a series of interviews were undertaken and are described in chapters 2 and 8. Although questionnaires can be viewed to be quantitative data, in this instance the researcher posed questions which allowed respondents to answer open ended questions to give qualitative data. The first questionnaire was designed for the banking industry and was distributed by post to bank branches all over the United Kingdom. The main aim of this questionnaire was to see how the banks perceived the Banking Code and how staff were trained to deal with customers who were experiencing financial difficulties.

The second questionnaire was designed to be distributed among the general public. These questionnaires, accompanied by a poster, leaflet and pre-paid envelopes, were distributed through a number of organisations, including, Poole and Bournemouth Council and the Halifax Credit Union.

Finally a series of interviews were undertaken to build upon the responses from the questionnaires and to develop concepts and phenomena and to gather data from industry. Ten in-depth interviews were with representatives of companies and the government as well as with people who are classified as being financially excluded.

Chapter 9 explores the process of template analysis and the theories and processes which emerge from the data. The researcher analyses the data through a series of templates which can then be used as an explanation for the development of financial exclusion. The researcher has created four main templates labelled T.1, T.2, T.3, and T.4. The template labelled T.2 is subdivided into six further templates, termed T.2.1

to T.2.6. The researcher also triangulates this data through the use of descriptive statistics.

Chapter 10 outlines the recommendations and conclusion of the research. Four main recommendations for reform within the banking industry and society are suggested.

Definition of key terms

Financial exclusion is a key term of this thesis and it is important to understand that the pillars of the research all focus on financial exclusion. Financial exclusion is an intangible term but relates to a person who lacks various basic financial products such as current accounts, savings accounts, loans of personal overdrafts and life insurance.

Collard, Kempson and Whyley state that;

Around 1.5 million households in Britain (7%) lack any financial products at all. A further 4.4 million (20%) are on the margins of financial services, with little more than a bank or building society account that is not much used. (Collard et al 2001 p.1)

If people are excluded from using financial products then there is a likelihood that these people may become socially excluded as well. The Social Exclusion Unit states that;

Social exclusion is a shorthand term for what can happen when people or areas suffer from a combination of linked problems such as unemployment, poor skills, low incomes, poor housing, high crime environments, bad health and family breakdown. (Cabinet Office 2001(c) p.10)

As such, it is critical to define these key terms when introducing the topic area of the thesis so that a detailed exploration can next be concentrated on.

Summary

This research demonstrates that although the banking industry and the government are working towards greater financial inclusion they will never achieve this goal until they take into account the active part they themselves play in creating the environment in which financial exclusion can develop. This thesis explores all the cultural developments, the legal nature of regulations, the importance of corporate social responsibility, financial exclusion and the Banking Code of conduct and examines from a neutral and objective standpoint the many factors which play a role in creating financial difficulties and financial exclusion. Through the use of template analysis the researcher has developed a process which describes and outlines the development of financial exclusion and recommends several areas of reform that could be used to alleviate financial exclusion and which could also be used to increase financial inclusion through the use of increasing financial education.

Chapter Two: **Methodology**

Introduction

This chapter outlines the methodological approach to the research. The aim is to explain the reasons behind the choice of qualitative techniques and data analysis using template analysis as well as the use of interviews, surveys and profiles. In addition, details of the surveys analysed in chapter 8 are presented. The chapter ends with a discussion of the possible limitations of the methods employed and a consideration of ethical issues.

A number of research tools are used to analyse the research questions posed in chapter 1, but the research is primarily a qualitative exploration of the legal regulation of the banking industry and the effects on those classified as being financially excluded. In addition, the researcher uses a quantitative statistical computer package to triangulate and validate some of the results.

Epistemology and ontology of the research

In research, there are two main philosophical standpoints taken by researchers: positivist and phenomenological. This thesis uses a mixture of both, but with a clear emphasis on qualitative methods. As Collis and Hussey (2003) state, the positivist and phenomenological paradigms are two extremes and very few researchers would operate at the extremes. Nevertheless, it was decided early on in the research that a mixture of both positivism and phenomenology would produce more valid research results.

The researcher uses quantitative methods within the positivist paradigm and qualitative methods within the phenomenological paradigm. However, the research focuses primarily on the phenomenological standpoint of epistemology, ontology and axiology.

Jankowicz (2000) states that epistemology is concerned with one's personal theory of knowing: what counts as knowledge and what does not; and, related to this, what counts as evidence and proof and what does not. Thus, epistemology is the study of the nature of knowledge. In the philosophy of the social sciences, epistemology explores how we know that we know something, while ontology explores the nature of social reality. (Miller and Brewer 2003 p.94-95) Collis and Hussey (2003) state that in positivist epistemology researchers view themselves as being separate from that being researched while in phenomenological epistemology, researchers interact with that being researched. Both viewpoints are applicable to this research as the researcher is separate from that being researched (insofar as she is not part of the financial exclusion group), yet to gather primary data essential for the exploration of attitudes and beliefs the researcher must interact with those being researched.

For the purposes of the research in this thesis, the researcher holds the view that financial exclusion is a social phenomenon in a 'phenomenological' sense and that an understanding of this phenomenon can be gained by means of a qualitative social investigation through interaction with those being researched.

The researcher explores and analyses the truths and beliefs of people who may or may not hold financial exclusion characteristics. The researcher therefore aims to uncover

new insights into financial exclusion and link these to the regulation of the banking industry and it is believed that this can only be achieved effectively through the phenomenological paradigm. Financial exclusion is an intangible phenomenon which is acutely sensitive and the researcher wishes to explore the real beliefs and feelings of people who are financially excluded. To be able to do this, the researcher needs to be able to interact with the respondents in such a way that the researcher would not affect the data that was collected. The researcher has chosen to use template analysis, a systematic (interpretative) qualitative method to analyse data, but has also triangulated the inductive research data through the use of quantitative methods, thus using a mixture of both paradigms.

The ontological stance of the thesis stems from the phenomenological paradigm. Collis and Hussey (2003) believe that phenomenological ontology assumes that reality is subjective and multiple as seen by participants in the study, where the world is socially constructed and only understood by examining the perceptions of the human actors. This personifies the researcher's aim to uncover the real beliefs and attitudes of those who are financially excluded in order to understand the causes behind the phenomenon. Therefore, from this philosophical standpoint, the research is primarily phenomenological.

However, the axiology of the research is again a mixture of positivism and phenomenology. Positivist axiology assumes that research is value-free and unbiased, and takes a scientific and clinical view of the research (Collis and Hussey 2003). The researcher does not adhere to this strict definition of positivist axiology, but believes that research should not be entered into with preconceived beliefs, values or attitudes

and that ideas should stem from the research. However, the researcher recognises that through social interaction with the world the research cannot be totally value free or unbiased, due to human nature. So consideration is given to these values and biases when interacting with the participants ensuring that the researcher's values are not being passed on to those being researched. As Collis and Hussey (2003) state, "these values help to determine what are recognised as facts and the interpretations which are drawn from them" (p. 48).

Considering the above as well as the phenomenological and positivist paradigms, the primary research question of this thesis is whether self regulation of the banking industry adversely affects the development of financial exclusion and those who exhibit financial exclusion characteristics, and whether the Banking Code regulates the banking industry sufficiently to facilitate the financial education of those who are financially excluded or in financial difficulties.

Qualitative research and the research questions

Qualitative research is used as the main method throughout this thesis. Many academics have tried to provide an all-encompassing definition to describe the essence of qualitative research, yet there has been no consensus. Qualitative research benefits from this lack of structural definition as it allows the researcher employing this method the freedom to adapt the methodology to the particular topic under examination. As Denzin and Lincoln (1998) suggest:

Qualitative researchers stress the socially constructed nature of reality, the intimate relationship between the research and what is studied, and the situational constraints that shape the inquiry. They seek answers to questions that stress how social experience is created and given meaning. In contrast, quantitative studies emphasise the measurement and analysis of causal

relationships between variables, not processes. Inquiry is purported to be within a value-free framework. (Denzin and Lincoln 1998 p. 8)

However Mason (2002) states that:

Qualitative researching is exciting and important. It is a highly rewarding activity because it engages us with things that matter, in ways that matter. Through qualitative research we can explore a wide array of dimensions in the social world, including the texture and weave of everyday life, the understanding, experiences and imaginings of our research participants, the ways that social processes, institutions, discourses or relationships work, and the significance of the meanings that they generate. We can do all this qualitatively by using methodologies that celebrate richness, depth, nuance, context, multi-dimensionality and complexity rather than being embarrassed or inconvenienced by them. (Mason 2002 p.1)

Both Denzin and Lincoln (1998) and Mason (2002) stress that it is nearly impossible to define clearly what qualitative research is, and indeed it is easier to state what it is not rather than that what it is. Qualitative research is not scientific and does not claim to be objective. Researchers recognise that they have an effect upon the research data and the subject of the research itself. Qualitative research has no definable theory or paradigm that it can claim as its own, exhibiting a wealth of different modes of study available for the researcher to choose from. The one thing that these modes of study have in common is the inherent characteristics of data. The data is largely textually based which can be taken from documents, interviews, discussions, focus groups, case studies, or participant observation, to name but a few. (Denzin and Lincoln 1998 p. 5)

As Mason opines, “qualitative research therefore has massive potential, [but] its practitioners face some major challenges”. (Mason 2002 p.1) One of these challenges stems from the notion that as the researcher has no predefined boundaries, the data produced is worthless and unscientific. Qualitative researchers would argue conversely that qualitative data is data that reflects the reality of the situation being studied.

Critics of this method have said that scientific findings cannot be achieved from qualitative data. (Denzin and Lincoln 1998 p.9) However, through the use of multiple methods within one study, the researcher can test the results of the research and obtain an in-depth analysis of the situation. As Denzin and Lincoln state:

Qualitative research is inherently multi-method in focus. However the use of multiple methods, or triangulation, reflects an attempt to secure an in-depth understanding of the phenomenon in question. Objective reality can never be captured. Triangulation is not a tool or strategy of validation but an alternative to validation. The combination of multiple methods, empirical materials, perspectives and observers in a single case study is best understood then as a strategy that adds rigour, breadth and depth to any investigation. (Denzin and Lincoln 1998 p. 5)

Mason further explores the criticisms laid upon qualitative research and argues that for qualitative data to be effective the research should ensure that the following checklist is adhered to:

- the research should be systematically and rigorously conducted;
- it should be accountable for its quality and its claims;
- it should be strategically conducted, yet flexible and contextual;
- it should involve critical self-scrutiny by the researcher or active reflexivity;
- it should produce explanations or arguments and these should be generalizable;
- qualitative methods should not be seen in isolation from quantitative methods which could be used in conjunction with qualitative methods;
- research should be conducted as a moral practice, and with regard to its political context. (Mason 2002 p.7-8)

A major objective of the research is to address the question: does the Banking Code regulate the banking industry sufficiently to facilitate the financial education of those who are financially excluded or in financial difficulties? The research thus aims to examine the phenomenon of financial exclusion in relation to the banking industry and in particular the Banking Code. To be able to do this, the researcher has used template analysis to explore and analyse the data gathered. In chapter 8, a detailed explanation of template analysis is given and techniques used for data collection are examined.

Template analysis is similar to grounded theory and content analysis but differs from both by its philosophical approach to interpreting data. Template analysis does not statistically analyse data or start coding with a set of predetermined codes, like content analysis, nor does it begin to collect and analyse data with no a priori definition of codes, as grounded theory requires. The researcher therefore believes that this middle ground, in which codes can be interpreted in a wide variety of ways, is suitable for a study of financial exclusion. Template analysis can interpret data at both ends of the spectrum, it can produce codes that rigidly adhere to the predetermined codes or it can manoeuvre around a flexible template allowing an open and adaptable interpretation to occur.

Justification for a qualitative study using template analysis

There are several reasons for choosing to conduct a qualitative study using template analysis. The justifications stem from the theoretical and philosophical development of the research. The justifications are as follows:

- One aim of the research is to examine the beliefs and attitudes of people who could be classified as being financially excluded. In order to uncover these beliefs and feelings, the researcher used a phenomenological approach to try to gain a better understanding of the phenomenon of financial exclusion.
- Financial exclusion is viewed in this research as a social phenomenon and the researcher believed, therefore, that it was necessary to use a qualitative social investigation to gather data. This approach enabled the researcher to explore people's attitudes towards financial exclusion, and allowed the data to unravel the beliefs behind the social phenomenon.

- Template analysis was chosen because it allowed the research to develop and evolve in accordance with the data collected. Template analysis does not prescribe set procedures to follow, but allows the data to emerge by itself. However, it does give the research a structure and a framework within which to develop.
- Template analysis was also used because the researcher felt that it allowed the data to be formed and manipulated in such a manner as to reveal the development of the process of financial exclusion.
- Template analysis allows the subjective nature of social phenomena to be explored. It does this by means of a coding process at each of the different levels contained with each template.
- The templates are unbiased and value free because of the flexible coding procedures. It was felt that this was unlike any other method, such as grounded theory which would be more restrictive in manipulating the data.
- Template analysis is also a novel methodology and the researcher believes that such a topical and important issue as financial exclusion should be examined in a novel manner because past research has failed to explore the inherent issues in depth. Template analysis allows an in-depth analysis to be conducted.

Although the researcher used template analysis, other possible methods of data collection and analysis could have been used, but the researcher believes that template analysis is the most effective method for the phenomenological approach taken to discover the beliefs and feelings behind the phenomenon of financial exclusion.

In particular, Grounded Theory was explored in some detail. Grounded Theory is:

[a] study to generate or discover a theory, an abstract analytical schema of a phenomenon, that relates to a particular situation. This situation is one in which the individuals react to this phenomenon. To study how people act and react to this phenomenon the research collects primary interview data, makes multiple visits to the field, develops and interrelates categories of information, and writes theoretical propositions or hypotheses or presents a visual picture of the theory. (Creswell 1998 p.56).

However, the researcher believed that this method would be too prescriptive and that adherence to the strict regime of data collection and coding would not leave the data sufficiently open to explore its truth. The researcher sees merit in the coding and categorising of data once collected, as this provides an effective tool to explore and uncover the phenomenon of financial exclusion, but in Grounded Theory it is in a manner that is too constraining. Template analysis, therefore, gives the researcher the freedom to use coding and categorising techniques, but in a more open and free situation, thus allowing the data to emerge itself without the pre-empting of the researcher. This, it was believed, allowed the data to be a more accurate reflection of the real truth.

Another phenomenological approach which could have been used is the 'pure interpretative' method. This is described as being:

[a] study that describes the meaning of the lived experiences for several individuals about a concept or phenomenon. Phenomenologists explore the structure of consciousness in human experiences. (Creswell 1998 p.51)

Although this approach was also explored in some detail, it was believed that this method would be too open and would not provide the researcher with the boundaries and guidelines, which would give the research a coherent structure. Once Grounded Theory and pure interpretativism were eliminated, the researcher explored the

possibilities of using a casebook analysis as demonstrated by Crabtree and Miller (1992). Casebook analysis is very similar to template analysis with the creation of books instead of templates, which are then used to create theories or processes. However, the researcher believes that casebook analysis lacks the rigour which template analysis possesses.

Another possibility was to use a post-positivist approach in which deductive scientific method would be used to test hypotheses concerning financial exclusion. If the main aim of the thesis had been to identify the principal causes of financial exclusion in the UK, then it would have been possible to examine the theoretical literature on financial behaviour and deduce a set of testable hypotheses concerning the factors likely to influence the probability of being financially excluded. Statistical tests could then be applied in the attempt to reject or accept the stated hypotheses at a pre-determined level of significance.

However, qualitative research is preferred because the main aim of the research is to gain an insight into the process of financial exclusion in the UK by investigating people's perceptions of the nature of the problem. Statistical hypothesis testing would be much more limited in its scope, would require probability sampling and would be severely hampered by data measurement problems. For these reasons, a systematic qualitative approach was preferred to the post positivist approach.

Thus, although the researcher did explore various qualitative and quantitative methods, it was believed that template analysis offered both the freedom to explore the data effectively, and the opportunity to apply a systematic structure and the

academic rigour that would enable the researcher to produce convincing and useful results.

The qualitative methods of data collection

Interviews

In order to gather qualitative data, the research used both interviews, remote and face to face, as well as questionnaires. It is necessary, therefore, to outline these methods and examine their benefits and effects upon the research findings.

DePoy and Gitlin (1998) describe an interview as:

Information gathering action process conducted through verbal communication and occurring face-to-face or by telephone; process may be either structured or unstructured and is usually conducted with one individual. (DePoy and Gitlin 1998 p.312)

This definition highlights various factors associated with interviewing. The respondents who were interviewed within this research can be grouped into two categories; those who exhibit financial exclusion characteristics and those who are within or work alongside the financial services industry. Therefore, the researcher had to ensure that the questions posed to each respondent in each category were individually tailored. As Chatterjee states:

The interviewer must know what to ask and how to formulate his questions. He must also ensure that his behaviour or attitude does not create an adverse environment which would antagonise his subjects. (Chatterjee 2000 p.28)

Other considerations that the interviewer has to be made aware of include any adverse effect that his or her (i.e. the interviewer's) age, class or gender may have on the findings of the research. (Chatterjee 2000 p.29) The researcher tried to prevent any

foreseen problems by using semi-structured open-ended questions within the face to face and remote interview.

Interviews were undertaken with a number of people within the two categories. Those interviewed were:

- Peter Kelly – Barclay’s Bank – Head of Financial Inclusion
- Alan Brener – Royal Bank of Scotland - Head of Financial Inclusion Group
- Howard Flight MP - Shadow Economic Secretary
- Shaun Spiers – ABCUL - Head of Association and British Credit Union
- John Bromfield – PriceWaterHouse-Coopers - Head of Financial Inclusion Group
- David Morey – PriceWaterHouse-Coopers - Manager of the Financial Inclusion Group
- Andy Williams – Credit Union - Manager of the credit union in Boscombe
- Two respondents who exhibited signs of financial exclusion: Kelly and Rachel.

The researcher also approached Ian Mullen of the British Bankers Association and although he could not take part in an interview he sent a written reply to the questions, which is included in Appendix 1.

All respondents were contacted with a formal letter requesting an interview, together with a booklet outlining the research in order to inform the possible respondent of the areas that may be discussed. This had a positive effect and the respondents who agreed to the interview stated that the booklet was very useful in deciding whether or not to grant the interview. Each interview was tailored to the individual respondent and their particular specialism. The interview was then transcribed and a copy of the

transcript was sent, along with a thank you letter and a pre-paid envelope, to the respondent, who could then comment on the validity of the interview and had the opportunity to correct or alter any aspect he or she so wished.

The transcripts were then coded using, template analysis, to extrapolate themes and to build templates. The coding of the interviews was a continuous process throughout the research. As the interview process progressed the questioning in the interviews changed or altered slightly due to the codes that were emerging from the previous interviews. The data from these interviews were then added to the templates to check the validity of the template that was emerging.

Questionnaire surveys

To enhance the validity of the research, as well as to add a quantitative element to the research, the researcher used two questionnaire surveys to collect qualitative data. The phenomenon of financial exclusion is a very sensitive subject and it was discovered through the research of others (in particular, Kempson (1998) Mayo et al (1998)) that people who exhibit financial exclusion characteristics also share similar attributes and characteristics. For example, financially excluded people are more likely to claim social security benefits, are often single mothers, are often from ethnic minorities and are normally either old or young. These attributes were used to target groups of society to see if people would participate in interviews or focus groups. However, it was discovered that many people did not want to talk to the researcher about their financial position. Indeed, many possessed a strong dislike for people in positions of authority and so would not participate in such research.

After numerous attempts at trying to find volunteers to participate in interviews, the researcher decided to try another way to get people involved in the research. Initially, two questionnaire surveys were produced: one for the banking industry and one for financially excluded people. The banking industry questionnaires were distributed to all UK banks. However, the response rate was extremely low, and it was decided that the results could not be relied upon as being representative of the whole of the banking industry. The information gained from these questionnaires, therefore, is not used as an indicative or substantial part of the research, but is presented primarily as evidence of the banking industry's lack of willingness to participate. However, the results do tend to corroborate the comments received from Peter Kelly of Barclays Bank, who did participate in the research.

The questionnaires designed for financially excluded people were sent to credit unions, council benefit agencies, and ethnic minority groups in the community, hostels for the homeless, the old and community centres for the young and single mothers. The researcher chose to send the questionnaires to targeted geographical areas, which had also been targeted by Kempson (1998) and Mayo et al (1998) as they were likely to have high proportions of financial exclusion. It was not the purpose of this research to explore the characteristics and the geographical position of the financially excluded, but to target these groups to understand better the relationship between financial exclusion and banking regulation. The areas that were targeted were Bournemouth and Poole (as a control), then Boscombe, Birmingham, Dorchester, Basildon, Leeds, Liverpool, Manchester, Cardiff. Although some of these locations at first glance do not appear to be areas of high deprivation, these areas, such as

Dorchester, were chosen because of their strong reliance on credit unions, an alternative delivery channel of financial products.

The questionnaire consisted of thirty-two questions (see chapter 8 and Appendix 3) and was distributed among the following groups:

- Poole Benefits and Housing Department
- Bournemouth Benefits and Housing Departments
- Boscombe Credit Union and Benefits Agency
- Dorchester Credit Union and Benefits Agency
- Dolphin Credit Union, Poole
- Basildon Credit Union
- Liverpool Credit Union
- Manchester Credit Union and Benefits Agency
- Birmingham Credit Union and Benefits Agency
- Leeds Credit Union and Benefits Agency
- Islamic Centres in the South
- Dorset Race and Equality Centre
- Students (Cardiff, Swansea and Bournemouth)
- Pines Hostel
- Hyped 21C
- Respondents to an interview within local press

The groups that were contacted were all sent a poster outlining the research (see appendix 6), a leaflet giving more information on the research and the researcher, an anonymity form, if they wished to remain anonymous, and a pre-paid envelope for

return, in order to encourage a good response rate. This manner of encouraging response rates was advocated by Berdie et al (1986 p.48).

To each destination listed above, 150 questionnaire packs (approximately 2,250 in total) were sent. The survey also gave the respondents the option of stating whether they would like to be contacted by the researcher to discuss further the areas covered in the survey. The questionnaire allowed the researcher to be able to get respondents to talk about their financial position as the fear of what was going to be asked was dispersed by the fact that most of the sensitive questions had been covered by the survey. The questionnaire was therefore used as a method of gaining people's trust which led to over 15 initial telephone conversations with respondents and the two in-depth interviews used in this research. Additionally, an A3 poster advertising the research designed by David MacKenna, an art student at Bournemouth University, was sent to each destination.

The survey had a relatively low response rate but, given the sensitive nature of the questions being asked, the researcher believes that the response rate was acceptable. There were 53 valid responses, fairly evenly spread across the target areas, which could be used within the research. There were 20 other returned questionnaires that could not be used for a number of different reasons, such as incomplete answers or inappropriate responses to the questions posed.

A questionnaire or survey “is a method of collecting information from people about their ideas, feelings, health, plans, beliefs and social, educational and financial background”. (Fink and Kosecoff 1998 p.1) The researcher chose to use questionnaires along with interviews to triangulate the research findings.

Triangulation is the use of a variety of different methods to test the validity of the research findings. (Silverman 2000 p.99) Fielding and Fielding (1989) suggest that triangulation should operate within the following boundaries:

1. The methods chosen should always start from a theoretical perspective, and
2. The methods chosen should give an account of the structure and meaning from within that perspective. (Fielding and Fielding 1989 p. 101)

It is the researcher's opinion that all methods chosen follow these guidelines and act as a means to test the validity of the data produced. Questionnaires were produced with the aim of investigating correlation between awareness of the Banking Code and the characteristics of people who believe themselves to suffer from financial difficulties or financial exclusion.

Limitations and possible bias

All research is subject to possible limitations and bias. This study is no exception. As Collis and Hussey (2003 p.129) state, "a limitation identifies potential weakness in the research". One potential limitation of the research is that the research targets groups of people who already exhibit financial exclusion. Therefore, when determining where to send questionnaires and in locating people for interviews, the researcher targeted people who already demonstrated some of the characteristics of financial exclusion. This decision was made for several reasons.

Primarily, financially excluded people were targeted because this piece of research was not aiming to examine the characteristics of financial exclusion. Instead, the researcher was interested in finding out how people who were financially excluded felt about their situation and how they believed they had become financially excluded. Therefore, although this could be considered a limitation or a possible bias within the

research, it was done deliberately and it was deemed necessary to conduct this piece of research.

To locate financially excluded respondents, the researcher utilised the method of Kempson and Whyley (1998) to identify the necessary characteristics exhibited by people who are financially excluded. The researcher believes that there is credible research which examines the characteristics of financial exclusion and so did not want to duplicate the findings of these pieces of research.

Another possible problem is non-response bias. There were 53 valid responses to the questionnaire survey. This response rate, as stated above, is relatively low. However, the researcher believes that although the rate is low, it demonstrates how sensitive and awkward it is for people experiencing financial exclusion to discuss their situation. It also emphasises the importance of exploring these people's attitudes towards their situation. The researcher found that the responses were from people who had either been financially excluded in the past or were currently experiencing varying degrees of financial exclusion. The respondents were fairly evenly spread among the different targeted geographical areas and had a variety of experiences to recount. It is unlikely, therefore, that the results of the template analysis are undermined by non-response bias.

Interestingly, it seems that people who were experiencing financial difficulties, but did not classify themselves as being financially excluded, were reluctant to answer questions on their financial situation. This reveals a difference in attitude among this group. For people who have experienced true financial exclusion, talking about their

situation does not appear to be as traumatic as for those who are experiencing financial difficulties. Once the process of financial exclusion has occurred, people tend to be more open about their situation. The researcher believes that this denial and refusal to accept the true financial positions of those who are in financial difficulties, forms part of the process of financial exclusion.

Ethical considerations

Throughout the primary research data collection and use of the data, the researcher was concerned with the ethical implications of the research. As mentioned previously, financial exclusion is a very sensitive area, as demonstrated by people's reluctance to participate in the research. It is therefore important to consider the ethical issues before interacting with those being researched because of the possible effect the research could have on them.

Therefore, when designing the survey and the interview questions the researcher had to be aware of ethical issues. For example,

- The confidentiality and anonymity of the respondent.
- The consent of the respondent.
- The dignity of the respondent.
- The possibility of causing harm to the respondent.
- The possibility of violating any accepted research practice in conducting the research in the manner proposed, and
- The possibility of violating any community standards of conduct. (Collis and Hussey 2003).

To ensure that the surveys and the interview questions were ethically sound, a pilot sample of 10 was tested. This pilot sample consisted of Bournemouth University research students.

Where necessary, the researcher sought to minimise potential areas of concern. For example, the survey was sent out with an anonymity form attached to it. This allowed respondents to remain anonymous if they so wished. Respondents' wishes were followed and the respondents named in this research all gave their consent.

Given the sensitive nature of the research, the researcher was also acutely aware that it was imperative to ensure that respondents were treated with dignity and respect and their financial situation viewed impartially and without any bias. When discussing sensitive issues, all contact with respondents was conducted with the utmost respect and all respondents were put at their ease. The meetings with respondents were held on the respondents' terms, at their chosen meeting place and time, so that they felt in control of the situation at all times. This was especially important so that the researcher could gain the trust of the respondents, so that the data represented the respondents' true feelings and experiences.

Ghuri and Gronhaug (2002) added to Collis and Hussey's (2003) list of ethical issues by stating that the researcher should also give consideration to:

- The possibility of exposing the respondent to mental stress;
- The possibility that the questions would expose the respondent to potential detrimental self-interest beliefs;

- The possibility of depriving respondents of their rights of, for example, self-determination.

None of the above became issues for any of the respondents within the research. The researcher acknowledged the possibility that questions regarding financial status could have an adverse effect. Therefore, the researcher posed questions taking into consideration each respondent's different personality and resilience to their situation, thus avoiding a broad approach, which could have adversely affected them.

The researcher believes that it was her moral responsibility to ensure that the research did not have a detrimental effect on any of the respondents. Conversely, it was found that many of respondents who participated within the research found the experience rewarding. This was especially the case for Rachel and Kelly, profiled later in the thesis, who were able to obtain accounts with the Poole Credit Union.

Ethical considerations are an important part of any research and it is believed that the researcher conducted this piece of research within appropriate ethical boundaries, whilst tailoring the research approach to each respondent taking account of their personal circumstances.

Chapter Three: **The Changing Culture of Banking Practices from 1600 to the Present Day**

Introduction

In this chapter, the researcher will demonstrate the evolution of banks and the effect that this has had on their customers. Banks originally were created as businesses which facilitated the depositing and borrowing of money for people to manage their business affairs. Over time banks have widened their application and have almost become an essential part of western civilised life. This chapter will explain and describe how the history and evolution of the banking industry has created a banking culture in today's society which sees a bank more as a utility rather than a corporate entity. During this evolution from a merchant bank to a people's bank a focused discussion will show that the rules and regulations which govern the banking industry today have not kept pace with this change in ideology especially where customers are in financial difficulties or financial exclusion. This chapter begins by outlining the literature surrounding the area.

Literature review

In recent years the concept of a changing culture within the banking industry has been prominently discussed by academics resulting in a widespread knowledge of changes such as the increase in technology to carry out banking business¹; the decrease in bank branch numbers; the use of disloyalty charges with ATM's; the increased profits experienced by the main high street banks and the increase in job losses for the employees of the banks due to the regeneration of the banking industry.

¹ See ATM Survey, Association for Payment Clearing Services, 1998-2001 and PriceWaterHouse-Coopers. The Breaking Wave: Change in the UK Banking Industry and Implications for Policy makers.

Although each of these aspects are covered within this thesis through an examination of financial exclusion, there are two particular phenomena which attract the focus of academics and organisations such as Kohler (2000), Mullineux (1999), PriceWaterHouse-Cooper (2000) and Association of Payments Clearing Services (2001) within the concept of the changing culture of the banking industry. These two phenomena, namely bank closures and the change in technology, have been concentrated on almost to the exclusion of the others and exemplify the difference between this thesis and academic work within this area.

It appears however that although both the general public and academics have displayed an interest in the financial revolution which is taking place, the Government does not share this interest. As Kohler (2000) states:

The furore about banks charging disloyal customers for using a competitor's ATM has highlighted how quickly our network of retail branches is shrinking. The take-over battles in the sector are also driven by programmes of branch closures and savings derived from providing customers with a range of electronic banking alternatives. The banks are commercial enterprises, focused on commercial decisions, and saving some ritual noises of protest, the Government shows no enthusiasm for stemming this trend. (Kohler 2000 p.12)

Kohler depicts this conflicting ideology of a bank existing as a business and as a social utility. This is an issue the banks have had to contend with and is a notion which will be examined and explored extensively within this thesis. Kohler focuses upon this notion to the exclusion of all other phenomena. He does not explore the economic justification any further than the above quotation. It is this economic concept which is focused upon within the thesis and explored in relation to the other main concepts which are applicable to the topic undertaken in this thesis.²

² See chapter 7.

The notion of banks becoming viewed by the public as a utility is novel. Traditional public utilities, are industry providers such gas, electricity, telephone and water. However with the modern introduction of cable and waste treatment facilities being incorporated into the realm of public utilities there is scope to widen the definition to encompass banks. Crew and Kleindorfer (1986) state that “*the question of whether a company is a public utility is essentially technical*”. (Crew & Kleindorfer 1986 p.3)

They further state that:

The technical features defining a public utility are those giving rise to economies of scale in public utilities and their resulting natural monopolies position. (Crew & Kleindorfer 1986 p.3)

Undoubtedly, then, the banks can be said to hold a monopoly within the industry as other alternative delivery channels, such as credit unions, possess a fraction of the marketplace compared with the banking industry.

Crew and Kleindorfer explain that if a company is to be considered as a public utility it must be seen that “*the industry must be of some public or social significance*”, (Crew & Kleindorfer 1986 p.3). Again it is put forward within this thesis that banks do possess the necessary public or social significance as without access to the financial industry people within society can be classified as being financially excluded. This harms not just the person concerned but the whole of society because there will be an ever increasing level of national debt.

Although a bank is not acknowledged as being a utility, this thesis demonstrates that the banking industry does share similar characteristics to those offered by the traditional utility. Thus the researcher purports that with the cultural adaptation to date

and the future alterations that could be expected a bank can be compared to other utilities, such as gas, electricity and water.

As previously mentioned another phenomenon which the literature depicts as contributing an important element within a discussion of the banking industry at the current time is that of the dramatic change in technology which has occurred over the past couple of decades. PriceWaterHouse-Cooper explores this phenomenon in detail in their report. The literature states that although there have been reported problems within the banking industry over this, it must be put in context of the background of the recent change in technology. The literature voices concern that whilst any reform is considered, the policy makers must ensure that the future needs of the banking industry and society are both taken into account. The report states:

Public policy in respect of the banking industry needs to be seen against the backdrop of the drivers of change that are rapidly transforming the financial services industry. Policy makers must understand these drivers and ensure that the implications are considered. This needs to be a forward looking exercise. While only hard data exists on the past, the past is not an infallible guide to the future. And it is clear from the current trends that, for banking, the future is going to look very different from the past. (PriceWaterHouse-Coopers 2000 p.9.)

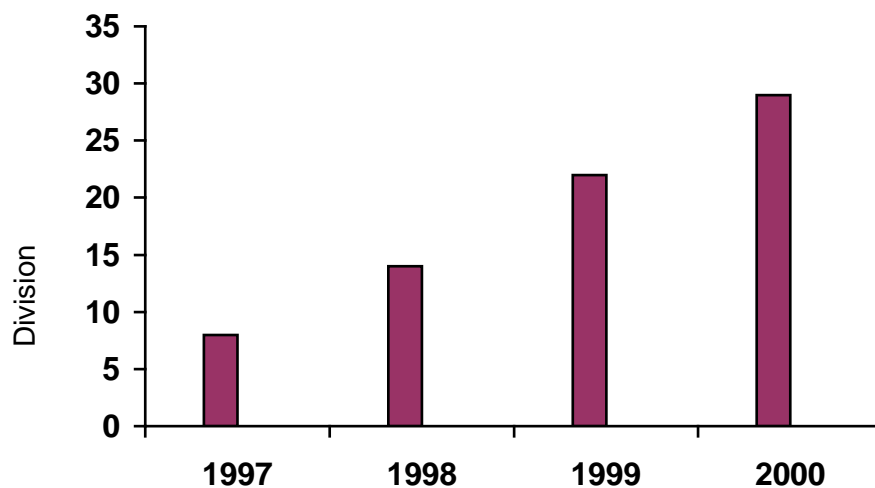
Literature states that although change is inevitable there are “three factors which are most influential in fundamentally reshaping the industry”. (PriceWaterHouse-Coopers 2000 p.9.) These are:

- The pervasive impact of technology
- The changing social patterns,
- Economic and political pressures.” (PriceWaterHouse-Coopers 2000 p.9.)

All three elements are considered here, from a different perspective. They are analysed in such a way as to consider the effect on those who are socially and financially excluded from mainstream society and what regulation implications can be gauged from this.³

There has been both a dramatic increase in the use of different methods of banking and the way in which the banking industry operates, as illustrated in Chart 3.1 to 3.4. Charts 3.1 and 3.2 illustrate the increase in the access to the internet and the use of remote distribution channels. Chart 3.3 indicates that the changing culture of the banking industry is actually saving the industry money. Chart 3.4 highlights the likely future growth in the use of non-cash transactions and the decline in the use of cheques.

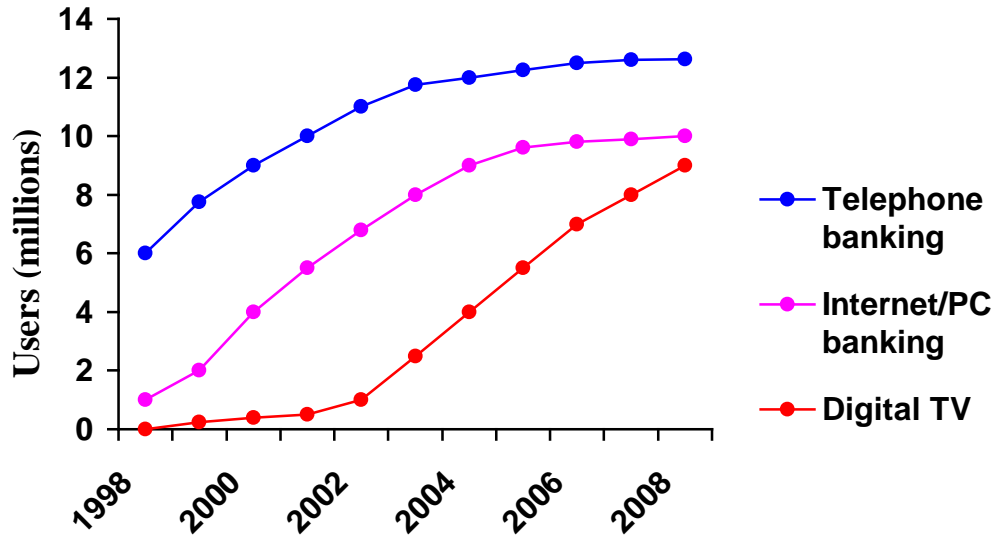
Chart 3.1 – Proportion of households in the UK with access to the Internet



Source: European Internet Report
(Morgan Stanley Dean Witter)

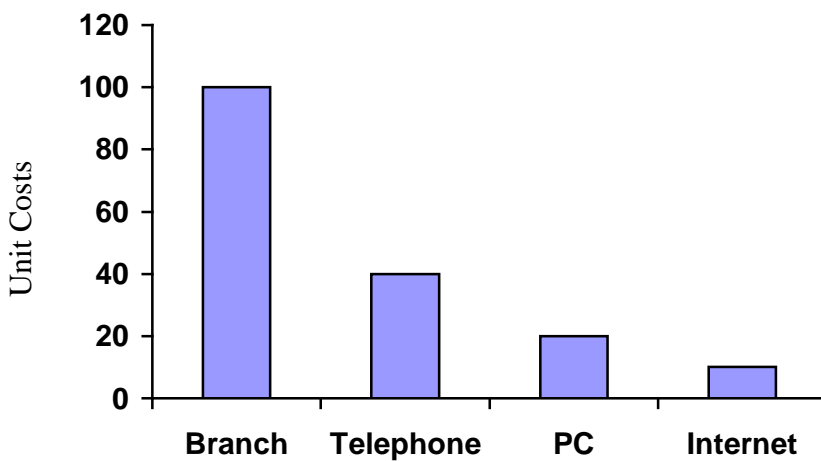
³ See chapter 3, 5 and 7.

Chart 3.2 – Forecast use of remote banking distribution channels



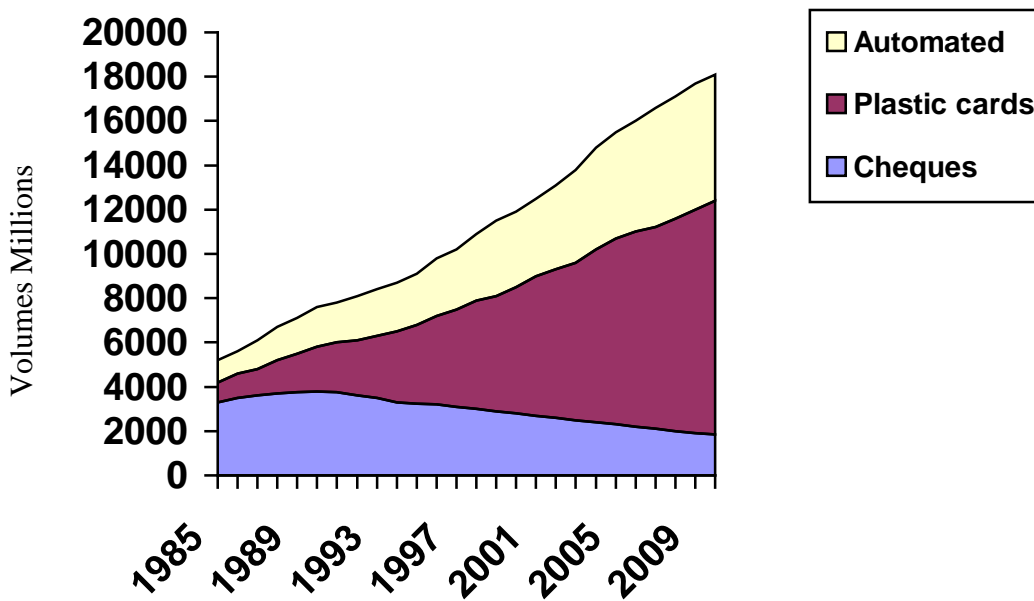
Source: APACS

Chart 3.3 – Relative unit costs of processing transactions by distribution channels



Source: Booz-Allen Hamilton

Chart 3.4 – APACS Forecast for non-cash transaction volumes: 1995-2010



Source: APACS 2001

The above phenomena have a sub-phenomenon of financial education. With the increase of bank closures customers will be using more services outside the traditional bank branch and as such there is a need for more financial education within society to stop people from becoming financially excluded. It is this notion which is explored within the thesis but the lack of financial education within society is not considered in relation to financial exclusion in the literature in any depth. However the notion of financial education has been an issue of contention for the Financial Services Authority as financial education is one of the four statutory objectives⁴ under the Financial Services and Markets Act 2000.

⁴ S2-5 Financial Services and Markets Act 2000.

History of banking within the United Kingdom

As part of this thesis, it is important to understand how the banking industry has evolved and how this evolution has created a bifurcation of opinion of what a bank's main purpose is. As discussed in chapter 7, a bank is primarily a business and has corporate aims and objectives but society is now beginning to see that a bank is more than just a business. In fact, for most people, a bank is an integral part of everyday life and therefore considered similarly to other utility companies, such as gas and electricity. This difference of opinion between society and the banking industry has caused there to be confusion over whether or not the banking industry is fulfilling its social roles as well as its corporate role in society.

The culture of the banking industry in 1663 demonstrated the position the banks held within society. There were very few banks, the people who worked in banks were highly thought of in the community and the only people who did business with the banks were the very rich, the Government and the Royals. As such the culture was prestigious and was not a business for all society. Today's banking culture could not be more different. Although some people (7% of the population, Kempson et al 1998) do not have a bank account, 93% of the United Kingdom population do. It is this increase in the uptake of facilities offered by banks which has created a 'people's bank' banking culture. Within this evolution there are several main factors that can be seen to construct this modern culture of the banking industry.

The first factor is that banks within the United Kingdom evolved from the rise of the goldsmith banker (1633 till 1673). The significance of the goldsmith being the catalyst for banks is that even at this very early stage banks were not originally

intended for everyone in society, they were for those who were wealthy. This can be demonstrated by the fact that in 1660 goldsmith notes were used for the first time as bank notes and wealthy people were beginning to use goldsmiths as borrowers as well as depositors. This was not a facility that would have been offered to everybody. Although it is clear that the goldsmiths did act as a catalyst for the first bank it is undecided who was actually the first banker in the world. Conflicting accounts state that it is more than likely that “*Jews were the first in England to deal in money*”. (Orsingher 1967 p.37)

Historical accounts inform the reader that the Jews were subsequently succeeded by Lombard’s, the rich Italian merchant bankers, as the main bankers in the world and as Orsingher argues:

It is difficult to decide if the goldsmiths were, to begin with, Lombard’s...or if Lombard’s and goldsmiths coexisted before they joined forces. (Orsingher 1967 p.38-9)

Thus it is difficult to depict the true originator of the banker but it is true to say that the origins of banking were instigated jointly between Lombard’s and the goldsmiths. Galbraith (1975 p.18) denotes the ambiguous beginnings of the bankers. He claims that banks are:

An exceedingly old idea. Banking has a substantial existence in Roman times, then declined during the Middle Ages as trade became more hazardous and lending came into conflict with the religious objection to usury. With the Renaissance it revived as trade revived and religious scruples yielded in normal fashion to pecuniary advantage. So far as any business can be given ethnic association, banking belongs to the Italians. (Galbraith 1975 p.18)

As banking is such an established and old idea it is difficult to say exactly when and how the culture changes but certain events in history from this date on led to the creation of the modern banking industry culture that exists today.

History depicts the rapid tendency of growth that the banking industry exhibits today, as even by 1556 there were one hundred and seven goldsmith banks in London. (Orsingher 1967 p.39) The goldsmith banks were the fore-runners of the banking industry that we know today as private banks were derived from these goldsmith banks and these too showed the rapid growth that was necessary for the development of the banking industry. *“In 1801 one could count sixty-eight private banks which were their direct descendents”*. (Orsingher 1967 p.40) This rapid growth was necessary as more and more people of the upper classes were using banks as a means to organise their monetary affairs. With more people using the banking industry more banks were opened and this led to a greater public awareness of banks and their facilities which meant that more people wished to do business with the banks. This cyclical effect of supply and demand has dominated the growth of the banking culture and has guided the creation of banking competition where banks vie for people’s custom. Davies (1994) states that:

The development of financial intermediaries enabled rich persons to find profitable outlets for their surplus funds in London which attracted money in increasing amount not only from the Continent but also internally. Provincial writers were loud in their condemnation of London’s power in drawing to itself the liquid wealth of the country. The growing size and wealth of the city stimulated the growth of a vast market in coal and food making available capital for further investment in agricultural improvements in a virtuous spiral. (Davies 1994 p. 248)

Another important factor in the development of banks was noted by Orsingher who believes that during the reign of the goldsmith banker there was no public debt within the United Kingdom. In today’s modern society public debt is on the increase but it is relatively unsurprising that during this period there was no public debt as the only people that did business with the banks were those who could afford to. The banks were selective in their choice of customers and as such banks were considered to be a

facility used only by a few upper middle and upper classes. The banks' original aims therefore were not to accommodate the needs of all society but to make money out of deposit and borrowing facilities offered to a select few. The banking industry and those few who oversaw the banking business were not concerned with social responsibility nor whether they were acting in an ethically sound manner but whether they had made money. It is this business ethos which dominated the banking industry until very recently (twentieth century) and thus the culture has had to alter dramatically to keep up with the public preconception that in today's society a bank is a facility that should be available to everyone. As such, in 2000, the United Kingdom had £127.4bn of public debt. (Consumer Affairs Directorate July 2001 p.7)

Another important step forward in creating the modern banking society that we have today was the creation of the Bank of England by the enactment of The Bank of England Act 1694.⁵ The Act was the beginning of bringing banking to the majority of society. However this was to be a long and arduous process. At this stage in banking history, the Bank of England's purpose was to "*act as the Government's banker and debt-manager*", (Bank of England 1997) and to undertake more conventional banking business as we know it today such as accepting deposits and discounting bills. The creation of the Bank of England really was an important step towards the modern banking culture as it provided a backbone and regulatory mechanism which the industry had not seen before. It is noted that:

The history of the Bank is naturally one of interest, but also of continuing relevance to the Bank today. Events and circumstances over the past three hundred years have shaped and influenced the role and responsibilities of the Bank. They have moulded the culture and traditions, as well as the expertise, of the Bank which are relevant to its reputation and effectiveness as a central bank in the early years of the 21st Century. (Bank of England 1997 p.43)

⁵ The Bank of England and the legislation that enabled its creation was based on the foundation of the Bank of Amsterdam in 1609.

The Industrial Revolution further helped to increase the number of banks within the United Kingdom, which in turn led to the cyclical effect of people taking up the opportunity to use their facilities. The Industrial Revolution did not just increase the number of banking houses but it also helped to promote the cultural attitude that banks were not just a business for the upper classes but that ordinary people such as businessmen could use them. Banking, however, was still a very limited facility but it is this mild change in public conception that enabled the idea that banks could be used by more of society to grow alongside the banking industry. The close interrelationship of the banks and the Industrial Revolution enabled both to become important aspects of our life today. Again the banking industry had a cyclical effect on factors around it. If the Industrial Revolution had not occurred, then the banks may not have become more widely accepted as a facility that could be used by society. If banks had not grown to such a degree, the Industrial Revolution may not have been able to take place. Henceforth factors affecting society are closely linked to the banking industry and the creation of the culture today. Even at the early stage of the Industrial Revolution it can be seen that the notion of a bank being able to offer assistance to a wider selection of society was emerging.

However, it is still important to note that although banks were now a more common feature of industrial society they were still not a common facility for everyone. Indeed it was still mainly the upper and the business (otherwise known as the merchant) classes, who used the banks at this time. This was reflected in the common name for banks at the time, 'merchant banks'. Banks were therefore strictly businesses to help other businesses to carry out business functions. There was nothing in their beginnings to suggest that this was to become a common feature of society or indeed

to be thought of as an essential tool of western society. Banks still did not think about whether they had ethical or moral obligations to their customers or whether they should behave responsibly towards society as a whole. For this concept is a modern idea born out of the notion that banks are for everybody and they must serve society's needs just like a utility company like gas or water. It is this confusion of roles which demonstrates the difficult time ahead for the regulators of the banking industry.

It was not until as late as 1810 that the first saving bank was created and it was also not until this date that the banking industry and legislators really contemplated the notion that ordinary people may begin to use the banks' facilities. The Rothwell Savings Bank, initiated by Henry Duncan, was the first of its kind and encouraged the poor to save and was later imitated in France as well as Holland due its success in Britain. This was an important step forward for the cultural evolution of the banking industry as it drew on the idea planted in society during the Industrial Revolution and that had slowly grown during this period, that banks could be used by ordinary people.

Although the evolution of the banking industry up to this point and the culture associated with it, did form the basis of the modern banking industry culture of today, there are several other smaller factors which influenced the culture just as much and as such should be considered. They are:

- Bank Failure
- Growth of the Savings Bank
- Societal Influences
- Regulation

Bank failure

From 1873 until the present day there have been five main banking crises which created an apathetic mood within society and the banking industry. The crises have caused regulation to be put in place and a mistrust of the banking industry that had not existed prior to the bank failures. Society was unaware of the fact that a bank could fail and lose their money. It was hard on society and was the first gap to appear between the public and the banking industry. This gap in modern society is now very large. Public support for the banking industry is at an all time low (see later in the chapter). Thus bank failures were an important part in forming modern banking culture. The main banking crises were as follows.

- A banking crisis in England (1825-1826) saw sixty banks fail in only one year. (Galbraith 1975 p.20) The legislators did not know how to regulate against this occurring again. As a consequence of this crisis legislation was enacted to regulate the industry. The Bank Charter 1844 Act tried to regulate and control the banks deposit and borrowing facilities.

...the 1844 Act gave the Bank the note issue and the nation a sound currency...linking the bank's notes to its gold reserves placed a limitation on the Bank's ability to develop its commercial business. (www.thesite.org)

- Another banking crisis this time in the United States in 1857 made its effects felt as far as Britain and Germany. The banking industry this time recovered fairly quickly.
- The Great Depression in Britain in the period 1873-86 took hold of the financial climate and affected many ordinary people and saw public support wane.

- A great depression was experienced in 1931-3 throughout Europe and the United States in which there were many banking collapses as well as over 30 per cent unemployment.
- A secondary-banking crisis followed in the UK in 1973 and lasted until 1976 affecting much of the decade economically and socially.

The growth of the savings bank

The growth of the savings bank did much for the creation of this culture of banking in today's society. The savings bank allowed ordinary people to save as much or as little as they wanted and created a huge uptake of people who had accounts and who had entered financial society for the first time. Several important factors depict how the savings bank altered the perception of society towards saving.

- 1847 saw the creation of the building societies in Britain but initially they were only temporary associations.
- In 1861 the Post Office Savings Bank was founded in Britain. This creation of the Post Office showed that society as a whole was progressing towards a more monetary-led culture which engulfed not only the upper and middle classes but also some of the poor.
- In 1947 The Woolwich became the first permanent building society in Britain which did not terminate their contracts when its members purchased their houses.

- In 1970 the building society deposits surpassed those of the London clearing banks. Building societies received tremendous success with their personal savings accounts and thus took a growing share of the market. Their success is deemed to be associated with their branch network and the public consensus at the time that banks were for people with money or for businesses. It was therefore building societies and not strictly banks, which brought the financial society to the majority of people. From this point banks were beginning to be used by the majority of the people in the United Kingdom. The face of the modern financial industry, was starting to emerge.
- In 1986 British building societies were given new banking powers, which allowed them to possess more freedom by being becoming public limited companies if they so wished. In retrospect, this was the first step for many of the Building Societies to become banks through demutualisation.

Societal influences

The two World Wars and the General Strike of 1926 affected much of the twentieth century banking culture. These three factors created not only apathy for the financial industry from society but also saw that support was waning. Many ordinary people who placed their trust and savings in the banking industry were let down by factors that were out of their control and the banking industries control.

Regulation

Regulation was to become an important factor in influencing the culture of the banking industry. Since the mid 1970's there has been a plethora of banking legislation and codes which has tried to maintain market and consumer confidence in

the banking industry. Regulation has become one of the main aspects of the banking culture and as such more of society is aware of the other aspects of the banks business such as their corporate social responsibility (hereafter CSR). The notion of CSR stems from the changing culture of the banking industry whereby banks are now seen as a service for the public rather than a facility to be used by the elite. The following factors are some of the most important changes in regulation which affected the perception of the banking industry within society.

- The Banking Act of 1979 increased the regulatory powers of the Bank of England, which was to rectify the weakness produced by the secondary financial crisis in 1973, but failed to go far enough to regulate and monitor the banking industry's business practices. This led to further mistrust and apathy within society for the industry.
- From 1986 onwards there was an economic boom in Britain which coincided with the London Stock Exchange opening up to new competitors and a new system of automated operation being introduced. This was the beginning of the increased growth among customers because of numerous scandals and crises. If the regulators could not regulate the banks' activities in the past, it would now soon become impossible.

Recent legislation

Recent legislation demonstrates the manner in which the culture of the banking industry leans towards regulation as a method of control and monitoring. From 1986 to 2000 a plethora of Acts were passed not to mention other codes and self-regulatory

schemes that were put in place. The aims of these Acts are clear, they were created for specific purposes but their effects on the banking culture are not as well defined.

Financial Services Act 1986

Up until 1986 the financial sectors in the United Kingdom had a limited range of effective legislation regulating the industry, which was unstructured and not comprehensive. The Prevention of Fraud (Investment) Act 1958 was the main regulatory piece of legislation for the financial service sector and was shown to be highly inappropriate in regulating the banking industry due to several financial scandals, not even considering that fact that it was nearly thirty years old. Furthermore, at this time, the financial sector was largely self-regulating which appeared to be losing support due to the number of financial scandals taking place.⁶

Due to this, in 1981 the Government of the time⁷ invited Professor Gower to “conduct a review of the protection of investors”. (House of Commons 199 Bill 121 1998-99) Despite publishing the first part of his report on the 18 January 1984 (House of Commons 1984 Cm 9125) the Government published a White Paper in January 1985 (Dti 1985 Cm 9432) before Professor Gower could complete his work. The White Paper adopted the majority of what was contained in Professor Gower’s report “but it differed in the institutional structure which it advocated”. (Department of Trade and Industry 1985 Cm 9432).

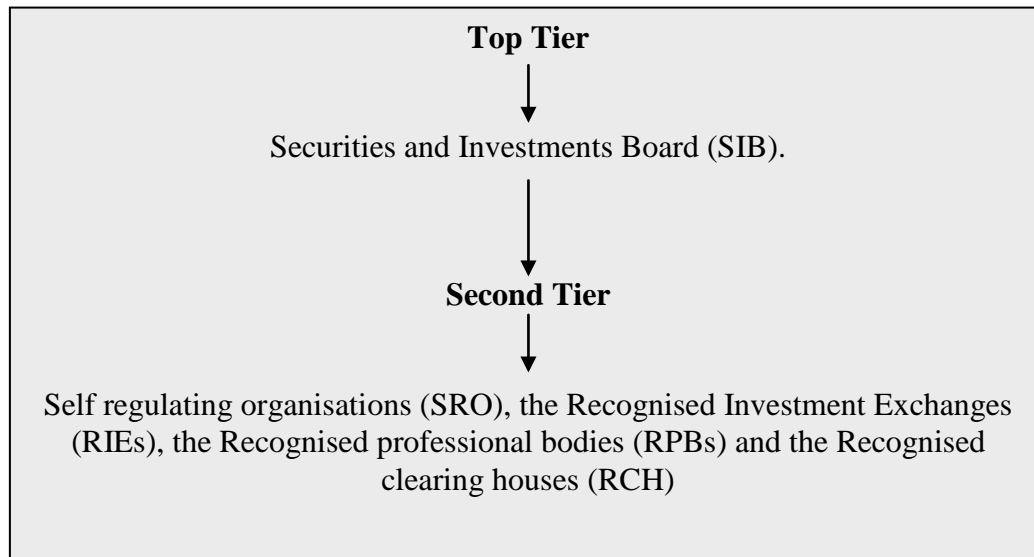
The White Paper’s recommendations were enacted into the Financial Services Act 1986 which was seen to ensure and maintain confidence in the financial markets. The

⁶ Such as the Barings Bank and the Maxwell scandals.

⁷ The Conservative Government 1979-1997.

Act was a mixture of self-regulation and statutory intervention and created two tiers of regulators.

Diagram 3.1: Two Tiers of Regulators



The self-regulatory bodies were set up to regulate and monitor the financial service sector within the United Kingdom and it was this aspect of the legislation which created its downfall. The Act was primarily set up to control investment business only.

The regulatory system set up by the Financial Services Act 1986 has been subject to persistent criticism since it first came into operation. Those in the financial sector have been critical of the cost it imposes on the industry, and find the changing regulations expensive to comply with. Outside critics feel that the self-regulatory structure appears to favour the industry rather than the investors, and whilst the system is expensive, its costs are not proportional to the degree of investment protection which it provides. (House of Commons 1999(a) p.7)

However, as a result of numerous financial scandals⁸ and the inadequacies of self-regulation the 1986 legislation was reformed in July 1998 with the eventual passage of the Financial Services and Markets Act 2000.

⁸ Maxwell Pension Fund Scandal, Treasury Select Committee, *'The Mis-selling of Personal Pensions'*, 12 November 1998, HC 712-II 1997-8, Memorandum submitted by HM Treasury. The collapse of Baarings Bank and the BCCI scandal.

Bank of England Act 1998

Traditionally the Bank of England performed the regulation of the banking industry. However, under the newly proposed legislation this power would be handed over to the FSA by way of the Bank of England Act 1998⁹. The Bank of England's response to this was "*studiously guarded*;" (House of Commons 1999(a) p.23)

The Bank stated that;

What matters is not the Bank's position but the whole structure of financial regulation and what is best for depositor, investor and policy-holder protection, on the one hand, and for systematic ability, on the other. (Bank of England 1997)

It was apparent that the Bank of England was strongly opposed to the loss of its regulatory powers, nor was it impressed that they had:

Not been consulted about the decision to strip the Bank of England of its traditional supervisory powers. (The Financial Times 21 May 1997)

It is conceivable that this was purposefully done in order to allow the bank no time to object. It is also perhaps too coincidental that at the same time the Bank of England was relieved of its regulatory powers, it was awarded, a degree of independence and the responsibility of setting interest rates¹⁰. This, it has been argued, was an offering to the Bank of England to prevent them complaining too greatly regarding their demise of regulatory control but it was also considered an economic decision which would be beneficial to the Bank.

Financial Services and Markets Act 2000

The Financial Services and Markets Act 2000 received Royal Assent on Wednesday 14th June 2000. Its purpose being to provide a single legal framework for the FSA

⁹ Part 3 Bank of England Act 1998.

¹⁰ Part 2 Bank of England Act 1998.

replacing the different framework under which the various regulators currently operate.

The FSA in effect replaces the SIB, although it was not a straight swap as “*the old SIB was only’ a regulator of regulators*”. (Alcock 1998 p.371)

Under this system any company wishing to deal in investment advice must apply directly to the FSA for authorisation¹¹. It has been claimed that the FSA will be the broadest regulator in the world.

And as such possesses the statutory authority to impose either criminal or civil sanctions to chastise any occurrences of market abuse¹².

The Financial Services and Markets Act 2000 introduced four statutory objectives that the FSA was to work by. These were to maintain market confidence,¹³ to ensure consumer protection,¹⁴ to educate consumers¹⁵ and to prevent and reduce financial crime.¹⁶ It was hoped by having these statutory objectives the financial services industry would be regulated in a more formal manner than it had been previously. These four statutory objectives depict an important alteration in banking culture. The FSA at this stage is aware of the financial problems that are being experienced by people in society and these objectives are aimed at helping these people. History has shown how if society loses support for, or confidence in, the market, then the banking industry will suffer. History had illustrated that if customers do not feel that their

¹¹ The FSA inherits the regulatory responsibility of the self-regulating organisations, recognised professional bodies, the Insurance Directorate of the Treasury, the Building Societies Commission, Friendly Societies Commission and Registry of Friendly Societies. (Current Law Statutes; Sweet & Maxwell, 1998, vol 1, p 11- 40.

¹² Part 8 of the Financial Services and Markets Act 2000.

¹³ S3 FSMA 2000.

¹⁴ S4 FSMA 2000.

¹⁵ S5 FSMA 2000.

¹⁶ S6 FSMA 2000.

money is safe in a bank, then again the banking industry will suffer. History also shows that it is only a wider knowledge and education of the banking industry which leads to growth within the industry. Finally history has also illustrated that society mistrusts a banking system that demonstrates, through scandals and crises, that it cannot fully control and regulate financial fraud. All these objectives are therefore impacting on the culture which has developed over history and which has caused there to be a gap between public perception and the banking industry.

The Treasury's 4th Report acknowledged the concerns about competition in the banking industry it states that:

...the Government should consider whether...[improving competition]... can be better done by adding a fifth objective for the FSA. (HM Treasury 2000(c))

Ryder purports that there should be a fifth objective to maintain competition and the committee suggests that they wish the:

FSA to strike the right balance between various methods of regulation, in the light of their assessment of the best way to protect the consumer and encourage competition. (Ryder 1999 p.207)

However the Government's response to this was to decide that competition will be monitored by the Office of Fair Trading and not the FSA, although there will be a role for the FSA to play.

The role of competition within the banking culture is ambiguous. If competition is regulated then more people who experience financial difficulties may be able to enter the financial market place via banks wanting their business. However, if banks only want customers for their business and are unconcerned about their financial state then

this may be detrimental to the customer. Thus the mood for the regulation of financial services within the United Kingdom changed and evolved.

Up until this point in time, the majority of banking business had remained unchanged throughout history. Banks had established an extensive branch network serving and meeting the needs of society. From the beginning of the 1990 the business of banking was to change dramatically and this was to affect the way in which customers could use banks. The increase and use by banks of modern technology allowed for more diverse ways of conducting banking. As such an examination of three pieces of modern legislation will now be undertaken to demonstrate how the legislators were trying to regulate for new technologies used by the banking industry and how modern technologies have affected the culture of the banking industry.

The Electronic Communication Act 2000

The Electronic Communication Act 2000 was set up to:

...make provision[s] to facilitate the use of electronic communication and electronic data storage...[also it] is designed primarily to facilitate the use of electronic commerce in the United Kingdom by building confidence in electronic commerce and the technology underlying it by providing for approved encryption services, recognition of electronic signatures and removing legal obstacles to the use of electronic communications and storage information in place of paper. (Halsbury Statutes 7-1)

With the enactment of the Electronic Communication Act 2000 it was hoped by the banking industry that their online and telephone banking facilities would now be considered a more viable option to even more customers due to the safeguards put in place by this Act. Internet and phone banking are now very popular methods of conducting banking and it is contested that without this piece of legislation the banking industry would have had a much harder time in convincing customers in take

up the new modern practices of banking. The legislation has therefore gone some way to try to regulate for a modern and ever changing banking industry. However the regulators have in this piece of legislation only tackled the technological aspect of banking and not the ethical, moral or societal elements of banking.

The Regulation of Investigatory Powers Act 2000

The Regulation of Investigatory Powers Act 2000 was introduced due to the enormous advances in technology and the enactment of the Human Rights Act 1998. Its purpose is to maintain law enforcement over such new technologies as the Internet. To this extent it is relevant to modern banking practices. If more and more people are using modern technology to interface with their financial service providers, then there must be adequate legislation to protect their interests.

Yet again, though, the legislators demonstrate their ability to consider only the advances in technology and not the ever growing proportion of people who are in financial difficulty or financial exclusion. Their mind set is one of profit maximisation and not social responsibility. This could be argued as being the correct path to follow. The legislation does help both the banking industry and those people who do conduct their banking business via these modern facilities. Also it is beneficial for business and corporate entities and if we refer back to the origins of banks, they were primarily set up for business. However it is argued that with the widening scope for ordinary people to use banks and their facilities the bank is no longer primarily a merchant bank but also a people's bank and thus should also have legislation to regulate the activities of the banks in relation to this aspect. The bank is now two dimensional. It is a banking industry for business as well as for people.

The Postal Services Act 2000

As it has already been demonstrated, the Post Office has been for years a central feature in the ordinary person's financial management of their affairs. The Postal Services Act 2000 was unlike any other proposed change to the current services available from the Post Office. It was hoped by the legislators that the Postal Services Act 2000 would go some way to help those who are financially excluded to open a universal bank account. It was promised to be up and running by April 2003, yet at the time of writing the public is still waiting for this to be fully operational.

The Postal Services Act is the embodiment of the Government's plans to modernise the Post office and open it up to competition first set out in a White Paper published on July 8 1999 (House of Commons 1999(c) Cm.4340).

The reforms proposed by the White Paper had to comply with Directive 97/67, 15 December 1997 and outlined seven main area of concern. These are to:

- Increase separation from the Government
- Create an independent regulator to oversee the Post Office (Postal Services Commissioner).
- Restructure the Post Office Users National Council to strengthen Consumer representation.
- Increase investment resources.
- Convert the Post Office into a public limited company (under the Company Act 1985).
- Retain the obligation to provide a uniform service at a uniform tariff.
- Set minimum criteria for access to the service provided by Post Office Counters Limited while maintaining the current network of Post Offices.

Most of these recommendations were enacted without primary legislation¹⁷ but it is said to have:

...re-enact[ed] the obligations under the regulations and also brings into force the structures and obligations which require a change in primary legislation...This Act therefore builds on the framework established by the Post Office Act of 1953 and 1969 and the British Telecommunications Act 1981. (Halsbury Statute)

It is also hoped that post offices will play a pivotal role in rural communities where high street branches have closed leaving some communities bereft of obtaining financial services. However, there has been considerable nebulosity relating to the closure of Post Offices within recent years and as such it is unclear whether there will be a Post Office network still viable for productive banking business.

Within the Postal Services Act 2000, s43 (2) 'Duties in relation to social and environmental matter's, states that:

The Secretary of State shall from time to time give guidance about the making by the Commission of a contribution towards the attainment of any social or environmental policies. (Postal Services Act 2000)

However, as the Commission is an independent regulator, this recommendation for the Postal Service to give credence to their social and environmental responsibility is no more than just a recommendation. It has no regulatory weight behind it. It is perhaps the first time in legislation that the regulators have recognised a socially responsible role to be played by the financial industry. It is a pity that this was related to the Post Office and not the banking industry.

¹⁷ Postal Services Regulation 1999 (S.I.)1999 No. 2107.

Categories of banks

For the purposes of regulation, banks within the United Kingdom are divided into groups on a geographical basis. The division of banks are threefold, those for England and Wales, those for Scotland and finally those for Northern Ireland.

There are seven main categories of banks, which are separated into classes of function. The first group, and the group which will be focused on within this thesis, are the clearing banks. They are both members of the British Bankers' Association (BBA) and of the Association of Payment Clearing Services (APACS).

Within the United Kingdom, there are six main clearing banks at the present moment. They are Barclays, HSBC, Royal Bank of Scotland, Lloyds TSB, National Westminster and the Co-operative Bank, and it is these and other lesser clearing banks' activities upon which the thesis will concentrate. The main justification for this selection is that the first five are the main high street banks which dominate the majority of the market place whilst all six are banks which provide social functions within society.

Historically, the clearing banks were the successors of the joint-stock banks and can be traced back to the late eighteenth century but it was not until the nineteenth century that the clearing banks flourished. The clearing banks originally acquired their name because as Ellinger and Lomnicka states: "*their capital is subscribed by public issues*". (Ellinger and Lomnicka 1996 P.6)

The role clearing banks play in settling payments and their importance in society cannot be underestimated. Ellinger and Lomnicka (1996) state:

The clearing banks' role in the payment and collection of cheques and other payment orders is directly related to one of their main activities, namely the maintenance of current accounts. (Ellinger and Lomnicka 1996 p.10)

The second group that exists within the banking sector is the merchant banks. Merchant banks originally had two main origins as acceptance houses and issuing houses. However, in 1988 the two merged and became known as the British Merchant Banking and Security Houses Association. This group like the other five bank groups will not be focused on in this thesis.

The third category of banks is the London Market Associations whose main business is:

Discounting to commercial and negotiable paper and the placing of short term deposits, such as surplus funds available to a bank on its daily balance. (Galbraith 1975 p.45)

The fourth category of banks is those in the British Overseas and Commonwealth Banks Association. Fifth is the Foreign Banks and Securities Housing Association Banks. Sixth, there are the American Banks and finally the seventh category of banks is the Japanese Banks.

With reference to the corporate social responsibility of banks it is therefore necessary to examine why there is dissatisfaction publicly and within the industry itself at why there is a lack of social responsibility and how it can be controlled or maintained at a sufficiently high level.

Modern banking practices

Although a bank is primarily a business and was originally created to act as a monetary provider for business it has been said that regulations of banking seem to lag behind the modern ethical, moral and socially responsible aspects of banking practices. The most worrying lack of modernisation is the deficiency of a suitable definition of what a modern bank in today's society actually is? This tends to create a nebulous situation for the above practices and the role of regulation governing them.

Lack of a suitable definition

Cranston believes that the most authoritative definition of a bank is one supplied by the case of United Dominions Trust Ltd. v Kirkwood [1966]¹⁸ where Denning stated:

There are usually two characteristics found in bankers today: i) they accept money from and collect cheques for, their customers and place them into their credit; ii) they honour cheques drawn or orders drawn on them by customers when presented for payments and debit their customers accordingly. These two characteristics also carry a third: iii) namely they keep current accounts or something of that nature, in their books which the credits and debits are entered.¹⁹

This however does not allow for the modern trend of using internet or telephone banking and therefore if one uses this definition of a bank, which is considered as the most authoritative, the new banking trend is excluded. Cranston however notes this inefficiency and opines that “*such analysis would not now be regarded as sufficient*”.

(Cranston 1997 p.4)

Although there has been no conclusive definition of a bank or the inclusion of modern banking practices there have been many cases, which have tried to establish a

¹⁸ 2 Q.B. 431 (CA).

¹⁹ 2 Q.B. 431 (CA).

definition. In Croms. Of the State Savings Bank of Victoria v Permewan, Wright & Co Ltd. (1915)²⁰ Issacs J gave a general definition of bank. He articulated that:

...the essential characteristics of the business of banking are... the collection of money by receiving deposits upon loans, repayable when and expressly or impliedly agreed upon, and the utilisation of the money so collected by lending it again in such sums that are required.²¹

Lewis notes that there is no satisfactory definition of banking but he does accept that generally banks can be described as collecting and debiting money from accounts. Ellinger and Lomnicka (1996) also suggest that there is no all-encompassing definition of banks, they state that:

...as a result of this proliferation, the legislature has not found it necessary to provide a functional definition that distinguishes banks from other financial institutions. (Ellinger and Lomnicka 1996 p.11)

However, Ellinger and Lomnicka argue that to have an adequate common law definition of a bank there would need to be three stipulations. Firstly the definition of banking would have to change and modernise from time to time to keep pace with the diverse and changing financial industry. This can be supported by the current trend of traditional banks moving away from over-the-counter banking towards Internet and telephone banking. This dichotomy becomes a problem when, as in Woods v Martins Bank Ltd [1959]²² the court is called upon to decide whether or not giving investment advice falls under the guise of banking. The Court held that it did, but Salmon J stated; “*The limits of a banker’s business cannot be laid down as a matter of law*”.²³

²⁰ 19 C.L.R. 457.

²¹ 19 C.L.R. 457.

²² Q.B 55.

²³ Q.B 55.

Secondly, they purport that the house where banking is considered to be engaged in, is not necessarily considered so elsewhere. This means that a banking house in one country may not necessarily be considered a banking house within a different country where the beliefs and culture are not the same.

Thirdly, Ellinger and Lomnicka believe that if a bank is widely accepted as a bank then the courts will generally regard it as being so as in, Re Birkbeck Permanent Benefit Building Society [1912].²⁴

Although banks do not have a specific definition, it is strange that Building Societies do. A Building Society is incorporated under the Building Society Act 1986 and is a statutory corporation whose powers are derived from the aforementioned act. It is defined as:

...a finance company that lends money to its members for buying or improving houses, and in which customers can invest money in accounts to earn interest. Many building societies now provide cheque accounts and other general banking services. (Chambers Dictionary)

There are further areas of banking practice, which have changed dramatically over the past couple of decades and where the law has failed to keep pace with their changing nature.

Branch closures

Over the past five years or so there has been a policy within high street banks of closing many branch networks across the country.

²⁴ 2 Ch. 183.

In the last ten years over 4,000 bank branches across the country have closed, leaving around 800 rural communities without any banking facilities. (British Broadcasting Corporation 11 April 2000)

However when Peter Kelly Head of Financial Inclusion at Barclays Bank was interviewed he stated that Barclays had no such policy in relation to bank closures.²⁵ In fact Kelly stated that it was “*customers who closed branches and not banks*”. He also stated that “*we have given a commitment not to withdraw representation when we are the last branch of financial services within a town*”.

However, when Alan Brener²⁶ of the Royal Bank of Scotland and NatWest group was asked the same question he was unsure of what the policy towards branch closures was, but he was sure that if the bank did close a branch they would open another nearby. He also stated a possibly reason for the branch closures:

I think the major issue we discovered a few years ago was the cost and usage of branches, and also the belief about three years ago that online internet [banking] would become the future way to do transactions. (Alan Brener 2003)

The reason for branch closures and the reduction in over-the-counter services according to Northern Rock is also that they are “*changing shape to meet a demanding future*”. (British Broadcasting Corporation 1999(a)) The demanding future Northern Rock is referring to is this change in banking attitude. It is arguable that the traditional over- the-counter service is diminishing and giving way to internet and tele-communications banking. However National Westminster are being a little more honest and claim that their 10,000 job cuts, by 2001, are an “*ongoing strategy to reduce costs and improve profitability*”. (British Broadcasting Corporation 15 March 2000)

²⁵ See Appendix 1.

²⁶ See Appendix 1.

Barclays Bank Plc is deemed to be the worst protagonist of all the main high street banks. Barclays has been criticised within the National Press continually since their announcement of the closure of “171 branches, many in rural area”. (British Broadcasting Corporation 26 April 2000) At the time of the branch closures, Chris Mullen, junior environment minister, urged customers to vote with their feet, (British Broadcasting Corporation 15 March 2000) and that the closure of one-hundred and one branches was unacceptable. Alan Beith was also of the same opinion and said:

With such wide-spread concern, I think the bank really ought to realise how much damage it is doing both to itself and to rural communities by rushing ahead with the closures. (British Broadcasting Corporation 20 March 2000)

Chris Mullen continued this debate by stating that:

We do consider that access to financial services is a vital element in achieving rural development and eliminating social exclusion. (British Broadcasting Corporation 20 March 2000)

Barclays responded by stating that Chris Mullen’s comments were irresponsible and that:

Customers are changing the way they bank and we need to respond quickly in a competitive world. (British Broadcasting Corporation 4 April 2000)

Barclays, though, backed down at its Annual General Meeting where Chairman Sir Peter Middleton apologised to shareholders over the way in which the branch closures were handled. (British Broadcasting Corporation 4 April 2000)

Just more than a year later²⁷ Barclays Bank appeared to be seeking a “*more human image*”, (British Broadcasting Corporation 9 August 2001) due to its bad publicity

²⁷ 2001.

over its branch closures and as discussed later on its advertising campaign, profits and Matthew Barrett's pay rise.

Barclays was not the only bank to forsake a few closures in the pursuit of a demanding technological future. The National Westminster announced that it was to "*close as many as eight branches across Wales*". (British Broadcasting Corporation 11 April 2000) Furthermore the bank has yet to decide the fate of four more banks across south and west Wales that are also facing closure. Wales has already been badly affected by bank closures and Cearnarfon Assembly Member and Pliad Cymru President Dafydd Wigley said he was:

Outraged...This is a double whammy...where Barclays recently closed their branch...The activity of one bank is triggering a cascade of closures. This is outrageous. (British Broadcasting Corporation 11 April 2000)

Outside of Wales, the National Westminster "*is set to close 60 branches and Lloyds TSB plans to shut 400*" (British Broadcasting Corporation 11 April 2000). The banks have responded to the interest in their planned closures by stating that "*face to face customer services are losing ground to internet and phone banking*". (BBC News British Broadcasting Corporation 11 April 2000) Yet the banks are ignoring those in society who cannot afford access to the internet or indeed the telephone, thus making those who are already socially excluded financially excluded as well.

The Portman Building Society has responded to the bank closures of recent years and have introduced a "*mobile bank branch*" (This is Money 10 October 2001) which is to trawl Devon's communities where there are no branches left in town. The communities which the mobile service is visiting are giving the scheme a lukewarm

welcome, but do not regard it as a solution to the branch closure problems. Derek French, head of the Campaign for Community Banking Services said that:

It's good to see an organisation like Portman prepared to offer a banking facility to remote communities such as South Brent and Yealmpton. But it is not the answer to the wholesale closures of bank branches up and down the country. If the mobile branch provided banking services on behalf of all the banks, then I would be far happier. (This is Money 10 October 2001)

The manner in which banks close branches continues and the Government lack any regulatory force under which it can stop the banks. Even ministers speaking in the House of Common appear to have no effect on the big banks in the United Kingdom. In 'The Observer' newspaper, the author calls for a regulatory change in the manner in which banks are run and as such there should be a form of the Community Reinvestment Act 1977 as amended within the United Kingdom.

Last week as Barclays CEO Matthew Barrett drew closer to collecting his £30.5 million bonus, his bank announced the closures of 172 branches, a tenth of its system, mostly in rural area. There ought to be a law! And there is, but once again, it only applies in the US. (The Observer 9 April 2000)

Job losses

Due to the numerous bank branch closures there have been many jobs lost in the banking industry. The regulators have yet to do anything about this. In 1999 the "*Royal Bank of Scotland has warned that 18,000 jobs could be lost if it takes over National Westminster*". (British Broadcasting Corporation 14 November 2001) This figure was increased dramatically if the job losses of both banks are taken into account. It was stated that "*up to 30,000 jobs in the UK could be lost*". (British Broadcasting Corporation 29 November 1999) The Alliance and Leicester Bank, although not one of the big five banks in the industry, employs over 8,000 staff but

“announced 700 job losses in a drive to cut costs”. (British Broadcasting Corporation 21 September 2001)

Furthermore Lloyds TSB has stated that it was to cut 5,000 jobs.

Lloyds TSB, Britain’s biggest retail bank, is to cut 5,000 jobs. (The Guardian 16 March 2002 p.17)

These last job losses have created just as much fury and Iain MacLean, deputy general secretary of UNIFI has stated that:

The bank has not justified this last round of redundancies. It seems ironic that on the day the bank announces profits of £3.6 billion it also announces job cuts. (The Times 15 February 2002 p.2)

The loss of jobs within the banking industry was not merely confined to a period of three to four years but is still an on-going problem with the Halifax announcing job cuts in October 2003, some two years after the majority of the job losses. In addition to all these published figures of job losses are all those which were lost in numerous bank closures across the country. These figures are really just only the tip of the iceberg where job losses are concerned and affect not just the people who lose their jobs but the whole of the British economy as well.

Internet and other forms of banking

Internet banking, telephone banking and tele-banking are all new forms of banking that the industry is promoting. Although they have been primarily regulated for by the above legislation they are not regulated in such a way that would be helpful to those who are in financial difficulties or financial exclusion.

Many people who experience financial difficulties and financial exclusion do not have access to this form of modern banking technology and are thus further excluded from utilising the financial industry. Although banks and the legislature cannot regulate for the lack of owning or using these technologies they could regulate the industry to make sure that these people can do their banking through bank branches.

The reason for the promotion of internet and tele-banking is, according to the industry, due to the changing demands from some customers, but the consequences of this modernisation is the numerous bank closures and job losses which in turn inevitably saves the banks money. It was suggested that:

A major incentive for bank chiefs – and possible their biggest influence – is the huge savings to be made. Each transaction is estimated to cost just 10% of a branch based transaction, as overheads from providing and maintaining staff and buildings are slashed. (British Broadcasting Corporation November 1999(b))

It has further been argued that:

In recent years, the restructuring of the banking sectors-moving towards postal, telephone and online banking – is estimated to have cost up to 200,000 jobs. More than 3,600 bank branches have been lost since 1990 and another 3,000 are expected to shut in the next five years. The savings are beginning to mount up. (British Broadcasting Corporation November 1999(b))

Although the banking industry is keen to promote facilities such as online banking, take up from customers has been far from expectations. Halifax reported that their Intelligent Finance system had only had “*140,000 completed balanced accounts*” (British Broadcasting Corporation 31 July 2001) and has admitted that this arm of their banking industry “*had missed customer targets*”. (British Broadcasting Corporation 31 July 2001)

Research group Datamonitor have said that due to the poor take up on the online banking facilities, “*the high street bank is unlikely to become an endangered species*”. (British Broadcasting Corporation 31 July 2001)

Furthermore “*of those people [within the United Kingdom] only 26% bank online*”. (British Broadcasting Corporation 14 November 2001) It is questionable as to the logic behind the banking industry’s insistence that customers are demanding the banks to provide facilities for alternative banking when only 26 per cent are taking up the banks’ on-line facilities. Datamonitor quoted that 63 per cent of people within the United Kingdom preferred the traditional method of over-the-counter banking while 25 per cent favoured phone banking. (British Broadcasting Corporation 14 November 2001) Datamonitor argued that:

High street bank branches remain a vital component of modern day banking. To provide only one channel ...is to appeal to only a limited proportion of the market. (British Broadcasting Corporation 14 November 2001)

Interestingly the number of online accounts amounts to only 5 per cent of the United Kingdom total accounts. (British Broadcasting Corporation 20 February 2001)

Why then are the banks not listening? Why are they still closing branches and increasing their facilities of online and telephone banking? It may be to do with the financial advantages of lower costs and improving profits.

Bank charges

Bank charges are another modern phenomenon whereby banks are making money from unwitting customers who strive to keep their accounts in credit.

According to a recent survey by HSBC, 25% of Britons know their bank balance down to the last penny. However, it is doubtful anything like that number realise exactly how much of their money is taken by the banks in “hidden charges”. (The Guardian 27 August 2001)

It is surprising to note that the banks make profits of between £3 billion and £6 billion each year by hidden charges. (The Guardian 27 August 2001) These hidden charges arise, for example, from the time taken to clear cheques. When a cheque is paid into the bank it leaves about twenty-four hours during which the amount is debited from one account and not credited in another. (The Guardian 27 August 2001) It is suggested by Mr Cliffe of the national association of bank and insurance customers that the money from the cheques is invested in overnight markets and generates an additional income for the banks of about £150 billion pounds a year. (Phillip August 2001)

By conducting their business in this manner it would not be unexpected that having their cheques make profits for the banks in this way would outrage customers. It is surely the duty and social responsibility of the banks to make customers aware of what they are doing with their customers’ money at all times and be open about the charges which are imposed without customer knowledge. Again it is lack of awareness from the customer’s point of view, which is playing into the hand of the banking industry and the regulators are not recognising this.

Profits

The amount of profit the main high street banks have been making over the past decade has hit headline news frequently. Bumper or excess profits from the banks, as the media have termed them, have become common knowledge within society.

Continually, year after year, very large profits are being advertised yet at the same time the banks are closing branches and making their employees redundant not to mention making secret profits from hidden charges. In 1999 Barclays announced “*a sharp rise in pre-tax profits...up 29.8% to £2.46bn.*” (British Broadcasting Corporation February 2000(b)) However, Barclays were not content at improving profits by nearly thirty per cent but announced that it was embarking on a three year plan to reduce cost and improve profitability.

The UK’s fourth biggest bank also set a cost-cutting target of £1bn over three years. Matthew Barrett...said the group had “more to do” to cut cost and bring further improvements to profitability. (BBC News February 2000)

This rise in profits in 1999 exceeded analysts’ expectations. “*Commerzbank analyst James Alexander said ‘Barclays is now the benchmark for the top banks’.*” (British Broadcasting Corporation February 2000(b))

Within the same week Lloyds TSB “*revealed record profits of £3.62bn and plans to cut 3,000 jobs*”. (British Broadcasting Corporation February 2000(b)) The urge to become increasingly cost effective and efficient is increasing. Phil Middleton head of banking strategy at KPMG stated that this need for cost efficiency was linked to the changing nature of the banking industry.

Most of the large banks were set up for a different regulatory climate. They had branch networks, regional processing centres and complex

computer systems...Now you cannot afford to stand still. There's pressure from shareholders to get profits up, there's pressure from competitors and you have to adapt to changes in the market. (British Broadcasting Corporation February 2000(b))

Once again it is demonstrated that the banking industry is not regulated in a way which protects the consumer and means that the customer is yet again losing out and the banks are winning.

The Royal Bank of Scotland is yet another bank which demonstrates this lack of regulation over profits. In 2001:

Fred Goodwin, Chief Executive of the Royal Bank of Scotland...revealed interim pro-forma pre-tax profits up 37pc at £2.75 billion and predicted additional synergies from its £21 billion take over of Natwest last year. (British Broadcasting Corporation February 2000(b))

Also in 2001 it was reported that:

There's good news for shareholders in the banking sector: UK banks are reporting bumper profits for the past year. Barclays kicked off the reporting season with a 42% rise in profits. Abbey National followed reporting record results, profits rose 17% to top £2bn, and Lloyd TSB's profits were up 7%. Royal Bank of Scotland, which acquired Natwest, reported results up 25% but HSBC topped the lot with a 28% rise to a huge £7.1bn profit. (British Broadcasting Corporation 26 February 2001)

Although the banks are companies whose ultimate aim is to make profits the banks may be losing sight of their social responsibilities towards the general public. But as Cranston notes the whole nature of banking and the people who are employed by them have changed. He denotes that:

...traditionally banks had considerable autonomy; their managers wielded important decision making powers. It is against this background that the common law relating to banks has developed. In recent time, however, banks have pruned their branch networks, especially following bank mergers. The common law has not caught up with these changes. (Cranston 1997 p.12)

However Phil Middleton argues that banks are not being socially irresponsible and are not making huge profits.

You can't say that banks are making enormous profits...Banks are not charities, they have to make a profit as a duty to their shareholders. The banks say they need to take a margin because they have to pay for their infrastructure and to cover the risk that money they lend may not be repaid. (British Broadcasting Corporation 26 February 2001)

Conclusion

This chapter has outlined how the law relating to banks has developed since its origins and how the nature of the banking industry has also changed. It is this exploration within this thesis that portrays the gap that has emerged between the law and the nature of banking practices as well as the expectation gap between the customer and the bank. It is an aim of this thesis to enable a discussion to take place under which a strategy for lessening this gap emerges. As such, the following chapter outlines the financial characteristics which are portrayed by a person who suffers from financial exclusion.

Chapter Four: **Government and Banking Policy towards Financial Exclusion**

Introduction

Financial exclusion is an integral facet of social exclusion and thus must be examined within this setting. Much research has been conducted into the different types and variations of social exclusion by such bodies as the Social Exclusion Unit (SEU) and Professor Kempson (1997 to date) in her work on social and financial exclusion. It can be seen from such work that a person who is financially excluded is also often socially excluded. The Social Exclusion Unit defines social exclusion as:

A shorthand term for what can happen when people or areas suffer from a combination of linked problems such as unemployment, poor skills, low incomes, poor housing, high crime, bad health and family breakdown. (Cabinet Office & Social Exclusion Unit (hereafter SEU) 2001(a) p.10)

Many definitions of financial exclusion have been offered by different commentators, an example of which is that put forward by Dr. Richard Vaughen of the Office of Fair Trading who believes that such exclusion is a two-fold concept. Vaughen states that exclusion can either be caused by price or income. (Office of Fair Trading 1999 p.19)

Price exclusion occurs where an individual at any given income freely chooses not to purchase goods or services because the market price is above the maximum he or she is willing to pay. This willingness will be partly determined by individual preferences. (Office of Fair Trading 1999 p.19)

Secondly Vaughen states that people can be excluded due to income exclusion. Income exclusion refers to the non-consumption of goods or services arising from low incomes. (Office of Fair Trading 1999 p.19)

For the purposes of this research financial exclusion is deemed to constitute both the total lack of participation in the financial market place and the lack of one or more of any necessary financial products such as:

- a current account,
- a savings account,
- house insurance and
- short-term credit. (Office of Fair Trading 1999)

The above products are considered by industry and researchers to be primary essential products and as such if a person does not have access to these products then they can also be classified as being financially excluded.

Financial exclusion can also exist where a person lacks one of the following secondary classifications of financial services;

- Insurance for redundancy,
- Insurance for loss of earnings through sickness or disability,
- Private medical insurance, mortgage payment protection insurance,
- PEP's
- Unit Trusts
- Mortgages and
- TESSA's and ISA's. (Kempson & Whyley 1999 p. 13)

The researcher will examine the Government's policies towards social and financial exclusion and what role the banks can play in combating such problems. The Government created the SEU in 1997 which was aimed at developing strategies to contend with the problems of social and financial exclusion. The SEU has published eighteen reports entitled Policy Action Team Reports. Each deals with a separate issue regarding social exclusion and the reports which are connected to financial exclusion will be reviewed in this chapter. The others although offering government initiatives will not be reviewed within this research. The researcher will consider the Government's initiatives for banks, in helping to reduce social and financial exclusion. Professor Kempson's work is also included in this analysis, as her work is explicit in demonstrating the social trends to both social and financial exclusion. Also within this chapter are several case studies of respondents to this research who have experienced social and financial exclusion. The researcher will also consider the literature produced around financial exclusion, which will be discussed before the exploration into government policies so as to outline the issues involved in the government initiatives.

Social trends and facts of financial exclusion

As discussed above, financial exclusion occurs when a person does not have access to certain financial products through choice or refusal. Although the reason for financial exclusion may differ from person to person, there are often many similarities in their personal characteristics, circumstances and social status. A research paper by the OFT in 1998 examined seven categories of people who were identified as experiencing financial exclusion to a greater extent than the population. They are:

- The unemployed;
- Those suffering from long-term illness or disability;
- Those with a low level of educational attainment;
- Members of ethnic minorities;
- The elderly and
- The young. (Office of Fair Trading 1999)

These groups were found to be not mutually exclusive and were representative of 70% of the total population of the United Kingdom. This is not to say that 70% of the United Kingdom's population is financially excluded but that 70% possess the necessary characteristics to render them more susceptible to financial exclusion. There are other variants within these vulnerable characteristics which contribute to financial exclusion and which will be examined through the analysis of research data later in the thesis.

Another similarity between these seven vulnerable groups is the financial products that they lack. The most common products that are lacked by people who are classified as financially excluded, and which are not mutually exclusive, are current accounts, savings accounts, home insurance and short-term credit. Each will be discussed in turn and although supported by the work of the Office of Fair Trading 1998, the following is adapted and merged with the researcher's own work.

Current account

There are several major problems for people who do not have a current account. These then lead onto further problems associated with social exclusion such as

isolation from society through non-participation of social activities. If a person does not have a current account then they will experience difficulties in the following ways:

1. Most employees are paid through direct debit to the bank; people without bank accounts may experience difficulties in being paid, as most employers do not pay in cash.
2. With regards to the payment of utility bills, a person without a bank account will be at a disadvantage due to the discounts offered to those consumers who can pay via direct debit straight from their bank account.
3. Although most transactions can still be paid in cash there are certain situations where it is not feasible to pay via credit card, debit card or automated cash transfer.
4. Without a bank account, people must keep all their money in cash on their person or at their house. This has two disadvantages. Firstly, the money could easily be stolen and secondly, the money is not earning any interest.
5. Consumers without bank accounts are obviously excluded from services offered by other banks and cannot shop around for products and services which could help them.

Savings account

The majority of people who are financially excluded do not save and never have saved. The concept of saving is unfamiliar to them. Financial education within the majority of these seven vulnerable groups is very poor. Financially excluded people are often unaware of the financial products that are available and the services banks

can offer and what they are entitled to. This was demonstrated throughout Kempson's research in 2001. For example, some people believed that they would have to pay to open current accounts and that banks would not grant them products due to the banks' blacklisting the area in which they live. (Collard, Kempson and Whyley 2001 p.16) This lack of awareness on the part of the consumers and the lack of action on the part of the banks do nothing to help the increasing number of people in financial difficulties. Regulation does not cover this, including the Banking Code of Conduct 2003. If this situation is not resolved, more and more people will lack the financial products which would be beneficial to them.

The difficulties for consumers without a savings account are again all too numerous.

1. Without savings people cannot afford to purchase the products required to fully integrate them into society. The majority of financially excluded people will save money 'in the biscuit barrel' until they have enough to buy what they want. In this case their money is not earning interest.
2. If consumers have no savings they lack the financial security and 'back up' in times of difficulties such as illness or unemployment. Life will become difficult and they will most likely have to draw benefits in order to support themselves.

Insurance

If consumers lack any insurance cover for their home or their life then they face the obvious financial difficulties when things go wrong. Once again there are various problems associated with lacking insurance.

1. It is perceived that insurance agencies only target the top end of the consumer market and not the bottom. Most insurance companies charge high premiums

which would not be financially acceptable to people experiencing financial exclusion or hardship and as such these people often prefer to go without.

2. There is a considerable amount of mistrust amongst financially excluded consumers regarding insurance companies due to high premiums and the belief that insurance companies are 'out to get what little money they have' by not paying up when things get stolen or lost.
3. Consumers without insurance face considerable difficulties if their houses are broken into and their belongings stolen or damaged because, as a result of their little or no savings they cannot afford to replace these belongings.
4. Consumers without life insurance face enormous problems if a partner dies and leaves the other with children and the household to finance.

Short term credit

Through exploring the other three financial products it can be seen that without short term credit a consumer faces real problems if things go wrong or something unexpected occurs. Life is much more difficult for those consumers without these financial products.

1. Financially excluded consumers face problems when applying for short-term credit and are often refused due to the increase in the use of credit scoring. Consumers lacking most of the above financial products are very likely to be refused short-term credit and thus products such as white goods cannot be purchased until the consumer has saved enough themselves. The consumer as such has to save before being able to buy.
2. Without short term credit, consumers cannot purchase goods which may allow them to participate in necessary social activities with others. If, for example, a

vulnerable consumer's child needs a new school uniform, and the items are too expensive for the consumer to buy outright, without access to short term credit the child is likely to suffer socially as a consequence.

It is therefore difficult to see how financially excluded consumers manage their lives without the easy access to products that the majority of society takes for granted. It is often the case that such people have never known anything different and it is this lack of awareness which stops them from escaping the financial exclusion cycle. If a person is born into a financially excluded home and is unaware of financial products and services they will grow up to have a home and family of their own which will reproduce all the financially excluded characteristics of the original family. The cycle of deprivation is hard to break out of and this research demonstrates that banking industry regulation is not helping consumers to break this cycle.

To create this cycle of deprivation, there are other necessary characteristics which are associated with being financially excluded. Table 4.1 and the following analysis of the research demonstrates the diverse nature of financial exclusion.

Table 4.1: Financial Characteristics and Family Circumstances

<u>Socioeconomic circumstances of households with no financial products</u>	No financial products	<i>Column %</i> All Households
Net weekly household income		
No income	*	1
£1-50	1	1
£51-100	26	11
£101-150	41	17
£151-200	20	14
£201-300	11	20
£301-400	1	14
£400-500	*	9
more than £500	*	12

Net equivalent weekly household income		
No income	*	1
£1-50	*	1
£51-100	4	3
£101-150	36	16
£151-200	41	21
£201-300	16	26
£301-400	3	15
£400-500	*	8
more than £500	*	9
Receipt of income-related benefits		
None	5	69
Council Tax Benefit Only	2	5
Income Support Only	1	2
Council Tax Benefit and Income Support	2	4
Housing Benefit Only	3	2
Housing Benefit and Council Tax Benefit	17	5
Housing Benefit and Income Support	7	1
Housing Benefit, Council Tax Benefit and Income Support	63	12
Economic activity status (head of household)		
Self-Employed	*	9
Full-time employment	4	42
Part-time employment	2	2
unemployed	17	6
Retired	35	27
Sick/Disabled	17	6
Student	1	1
Other Inactive	24	7
Number of years since last worked (head of household)		
Zero	7	54
One	4	3
Two	5	3
Three	6	3
Four	6	3
Five	5	3
Six to Ten	20	10
eleven to sixteen	28	14
21 or more	19	7
Weighted Base	1,751	26,435

Source: Family Resources Survey 1995/96

*less than 1%

The above table demonstrates in a numerical format the above propositions regarding the financial characteristics and circumstances which people in financial exclusion face.

Literature review

We have seen that financial exclusion exists where people for whatever reason do not participate in the main financial services, such as current accounts, home insurance, long-term low interest credit and saving accounts, as discussed above. (Kempson & Whyley 1996) A considerable body of literature has been produced on the topic in the past decade with the majority of it focusing on the effects on those who are financially excluded and what can be done to rectify the situation. (Social Exclusion Unit 2001; Kempson & Whyley 1999 and Office of Fair Trading 1999)

As stated above there has been a considerable amount of literature produced detailing the characteristics of financial exclusion, but the purpose of this thesis is to explore financial exclusion and banking regulation. Two pieces of literature which were used to initiate this literature review were the FSA report, 'In or out financial exclusion: a literature review and research review', in July 2000 and the Adult Financial Literacy Advisory Group (Adflag) report entitled 'The nature and size of financial exclusion' in 2000. The research acknowledges the importance of these reports and they have been used as a guide to other literature used in this review. The reports are comprehensive and extensive and primarily look into financial exclusion in its broadest sense. The FSA report examines the characteristics of financial exclusion and was carried out by Elaine Kempson, Claire Whyley and Sharon Collard. This report was later re-published in the report by the Joseph Rowntree Foundation and it is this report which has been used within this thesis. The Adflag report details the initiatives for financial education from government. However, this too has been reproduced in the PAT reports detailed below and the researcher chose to reference these reports. The Adflag report was used to ground the recommendations, as highlighted in chapter 10.

The literature raises three main questions which academics and Government officials have tried to answer. The answers that have been provided however have only succeeded in unearthing further questions surrounding six potential phenomena. The three main questions portrayed in the literature, and the phenomena that stem there from are:

1. What is financial exclusion?
 - Government definitions.
 - Academic research.

2. Why are people excluded?
 - Financial Aversion.
 - Characteristics of excluded people.
 - Process of financial exclusion.

3. What can be done to stop financial exclusion in the United Kingdom?
 - Financial Education
 - Community Reinvestment.

The first question under the concept of financial exclusion is: what is financial exclusion? Financial exclusion is coupled with aspects such as doubled crime rates between 1980 and 1995 and trebled child poverty between 1979 and 1995. (Cabinet Office & Social Exclusion Unit 2001(b) P.5) The Government believed that these problems, under the heading of social exclusion, were of a ‘joined-up nature’ and needed a joined-up Government policy to tackle them. This is an aspect of public policy in terms of whether the Government has achieved an integrated policy, or whether the initiatives of a joined up Government policy are still unattainable. However, what is important to note is that financial exclusion does not operate in isolation; it is not a singular facet or aspect of life or of the financial industry with set

easily identifiable parameters. As a phenomenon it is diverse, complex and multi-layered, manifestly giving rise to a whole host of reasons as to why people are financially excluded. As such it is often a combination of these reasons which give rise to the occurrence of a particular case of financial exclusion. Collard et al (2001) states the importance of tackling financial exclusion due to the sheer number of people who are affected.

Around 1.5 million households in Britain (7%) lack any financial products at all. A further 4.4 million (20%) are on the margins of financial services, with little more than a bank or building society account that is not much used. (Collard, Kempson & Whyley 2001 p.V)

The second question is: why are people excluded from mainstream financial services?

One modern view of financial exclusion is that some are excluded due to a 'financial phobia'. (Burchell 2003) The literature demonstrates that:

...[s]ome individuals have a puzzling and seemingly irrational orientation towards administrating their personal finances, leading to poor management of their personal finances at considerable cost to those individuals. (Burchell 2003 p.1)

Although this initially appears to deal only with poor management of finances this could lead to financial exclusion if the phobia increases to such a state of irrationality.

The literature however does put forward three hypotheses that conceptualise such dysfunctional orientation towards personal finance. (Burchell 2003 p.2) They are as follows:

Hypothesis 1: The condition experienced by 'financialphobes' may be similar to that of dyslexia.

Hypothesis 2: There may be cognitive shortcomings in the way in which individuals process financial behaviour.

Hypothesis 3: The phobia may be due to the person having an emotional response to finances. (Burchell 2003 p.2)

Burchell (2003) states that those who are most likely to suffer from financial phobia “are found across all classes, ages, and religions, suggesting that no group of individuals is immune to this psycho-social phenomenon, there are [however] some marked patterns in its prevalence”. It is stated that 29 per cent of financialphobes are in social classes D and E, which represent the lower end of the social class spectrum. The majority of financialphobes are in the 25 to 34 age bracket with only about 23 percent being women. The report also found that behaviour such as not opening bank statements is directly related to financial phobia. However what is most alarming is to see the emotional responses financialphobes experience when dealing with financial matters, as summarised in Table 4.2.

Table 4.2. Emotional reactions to dealing with personal finance for financialphobes and the rest of the sample. (Burchell 2003)

REACTION	PERCENTAGE FINANCIALPHOBES	PERCENTAGE, REST OF THE SAMPLE
Relieved	67	51
Apprehensive	54	33
Anxious (heart racing)	45	22
Disinterested	38	23
Disenchanted	33	20
Excited	26	17
Enthusiastic	25	22
Irksome	21	10
No Emotion Whatsoever	21	33

Immobilised	15	3
Physically ill	12	5
Dizzy	11	5

It is however important to note that *“financialphobes do not display the characteristics of many of the simplistic stereotypes that we have of feckless or incompetent individuals. There is no evidence that they are spendthrifts, impulsive or unintelligent. Many of them are highly intelligent people who are high achievers in other domains of their lives, such as their careers and family lives.”* (Burchell 2003 p. 20)

In most respects this piece of literature harmonizes with the majority of literature that has gone before it, such as that by the Office of Fair Trading (1999). The main difference between this and other pieces of research is that people without financial services and products were previously thought of as ‘vulnerable groups’. In Burchell’s report the emphasis is placed not on financial exclusion but financial aversion. It is supposed here that the two are connected. If a person has a financial phobia then it is very likely that they may encompass some form of financial exclusion. Financial exclusion as stated in the opening definition is not necessarily in the form of not being ‘allowed’ access to financial services but it may be, as is the case with financialphobes, that they ‘chose’ to be excluded from financial services.

Kempson and Whyley (1998) demonstrate that although between 6 and 9 per cent of individuals lack any type of current account, these people span *“all ages, and all genders (although the majority are female).”* (Kempson and Whyley 1998 p.3) The literature differs from Burchell’s research in that the people Kempson and Whyley are

portraying are those with low-incomes, mostly unemployed, lone parents, pensioners and ethnic minorities. This is clearly a different set of people to those to which Burchell referred.

Kempson and Whyley demonstrate the diverse range of reasons and explanations given by those deemed to be financially excluded as to why they do not have current accounts.

- **They have never had a current account**
 - They use a savings account instead
 - They have not got round to opening an account
 - A women's husband has an account
 - They prefer a cash budget
 - They have been refused an account – this is relatively small at 1%

- **They had an account in the past but had closed it themselves**
 - They lost their job and were unemployed for a number of years and so suspend the account
 - They retired
 - Long term sickness or disability
 - They gave up work and their account when they had children
 - They work in an informal economy
 - They had a bad experience with a current account
 - Account closure by the bank or building society. (Kempson & Whyley 1998 p.12-17)

It therefore appears from this particular literature that the majority of people who are financially excluded are excluded through their own personal choice. The reasons for exclusion are therefore unclear. Is exclusion chosen or inflicted upon people? The majority of literature deems that it is a mixture of the two, but emphasis and media attention is largely placed on the latter, namely through infliction.

The seemingly large percentage of voluntarily financially excluded that is suggested by the literature would seem to question the scale of the financial exclusion problems as well as the actual need to resolve it. If people do not participate in financial services through choice, it would seem almost an affront to their personal liberties and freedom of choice to attempt to provide them with services, the lack of which is perceived to be to their detriment. It would seem appropriate however to question why such people have chosen to opt out of these financial services. The problems of financial phobia have already been discussed but what of those individuals whom it would be inappropriate to place in such an extreme category? Analysing the research of Kempson and Whyley (1998), it would appear that this category of financialphobes is not especially extensive as the majority of reasons given in the research they conducted seem ordinary, everyday, practical reasons. It would seem logical to deduce therefore that the majority of financially excluded persons are influenced by more straightforward, less extreme rationales than that which might be associated with financialphobes. So what are the reasons such people select not to participate in financial services? Is it through a full and comprehensive understanding of the financial services industry and the services and products which are available that they make an educated assessment that their finances would be better managed without recourse to financial providers and services? In such a situation might it be the case that the services on offer do not provide the particular customers with the facilities they require. This is certainly an argument put forward by Kempson and Whyley (1998).

On the surface these people are self-excluding, although it could equally be argued that they were excluded by the lack of availability of an account that was appropriate to their needs. (Kempson & Whyley 1998 p.17)

But is this the only reason? That would require the presupposition of the prior notion mentioned above, namely that such people are sufficiently financially educated and aware to make such decisions. It is impossible to generalise and levels of financial understanding will inevitably vary from person to person. It would however seem salient to question whether those people with a lower level of financial education, who fall into the category of electively excluded, would make the same decision if they had a better understanding of financial service providers and the services to which they were entitled.

The third main question which can be derived from a review of the literature is: what can be done to stop financial exclusion within the United Kingdom? Although there is a plethora of literature outlining the many aspects of both social and financial exclusion in detail, there is a lack of literature proposing or recommending a feasible, workable solution to the problems of financial exclusion. One study which encompasses many of the facets of financial exclusion and which does put forward five recommendations was published in 1998 (Mayo et al 1998 p.3) but there seems to be little recognition of the work in any form of Government initiatives.

Mayo et al (1998) quote Lord Borries in the Report of the Commission on Social Justice:

Government can never take the place of community; what it can and should do, however, is create political, institutional and financial frameworks which will help local people to rebuild their communities from the bottom up, making them safer places in which to live and generating a better quality of life which can support wider economic opportunities. The development of community banks and credit unions coupled with substantial reforms to housing, are central to a strategy of regeneration. (Mayo et al 1998 p.3)

The literature puts forward five recommendations that summarise the essence of Lord Borries' speech concerned with community regeneration.

1. Improve access to technical assistance.
2. Enable community finance initiatives to be scaled up, for example, through a community capital fund.
3. Improve risk and return on community reinvestment, for example, through targeted loan guarantees.
4. Create market conditions favourable to social responsibility, for example, through Community Reinvestment Disclosure.

Unfortunately, as with the majority of the recommendations on financial exclusion there appears to be no direct action taken to implement the proposals. Thus although there is a wealth of literature reporting the nature and the overall situation of financial exclusion, there has been no singular action taken which has been achievable or workable within society to help to promote financial inclusion. This is where this research differs; the recommendations put forwards are both workable and feasible and help to promote both financial inclusion and financial education whilst the banks are fulfilling the social obligations which society now calls for.

Social Exclusion Unit – policy action team reports one to eighteen

The SEU was created in 1997 after the Government recognized the increasing problem of social exclusion. Since its creation the SEU has published twenty-seven reports spanning five main areas. The SEU work only covers England but the SEU team works closely with the Government, the Welsh National Assembly and the Scottish Executive. The SEU's personnel are mainly civil servants but they also collaborate with ministers when there is a particular area of concern.

The SEU is a major strategic facet of the Government's design to combat social exclusion and this is reflected in the Government's budgets and spending reviews. The SEU's recommendations have gone a long way to change "*the way in which social exclusion is understood within the Government and more widely*". (Cabinet Office & Social Exclusion Unit 2001(d)). However the researcher contends that the SEU does not focus sufficient attention on the financial aspect of social exclusion and as such does not portray the role banks should play in monitoring and combating financial exclusion. As stated at the beginning of the chapter only those Policy Action Team (PAT) reports that are of particular relevance to this research will be reviewed within this thesis.²⁸ As such PAT reports 1,5,6,7,8,10 and 12 will not be discussed.

PAT 2 Skills

PAT 2 (i.e. Cabinet Office and Social Exclusion Unit, 2000, Policy Action Team Report 2) deals with the issue of the lack of basic skills of those within poor neighbourhoods. Although the PAT looked mainly at how these people could be educated so that they could gain employment it is important to note that through the lack of these skills these people are less likely to be able to manage their finances effectively. It is suggested by PAT 2 that;

People who live in areas that suffer from severe social disadvantage are disproportionately likely to have few or no qualifications, poor literacy and numeracy skills, and low self-confidence and 'coping skills'. (PAT 2)

It is the lack of basic numeracy skills that may inhibit people from entering the financial market and it is contested that the banking industry has not provided assistance in helping to re-integrate these people into the financial world. The recommendation from PAT 2 that is of potential relevance in helping to facilitate

²⁸ For further information on PAT 1,5,6,7,8,10 and 12 please see the SEU website at www.socialexclusionunit.gov.uk.

financial integration of those in poor neighbourhoods is that of the Government's need to "*ensure that people in disadvantaged areas have access to the education and training they need*". (PAT 2) If people are lacking basic numeracy skills it is hoped that through this recommendation they may obtain the necessary skills to understand how to manage their finances. This recommendation can be directly compared to the Financial Services Authority's third statutory objective, to educate consumers.²⁹ Through this objective the Government proposes that children and adults must gain sufficient knowledge about managing their finances so that they can participate in the financial market.

PAT 3 Business

PAT 3 concerned itself with "*how successful [are] business support organizations...in serving the most deprived communities*". (PAT 3) It was concluded that there was "*a shortage of jobs, local services and enterprise*" (PAT 3) within the most deprived neighbourhoods in the country. Chapter three of this thesis details how the changing nature of banking practices has led to the closure of many of the branch networks, and how many of these branches were situated within disadvantaged neighbourhoods. As such the withdrawal of many bank branches from deprived neighbourhoods is at least partially responsible for many people becoming financially, as well as socially excluded.

PAT 3 found that:

There is no national strategy or framework for providing support to enterprise in deprived communities...this area suffers from a lack of attention and clear responsibility at the heart of the Government. (PAT 3)

²⁹ s3 Financial Services and Markets Act 2000.

It would seem clear that the Government, in failing to provide a strategy for regenerating neighbourhoods, has no regulatory powers or control over the banking industry when they choose to close bank branches. It is therefore a necessity for the Government to adopt an action plan to inhibit banks from closing branches in the most disadvantaged areas so that the people within these communities do not become even more socially and financially excluded.

PAT 4 Neighbourhood management

The ambit of PAT 4 was to report on “*the problems that can best be tackled and services that might be co-coordinated by neighbourhood management*”.(PAT 4) It is contended that the provision of financial services within deprived communities is vital if the financial integration of those excluded is ever to begin. Without the presence of banks, credit unions and co-operatives in deprived communities financial exclusion will only be exacerbated. It is therefore critical for the Government to undertake such action as is necessary to ensure that some means of financial service is provided in every community. To this end, it is argued that regulation should be introduced to maintain a competitive and thriving financial industry within all communities.

PAT 4 asserts that;

Effective local services partnerships are crucial to provide a forum at local level to pull together all relevant providers, and ensure that public services join up with one another to address the needs of priority neighbourhoods. (PAT 4)

PAT 9 Community self- help

PAT 9, although dealing primarily with community self help to enable communities to help themselves to combat social and financial exclusion, does recognise that:

The absence of strong communities makes it more difficult to enforce laws about anti-social behaviour, vandalism or keeping the streets clean. (PAT 9)

A strong community infrastructure is essential to the existence of a strong community which is in turn crucial to the prevention of social degeneration. Banks form a part of this important infrastructure and so when banks withdraw from communities there is an increased chance that this infrastructure will break down and cause some of the problems associated with a weak community.

It would thus seem advantageous for the Government to provide regulation on the withdrawal of banks from communities, yet the PAT 9 does not focus on this aspect.

It is stated that the aim of the PAT 9 is to report on:

...how businesses and their employees can become more closely involved in supporting community activit[ies] and regeneration in poor neighbourhoods. (PAT 9)

An example of this can be seen in the many high street banks who already participate in social activities within their local and national communities.³⁰

PAT 11 School plus

The School Plus report by PAT 11 examines the way in which lack of education can lead to social and financial exclusion. It was stated in the report that “*the costs of educational failure are enormous in economic and social terms both for the individual and society*”. (PAT 11) At this point it is necessary once again to make the link with the FSA’s statutory objective to educate consumers.³¹ The Government has already recognized that the financial education of most children and many adults is poor. It is therefore important for social and financial inclusion for there to be an adequate

³⁰ See chapter 7.

³¹ S3 FSMA 2000.

benchmark provided by the Government which outlines the necessary requirements and education for basic financial literacy. The need for financial education and the significant link with financial exclusion is further demonstrated in chapter 9.

PAT 13 Shops

PAT 13 outlines the policies that the Government plan to adopt in relation to “*develop[ing] a strategy to increase access to affordable shops for people in poor neighbourhoods*”. (PAT 13) The report examines:

...the scope for new kinds of franchise, the potential role of a range of different types of outlet, for example, Post Offices and pharmacies, the links between new retail investment and crime reduction strategies, and the scope for using local planning and rent policies to support neighbourhood shopping centres. (PAT 13)

Within the banking industry itself, although PAT 13 does not pick this up, many banks have opened up Automated Telling Machines³² within local supermarkets. The Co-operative supermarkets, for example, have put Co-operative Bank ATM's in their stores. This however only assists those who have already entered into the financial market. It is of no benefit to those who are without any financial products.

PAT 14 Financial services

PAT 14 is crucial to the examination of Government policy towards social and financial exclusion and what banks can offer in the way of assistance. The goal of PAT 14 was to:

Develop a strategy to increase access to financial services for people living in poor neighbourhoods. (PAT 14)

³² Hereafter ATM.

PAT 14 found that “*about one and a half million low-income households use no financial services*”. (PAT 14) PAT 14’s report goes on to argue that:

The reason poor people use financial services less are complex. Outright refusal by banks or other institutions is relatively rare. More often, the problem is a mis-match between potential customers’ need and the products on offer. As providers develop new products that are more suitable for low income customers, those who live in poor neighbourhoods should benefit, as well as those in less deprived areas. Product diversity is clearly part of the answer for all under-served markets. (PAT 14)

The report also found that the geographical areas in which these poor neighbourhoods are situated affect the lack of take up of financial products. For example it is suggested that “*where crime rates are high, property insurance, both household and business, may be unaffordable*”. (PAT 14)

The third main finding that is of particular importance is the impact credit unions could have on the socially and financially excluded.

Credit Unions can make a difference, because they are open to low income groups; encourage small-scale savings; provide low cost credit; and can be a bridge to other financial services. But the movement covers only a fraction of one per cent of the population and the credit unions serving poor communities are often making only a limited impact at a local level. (PAT 14)

This thesis considers the importance of credit unions for people in financial exclusion and the research demonstrates how people who are refused financial products by banks have then switched their accounts and custom to credit unions. The role credit unions can play in helping to reduce financial exclusion is considerable. However, the credit union movement would need full co-operation from the banking industry and the government for this to be an achievable aim and this is advocated by Andy Williams of Bournemouth Credit Union.³³

³³ See Appendix 1.

The report brings the attention of the Government to the changing business of banking over the past twenty years. This, it is suggested, has contributed to the social and financial exclusion experienced by people in low income neighbourhoods.

Banking has expanded enormously over the past 20 years, but nearly one in ten households has no bank or building society account. For these people, paying bills, handling cheques and getting access to affordable credit are all the more difficult and often more expensive than for those that do have them. (PAT 14)

This has been exacerbated by the fact that:

Banks and building societies continue to downsize their branch networks – but they have managed to carry on providing services to ever more people through cash machines and other delivery channels. These alternatives are only just beginning to reach deprived neighbourhoods, but the technology now exists to help improve the situation. (PAT 14)

The researcher contests the accuracy of this view because new and modern technology cannot help all those in poor neighbourhoods, as for many of these households a telephone, a computer with internet access, or a television with internet access, is not an affordable option.³⁴ The new banking facilities offered by banks, to enable people to bank without the traditional bank branch network, will only assist affluent communities who can afford new and modern technologies, rather than those who, for one reason or another, are ill-provided for by even the most basic bank branch services.

It is however important to recognise the potential modern technology could have for poor communities. For example it is modern technology which has allowed Post

³⁴ See chapter 9.

Offices to set up the Universal Bank Account and to create an automatic cash transfer for benefit recipients. It is supported by PAT 14:

The Government's decision to pay benefits by automated credit transfer and to computerise the Post Office network is going to make a huge difference. Paying benefits the new way will increase the demand for banking and other financial services, ranging from conventional current accounts to more limited facilities. Computerisation will provide a platform for the Post Office, with a branch network ten times the size of the biggest high street banks, to be an alternative delivery channel for every community. (PAT 14)

The last area the report focused on were the requirements of appropriate identification banks require before a person can set up a bank account. PAT 14 pointed out that:

People sometimes get refused a bank or building society account because they cannot provide identity documents to show who they are and where they live, or the banks say that only a driving license or a passport will do. (PAT 14)

The report makes a number of key recommendations. It proposes that the Government should help enable credit unions to develop and grow as a movement and be assisted by deregulatory measures. PAT 14 suggests that banks and building societies should provide basic banking facilities "*in light of the benefit payment system and the future of the Post Office Counters services*". (PAT 14) It was also recommended that the banking industry along with the Government and the FSA should provide basic literature on financial products that could be understood by the whole of society.

The full report makes over 40 recommendations in total. If they are all taken up, it is possible to envisage a time when financial exclusion will have disappeared entirely. This does not mean that everyone will use financial services to the same extent. But it does mean that the barriers and constraints of choice that limit access now will have been substantially reduced. (PAT 14)

PAT 14 recommended that by the end of 2000 there should be "*an increase in banks offering basic accounts*"; "*a fall in the proportion of households where no-one has a bank account*"; "*a substantial decline in refusal of bank accounts because of non-*

standard identity documents”; “*a passage of credit union deregulation measures*”; and “*development of FSA credit union framework*”. (PAT 14)

For the recommendations to be effective, PAT suggested that targets should be established in order to enable a meaningful monitoring process. By the end of 2003 it is proposed that there should be:

- Post Offices offering computerised access to bank accounts;
- A continued increase in access to bank services by alternative delivery channels;
- The first wave of benefit recipients getting payments by automated credit transfer, and
- A Credit Union Central Services Organisations up and running. (PAT 14)

Similarly the aim for the Government by 2005 is that:

- All benefits should be paid by automated credit transfer;
- Low income households’ usage of banking and insurance should be at a similar level to other social groups; and
- There should be a substantial increase in credit union membership among low income groups. (PAT 14)

At the time of writing (2004) the majority of the above proposals are far from being implemented with many being delayed for up to a year beyond their time scale of achievement.

PAT 15 Information technology

PAT 15 investigated the effect of a lack of information technology within deprived areas. It was found that a lack of participation within information technology did further enhance the social and financial exclusion experienced in such communities.

It is obviously not just banks that have developed and embraced the new modern technological world. As the Government recognises:

Over time, it is expected that information technologies will change the whole pattern of people's lives, as completely as broadcasting, telephones and high speed transport did in the past...The arguments for social inclusion and for economic development in the Information Age are mutually re-enforcing. (PAT 15)

It is this trend which is increasing the problems faced by those who live in socially deprived areas.

In some housing estates, well under 50 per cent of households have a telephone, compared to a national average of over 90 per cent. Ownership of and access to personal computers is also much lower. However, television is ubiquitous, and digital television may offer a more likely future route to home access in these neighbourhoods. (PAT 15)

It is suggested by PAT 15 that providing access to computers and the Internet to all those in deprived communities will help to eliminate some of the social and financial exclusion experienced. PAT 15 states that:

By April 2002, each deprived neighbourhood should have at least one publicly accessible community-based facility to complement any home access which is available. (PAT 15)

Although there is an improvement, this initiative is far from being completed at the time of writing (2004).

PAT 16 Learning lessons

PAT 16 concerned itself with getting the community involved in community projects.

Its goal was:

To identify the skills, experience and support needed in public agencies and local partnerships to ensure that programmes are designed and implemented successfully and achieve desired outcomes. (PAT 16)

PAT 16 found that for social and financial exclusion to be combated three key groups within the community would need to be involved. These were:

- *People within communities* – encouraging more of them to take up leadership role and become ‘social entrepreneurs’;
- *Local practitioners and professionals* – helping them to become more effective at their core jobs and better at working with each other and with local communities; and
- *National Policy Makers* – encouraging them to understand, from personal experience, the deprived communities their policies are designed to help. (PAT 16)

It is under the second heading that banks may fall, although the PAT 16 report does not specifically mention the banking industry’s involvement. If banks become more involved with their communities then they would immediately become more accessible for those who are financially excluded. People who feel intimidated by banks, for whatever reasons, may be more likely to overcome the threat a bank poses for them and enquire about financial products. However PAT 16 fails to make this important connection and as such little progress has been made in this direction and banks are still out of reach for many in the deprived communities of the United Kingdom.

PAT 17 Joining it up locally

To combat social and financial exclusion effectively, there is a need for a joint strategy and this is what PAT17 focuses on. PAT 17’s goal is:

To reach an agreed plan for building on existing area initiatives and local government reform so that in the long term broad based local strategies to prevent and tackle social exclusion become the norm, and good practice is disseminated and acted on. (PAT 17)

It is submitted that “*a combination of public, private, voluntary and community sector effort is needed*”. (PAT 17) Furthermore:

The need to join up is particularly strong at the local level. It is this level that many core public services do their operational planning, and at which many decisions about allocation of resources are made. (PAT 17)

This may explain the withdrawal of banks from many already deprived areas. If a bank is not being sufficiently used as a result of people in the community either not utilizing or being refused financial products, then it is more likely to close its branch and allocate its funds somewhere more profitable. This then leaves those who do have financial products without a financial service provider in their community. This cyclical effect assimilates the whole nature of financial exclusion, whereby it is not just one factor contributing to financial exclusion but a whole range of factors, which have an interrelating effect on all other factors.

One of the seven principles laid out by PAT 17 is that:

- mainstream providers are the key: sustainable change cannot be effected through area-based initiatives alone. (PAT 17)

PAT 17 is thus stating that banks, as an essential mainstream service provider, need to be present within the community for there to be any impact on social and financial exclusion. PAT 17 does not however outline this in any detail, but merely categorizes essential services, such as banks, as mainstream providers.

PAT 17 provided a large number of recommendations to the Government, the most relevant of which to this present discussion is that:

- Well-being legislation should be used to pilot the rationalization of services and strategic plans. (PAT 17)

If PAT 17 recommends well-being legislation to guide service providers, it would seem salient to consider legislation which could combat any lack of social responsibility by the banks and to reduce financial exclusion.

PAT 18 Better information

The last Policy Action Team report focuses upon the need for better information regarding those who are socially and financially excluded. The report suggests that there is:

Scope for a coherent cross-Government strategy to get more up-to-date information on deprived areas and collect more of it on a consistent basis. (PAT 18)

It is stated that:

No single and up-to-date resource exists that provides a remotely comprehensive picture of social conditions at the local level. (PAT 18)

Although this is of vital importance to the elimination of social and financial exclusion, it is not a facet which will be considered within this thesis and as such no further discussion will take place on it.

As part of the research undertaken in this thesis there have been a number of profile reports created from the open-ended questionnaires. The following reports illustrate the profiles of people who believe that they are financially excluded or experience financial difficulties and form part of the primary research within this thesis. In all three reports, the respondents believed that their bank could have done more for them when they experienced financial problems and all rate their past and present relationship with banks no higher than 'OK'. It would appear therefore that although the Government and lobby groups are trying to stem the growing number of people experiencing financial problems the banks are doing little to help. The banks are still not regulated so as to ensure their assistance in finding a way to stop financial exclusion or to help those with financial problems.³⁵

³⁵ See Chapter 5 and 7.

Alexander

Alexander is a white British male under 20 years of age. He currently lives in the Pines Hostel Dorset and stated that his main line of employment was as a “sales assistant”, but he is currently unemployed. Alexander described his family background as “moderate income”.

Alexander stated that he has a savings and deposit account (including ISA) with a building society which he chose for its ‘convenience’. When asked if he was aware of the Banking Code’s existence he said that he was not.

Alexander stated that he had approached his building society for advice on protecting his account.

Alexander felt that he had experienced financial difficulties and that he has experienced financial exclusion.

When asked about his past experiences with banks he rated them on a 1 (very good) to 5 (very poor) scale, as 3 (OK). Alexander also rated his current relationship with his bank as 3 (OK) scale. He explained this as he has;

“no savings going in or out but have debts”.

Alexander felt that when he did experience financial difficulties his bank was “helpful (on a scale of very helpful, helpful, not very helpful).

When Alexander was asked about modern banking technology he claimed that he had access to the television but that he did not use any modern technology to access his account.

Alexander has been refused several financial products such as a current account, an overdraft facility and store cards. When asked how he overcame these refusals he states that he “did not bother” after being refused. When asked about how he felt when he was refused these financial products he stated that he felt “victimized”. He now regards his present financial situation as 4 bad (on a 1 to 5 scale).

Alexander believed that his bank could not have done more to help but when given possible solutions to his problems in the course of the interview he stated that the banks could have done the following to help him: more advice on financial problems, to be more understanding of his needs, to offer more products designed to meet his needs and to provide more information on products available.

When asked if banks were doing enough to help people who are financially excluded he said “no” and explained that:

“They have a buzz view that doesn’t apply to every one in every situation”.

When asked if he felt the government was doing enough to regulate the banks with regards to dealing with those in financial problems he stated “he did not know”.

When asked if he had anything further to state he said:

“Lack of help and info has left me discouraged and excluded about my difficulties”.

This profile report further demonstrates the lack of awareness of people in Alexander’s situation that the banks could do more for him, when in reality the banks if asked could have advised him about his situation. Similarly, this report highlights the bank’s failure to advertise what facilities they do actually offer to people who suffer from financial problems. These problems are further illustrated in the following two profiles.

Kelly

Kelly is between 21 and 30 and is a white female. She currently lives in the Pines Hostel Dorset and stated that her main line of employment was “factory work”, but she is currently unemployed. Kelly described her family background as “low income”.

Kelly stated that she has a current account, a store card, a credit card and a personal loan or overdraft with Lloyds bank which she chose for its ‘convenience’. When asked if she was aware of the Banking Code she said that she was and that she had received a copy from her bank which she has read. The bank sent Kelly the code automatically for a number of reasons such as advice on financial difficulties, interest rates, bank charges, terms and conditions of her account and on how to protect her account from fraud. However Kelly felt that the information contained the code was not informative to her particular needs. Kelly stated that she has gone to her bank for advice on the following matters:- advice on financial difficulties, bank charges, terms and conditions of her account, borrowing money and advice on protecting her account.

Kelly felt that she had not experienced financial difficulties but that she has experienced financial exclusion.

When asked about her past experiences with banks she rated them on a 1 (very good) to 5 (very poor) scale, as 5 (very poor). Kelly also rated her current relationship with her bank on a 5 (very poor).

Kelly felt that when she did experience financial difficulties her bank was “not very helpful (on a scale of very helpful, helpful, not very helpful).

When Kelly was asked about modern banking technology she claimed that she had access to the Internet, telephone and television but she only used the telephone for banking purposes.

Kelly has been refused several financial products such as an overdraft facility, a loan and store cards. When asked how she overcame these refusals she states that she was “still sorting it out”. When asked about how she felt when she was refused these financial products she stated that she felt “angry, demoralised and victimised”. She now regards her present financial situation as 5 very bad (on a 1 to 5 scale). Kelly also believes that her bank could have done more to help her by way of more advice on financial problems, to be more understanding of her needs, to offer more products designed to meet her needs and to provide more information on products available.

When asked if banks were doing enough to help people who are financially excluded she said “no” and explained that:

“They only give people money who have money. I’m out of a job and they won’t even freeze my account they just keep adding to it”.

When she was asked if she felt the government was doing enough to regulate the banks with regards to dealing with those in financial problems she also stated “no”.

When asked if she has anything further to state she said:

“When I was 18 years old I walked into Lloyds bank for a £1000 loan they said I had to have a credit card as well. I have b.l.s. collection debts.”

Rachel

Rachel is a white British female who is under 20 years of age. She is currently living in the Pines Hostel Dorset and stated that her main line of employment was as an administration assistant but that she is currently unemployed. Rachel described her family background as “low income”.

Rachel stated that she had a basic bank account and a store card and banks with the Halifax because other members of her family use the bank. When asked if she was aware of the Banking Code she said that she was not.

When Rachel was asked if she had gone to her bank for advice on any aspects which are covered by the code she declined to answer.

Rachel felt that she had experienced financial difficulties and had experienced financial exclusion.

When asked about her past experiences with banks she rated them on a 1 (very good) to 5 (very poor) scale, as 3 (OK). Rachel also rated her current relationship with her bank as 3 (OK). Rachel explained this by stating:

“I often have charges because of un-authorised overdrafts and refused direct debits”.

Rachel felt that when she did experience financial difficulties her bank was “not very helpful” (on a scale of very helpful, helpful, not very helpful).

When Rachel was asked about modern banking technology she claimed that she had access to the Internet, telephone and television but she only used the telephone and the Internet for banking purposes.

Rachel has been refused several financial products such as a current account, a credit card and store cards. She explained these refusals by stating that she has a “low credit rating”. When asked how she overcame these refusals she states that she “managed on what money I have”. When asked about how she felt when she was refused these financial products she stated that she felt “frustrated”. She now regards her present financial situation as 3 OK (on a 1 to 5 scale).

Rachel believes that her bank could have done more to help her by way of offering more products designed to meet her needs.

When asked if banks were doing enough to help people who are financially excluded she said “no” and explained that they [the banks]:

“Could design more products for us”.

When she was asked if she felt if the government was doing enough to regulate the banks regarding dealing with those in financial problems she stated “that she did not know”.

The three profiles demonstrate both the lack of financial awareness and education on the part of the customer but also the banks’ inability to assist those people in financial difficulties.

The banking industry’s response to financial inclusion

It can be seen from the above that despite large numbers of people within the United Kingdom who are financially excluded, the Governments’ proposals to combat this problem have been far from effective. Many of PAT 14 recommendations have not been fully introduced, such as the automated benefit transfer or the increased

exposure of credit unions. Financial exclusion was a research topic of much popularity in the 1990's and there were many new reports detailing people's financial exclusion and calling for government intervention. However it appears that the government did not take seriously the findings of the research and have left it to the banking industry once again regulate the banks' activities which appear to still threaten financial inclusion.

In July 2001, some three to four years after initial independent research, the British Bankers Association (hereafter BBA) published a report entitled 'Promoting Financial Inclusion – The Work of the Banking Industry' (2001)(a). The report details how the banking industry is working towards financial inclusion within the United Kingdom. Ian Mullen Chief Executive of the BBA believes that the banking industry can regulate the financial inclusion activities of banks without the need for governmental intervention. He stated that “*UK banks [have already made] a significant contribution to the financial inclusion agenda without the need for Legislation*”.³⁶

Mullen also believes that there is a vital role for banks to play in promoting financial inclusion, and stated that “*banks should take their role [within society] seriously*”. (British Bankers Association 2001(a) p.5) Mullen continues by stressing the importance of this new role for banks to play by stating that:

Financial inclusion is an important part of social responsibility for banks. Ensuring that disadvantaged customers are dealt with sensitively and with appropriate products and support is now a key issue for the banking industry. Giving the less well off access to the financial products many of us enjoy is not charity; it makes sound economic and social sense and helps many people to gain the essential step onto the first rung of the economic ladder. (British Bankers Association 2001 p.7)

³⁶ See Appendix 1.

However Peter Kelly Head of Financial Inclusion at Barclays Bank³⁷ is more phlegmatic towards the role banks should now play in society. When asked about the banks' role in financial inclusion he replied:

I think that from a financial inclusion perspective...we do appreciate that we have a role to play and we can make a difference. I think the important thing to understand with regards to financial inclusion strategy is to look at it in terms of 'how can we make money out of it'. (Peter Kelly Interview – Appendix 1)

Kelly therefore offers what might be considered the traditional view from the banks that the economic elements of the banking industry must be considered before embarking on any financial inclusion agenda. Kelly continues:

If we can derive a return from our financial inclusion activities then we will naturally do more. I mean we have to get a balance between a charitable giving and where is the return for the bank.

Kelly is pragmatic about the constraints the banking industry has in relation to financial inclusion. Like the majority of other bankers he is concerned about financial inclusion but also that the bank, as a corporate entity, remains as profitable as possible. Kelly shows that although the banking industry is working to promote financial inclusion they will not actively promote inclusion agendas which operate to the detriment of the banks as a whole.

When Kelly was asked if he thought that the banking industry was to blame for financial inclusion he stated that; *"I don't feel that banks are the cause of it"*.

Considering the financial impact inclusion agendas could potentially have on the banks on an industry-wide scale, how far is it reasonable to expect them to go? Should the banking industry try to include every single person within the United Kingdom?

³⁷ See Appendix 1.

This is surely impossible. Moreover, how far this might be achieved by the banks would be dependant upon the degree to which the banking industry is responsible for the current levels of financial exclusion. If the banking industry is, and has been working actively towards financial inclusion why then are some people still without financial products? Is it that the banking industry is not trying hard enough or, if it is the case that they are not responsible in whole or in part for financial exclusion, is there only so much that they can do? It is reasonable to expect the banking industry to contribute to financial inclusion, but if they are not exclusively responsible for the problem, would it be reasonable to expect them to be the sole contributors? Unquestionably not. This just further emphasises the importance of the question: “What is causing the financial exclusion being experienced by some of the United Kingdom’s population?”³⁸

The work being actively undertaken by the banking industry includes the following:

- Developing products that help financial inclusion;
- Increasing alternative delivery channels;
- Working with credit unions;
- Support for money advice services;
- Support for micro-enterprises;
- Promoting financial literacy;
- Increasing and promoting corporate social responsibility.

The crucial factor in deciding if the banking industry is working effectively, within correct economic boundaries, is whether this inclusion agenda is effective and

³⁸ See Chapter 9 and T.4 and T.2

actually helping excluded people. If people are unaware of what the banking industry is doing, then their work is ineffective. If the banks are not regulated in a way which promotes good financial inclusion practice, then this too is ineffective. On this second issue it can be seen from the examination in this thesis of the Banking Code that the banking industry is not specifically regulated in any way to promote financial inclusion. In fact, financial exclusion is not covered at all within the Code.

Peter Kelly continued by saying: *“I am not going to sit here and say to you that banks have not contributed to it [financial exclusion] but I think that there are a lot of factors that need to be considered such as other regulations and money laundering”*. Kelly believes that the contribution banks have made towards financial inclusion is incorporated within the changing culture of the banking industry and some of the problems have arisen because *“some people haven’t kept pace”* with the changes. Kelly notes that: *“I think we have got a fundamental change in the market and in terms of how the industry has developed”*.

Conclusion

This chapter outlines the complex nature of financial exclusion whilst demonstrating the diverse problems facing those who work towards promoting financial inclusion. The literature review not only outlines these elements but comments further on the misguided direction of previous reports which focus too heavily on the features of financial exclusion rather than the probable causes and possible solutions which could be used to promote financial inclusion. Overall this chapter suggests that financial exclusion is not a phenomenon that emerges in isolation from other factors affecting a person’s life, but suggests that a lack of financial education and awareness of the

financial industry hinders the person's decision making ability regarding their financial affairs. This thesis will go on to discuss these problems and highlight possible solutions and recommendations which could be used to help promote financial inclusion within the United Kingdom.

Chapter Five: **Rules and Regulation**

Introduction

In this chapter, the researcher will consider various aspects of rules and regulations and how the nature of self-regulation affects people who are in financial difficulty or financial exclusion. Through this examination the researcher will discuss briefly jurisprudential elements of rules; how the Banking Code works in relation to the nature of rules; the influences upon the policy makers of the Banking Code; any lack of awareness of the Banking Code which may hinder its application for vulnerable consumers and whether this form of self regulation could work more effectively if it was backed by legislation. Additionally the researcher will illustrate how the statutory objective of the Financial Services and Markets Act 2000 has an effect on financially excluded people. However the chapter must be considered in relation to the literature that already surrounds the area and as such a critical examination of this literature is undertaken.

Literature review

The concepts of rules and regulations play an important role as the manner in which the banks are regulated may affect people who can be classified as socially excluded or those who are on the peripheries of financial exclusion. This sub-section of the review of literature focuses upon the concept of rules and regulation. Although academics do reflect on this notion there is no detailed exploration of rules and regulation and the effects on those financially excluded within their work. Their work has focused primarily on the following aspects of banking law: statutory regulation; bank competition; common law; decreasing bank branch numbers; financial revolution and the vulnerability of customers.

McGuire (1993) examines the statutory regulation of the banking industry and the role of auditors in regulation. However, his findings are now some nine years out of date. McGuire's work focuses on legislation up until 1987 and does not include some of the most influential pieces of legislation that have arisen in the past couple of years,³⁹ which the author believes to be an essential element of a present day examination. McGuire examines the idea of regulation from a banking law perspective, but his work does not detail the effect of this regulation on those who cannot enter the financial market. This is a trend that is followed throughout the general literature on banking law and regulation. McGuire concludes;

In order to address the conflict of interest problems inherent in the bank supervision process, the legal structures governing the rights, duties and responsibilities of bank auditors need to be re-examined. At present the Bank of England's dependence on bank auditors as a prime source of information about the banks under supervision seems at best optimistic and at worst dangerous. (McGuire 1993 p.689)

Whilst this article was written in the early nineties and does not encompass the change in the supervision from the auditors to the Financial Services Authority by virtue of section 21 Bank of England Act 1998, it is useful in its content and rudimentary observations.

Another phenomenon, which is generated from literature, is that of competition within the concept of rules and regulation of the banking industry. Ashton (2001) explores the degree of competition in the banking industry and although his work does touch upon the rules and regulation of banks, it fails to go into much depth on the issue. Ashton in his work focuses on banking competition but this will not be focused upon in this research. He does not recommend any solution for the association between the

³⁹ Such as the Financial Services and Markets Act 2000 and the Bank of England Act 1998.

inadequacies of the regulation of competition within the industry and the problems due to competition. Nor does Ashton examine the association between weak regulation and financial exclusion. He does however establish a link between the changing culture of the banking industry and the decreasing number of bank branches, although again Ashton fails to expand on this theory. Furthermore Ashton does not make the link between decreasing bank branch numbers and the increasing numbers of financially excluded people. Brian Cain (2001) also examines the nature of banking regulation but does not fully attach significance to the effect the regulation may have on vulnerable groups. Ashton states that;

Within any reasonable assessment of competition in UK banking, it is recommended that particular emphasis be placed on providing a more convincing definition of markets. To conclude, it is suggested that only through the provision of greater empirical knowledge of the definition and extent of the UK banking markets may greater clarification of these issue be made. (Ashton 2001 p.21)

The sub-phenomenon of vulnerability is linked with the problem and phenomenon of the changing bank culture and the decreasing number of bank branches. This phenomenon of vulnerable groups within the concept of the regulation of the banking industry was explored by Kohler (2000) who places emphasis upon the examination of the sub-phenomenon of vulnerable groups, although he failed to investigate any economic justifications proffered by banks, and this thesis, that exclusion of these vulnerable groups may be a necessity for banks to operate as successful businesses. The phenomenon on which Kohler places greatest emphasis is the effect of bank closures on the elderly and the Government's responsibility to maintain a viable banking industry for the whole of society. Although this thesis will explore this ideology it will also examine the many economic reasons as why some people are excluded. Kohler states:

New Labour may share many mercantilist instincts with its predecessors, but ultimately the Government has a responsibility for organising society in the interests of all its citizens, yet these changes seem to be moving rapidly to the disadvantage of our older population. (Kohler 2000 p.13)

Government literature (Department of Trade and Industry 2001) has also examined the relatively modern concept of corporate social responsibility within the concept of rules and regulations. It is proposed by the government that corporate social responsibility be placed in the hands of the employers and be monitored internally. This new trend should help rather than hinder both the banks and those who are financially excluded, yet without coherent and strictly monitored regulation it is impossible to see whether a bank is acting in what could be considered a socially responsible way to its customers and prospective customers. This is a problem which was not considered within this report and will be focused upon later.

Since 1998, the literature has mainly emphasised the phenomenon of the changing culture of the banking industry and its effects on, not only the vulnerable, but society as a whole. The articles and reports in question are from Mullineux (1999); Ed Mayo, et al (1998), Office of Fair Trading, (1999) the BBA's response to the European Commission green paper on corporate social responsibility⁴⁰ and PriceWaterHouse-Cooper (2000). Three of these five pieces are not Government initiatives and offer some valid proposals and justifications for many of the problems which have occurred in the banking industry over the past couple of decades.

The phenomenon of the changing culture of banks has a sub-phenomenon of financial regeneration. Financial regeneration, it is argued, must take place before the UK

⁴⁰ BBA response to European Commission green paper of CSR. Sent from Ian Mullen Chief Executive of the British Bankers Association in response to an interview request.

satisfies all the needs of those members of society wishing to participate in the financial markets. The literature depicting the changing culture also looks at the scope for widening the products and services available to people and suggests that this would benefit from regulation, specifically from the Government. However PriceWaterHouse-Cooper's report proposes four models of hypothetical regulation and discusses the potential consequences of each.⁴¹ Although it provides a useful base the report does not assimilate reality in all of its models due to the impracticality and surrealism of the future that is depicted.

PriceWaterHouse-Cooper (2000) state that although there are uncertainties

surrounding the future of the banking industry there are two facts that will not alter:

Firstly, competition is bound to increase under whichever future we face. Looking back and arguing about whether UK banking was competitive in the past is beside the point. Rather, we as a nation need to focus on how to maximise the benefit from this enhanced level of competition.

Secondly, new technology is transforming the way in which banks are organised and will continue to do so irrespective of whether digital technology revolutionises the mass market. The change will touch all the industry stakeholders and they will all need to adapt to this new environment. Managing the changes will be difficult. (PriceWaterHouse-Cooper 2000 p.30)

The literature surrounding the regulatory phenomenon explores the model of the American method of social banking, community reinvestment and disclosure.⁴²

Although the literature proposes different conclusions it appears that this is the model which most academics and researchers⁴³ are basing any proposals of banking industry

⁴¹ The four models are entitled; 'Future stalled', 'Faster Faster', 'Pit of Despair', 'Boys with toys'. They view the future of the financial industry in a unrealistic and humorous manner, for more detail see: PriceWater House Coopers 2000. Page 15.

⁴² See Recommendation Five: Mayo, E, Fisher, T. Conaty, P. & Mullineux, A. Small is bankable: Community Reinvestment in the UK. November 1998, New Economic Foundation. 1 85935 047 X.

⁴³ PriceWaterHouse-Cooper Limited. The breaking wave: Change in the UK banking industry and implication for policy makers. 2000; See Recommendation Five: Mayo, E, Fisher, T. Conaty, P. & Mullineux, A. Small is bankable: Community Reinvestment in the UK. November 1998, New Economic Foundation. 1 85935 047 X; Mullineux, A. Re-regulating the banks: The unfinished agenda.

regulation reform on. It is an intention of this thesis to explore this phenomenon but not to examine this model from a legal regulatory perspective.

The main distinction between the pieces of literature dealing with rules and regulation, the phenomenon which stem from the concepts and this thesis is that although they consider several possible solutions to the problems encountered within the industry itself and in wider society, the reports do not consider these problems from the banking industry's perspective. The authors fail to entertain the notion that banks are businesses and as such have to run their business in cost effective and profitable ways.

Bentham and Austin - command theory of law

Laws are made up of a collection of rules set within the context of either formal or informal interpretations. For jurisprudence, the importance of rules has played a major part in the development of the law. One main theory which examines the nature of rules within a legal framework is the 'Command Theory of law'. Through the work initiated by Bentham (1588-1679) and carried on by Austin (1832) they were to promulgate one of the main theories throughout jurisprudence.

Bentham and Austin are ardent positivists which is clear throughout their work. Although Bentham and Austin are deemed to be the major contributors to the command theory it is important to note that Hobbes⁴⁴, Bodin and even jurists in the sixteenth and seventeenth centuries developed the command theory of law.

22nd September 1999. Journal of Financial regulation and Compliance. Volume 8 Number 1. Pages 9-15; Office of Fair Trading. Vulnerable Consumers and Financial Services – The Report of the Director General's Inquiry – and appendices. January 1999.

⁴⁴ 1588-1679

The quintessential facet of the command theory is that Bentham believed that law is:

“an assemblage of signs declarative of a volition conceived or adopted by the sovereign in a state, concerning the conduct to be observed...by...persons, who...are or are supposed to be subject to his power. Such volition trusting for its accomplishment to the expectation of certain events...the prospect of which it is intended should act as a motive upon those who’s conduct is in question”. (Bentham (Ed. Hart)1970 Ch 1 para 1)

There are thus three central points to the command theory; they are that there is a command given by the sovereign followed up by a sanction or threat of sanction.

Austin developed this theory and for him the most important factor was that law is derived from an authoritative body. Austin opined that the law was “*a rule laid down for the guidance of an intelligent being by an intelligent being having power over him*”. (Austin 1832) His definition is overtly positivistic in its outlook and he thus expels any value-laden judgements and moral worth within his definition. Austin believes that by defining the law in this manner he is merely stating a social fact in an objective and scientific manner. Consequently the main thrust of Austin’s development of the command theory is that “*law consists of general commands issued by sovereign and backed by sanction*”. (Austin 1832)

Austin’s definition distinguishes three main features of law: namely; command, sovereign and sanction. These three elements play a pivotal role in how Austin classifies and distinguishes his model of the command theory and it is on these that the weight of the criticism falls. For Austin a command is a “*signification of desire. However a command is distinguished from other significations of desire by this peculiarity: that the party to whom it was directed is liable to evil from the other, in case he comply not with the desire*”. (Austin 1832) In this sense Austin recognises

that a person's wish (or command) is only a command if it is backed by sanction and thus as Finch denotes "*for Austin the sanction is a vital part of the idea of law. He lay's great emphasis on the close interrelation of the three elements.*" (Harris 1997 p.84)

The command theory can be applied to the rules governing the banking industry. At a simplified level the Bank is receiving commands from the legislator or the self-regulator and if the banks do not fall into the prescribed parameters set by the 'sovereign' then they will face 'sanctions'. However the examination of the rules and regulations governing the banking industry must be considered at a more complex level and as such this chapter will examine the different types of regulation which effects the banking industry to see if they have any effect upon those who are financially excluded.

The nature of rules

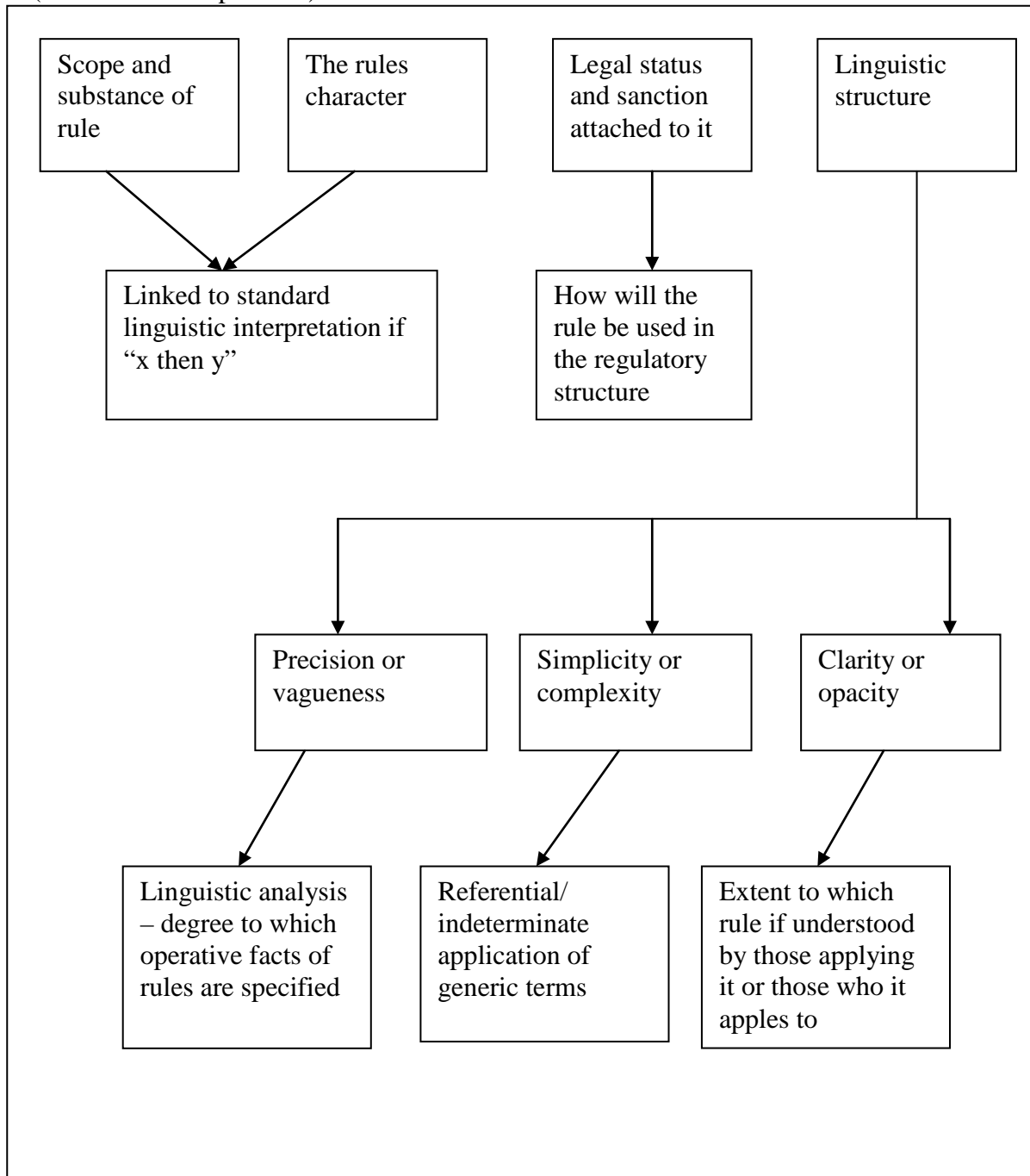
Rules, the manner in which they work, and how they are used has been continually discussed since Bentham (1588-1679) and Austin (1832). Black (1997) is no exception. Black also considers that rules are inevitable features of law and that rules in this form act as a method of social control.

However as a method of decision making and law setting, rules are imperfect given there are various facets of interpretation which alter the method in which rules are set. Rules alone cannot make up a legal system or a set of laws which will govern a person, a corporate entity or an entire country.

Over or under inclusiveness, indeterminacy and interpretation are all linked by the similar problems of interpretation. Problems of interpretation have always existed within the law with the Rules of Interpretation used for statutory interpretation. The Golden, Literal and Mischief rule play a central part in the definition and application of statutes by the courts and it is thus unsurprising that rule interpretation should be considered in relation to non-legal forms of regulation as well. To interpret rules it is important to distinguish among rules dimensions. Diagram 5.1 demonstrates the dimensions of rules and their relationship to rule interpretation.

Diagram 5.1: Rule Dimension and Interpretation

(Black 1997 Chapter one)



Similarly there are constraints and decisions which affect the rule maker when drafting the regulation.

The rule maker must consider five factors when deciding on the linguistic structure of the rule. He will have to decide on its scope, its character, its status, its sanction and its structure. All of these decisions will, as Black denotes, be traded off from one to another. (Black 1997 p.28) Between each of the above factors there are tensions and the rule maker will have to trade some parts of the factors for others to enable there to be an effective rule. For example, if the rule maker was deciding on how to formulate a rule for the regulation of banks then consideration should be given to all five factors but only a proportion of each whole factor can remain and thus there must be some give towards other factors. It may be that it is of most importance that the sanction of the rule is given more weight than say the status or the scope of the rule. It is thus in the hands of the rule maker to strike an appropriate balance between each of the factors.

Black identifies another problem regarding the interpretation of rules from the perspective of those being regulated. For a rule to be effective there must exist a consensus of beliefs and norms among those people to whom it applies and it must be interpreted in the way in which the rule maker intended. The meaning of the rule is therefore critical in its effective application and usage. Black defines this by the term 'interpretative communities', where all people belonging to the community think alike and share the same norms and values. If the rule is to work then there must be an effective interpretative community.

A problem however lies with the question of how to form an interpretative community. Black states that this is not a quick process and terms it as an organic process which must be developed over time. However in relation to self-regulation the

process is somewhat simpler. Taking the case of the banking industry, it could be said that they are already an interpretative community. They share common training, background, norms commitments, and understanding and are working for a common aim. They are therefore already thinking alike and as such are likely to understand the same rules. The problem comes when this interpretative community makes or sets rules which relate to people, customers who are outside of this interpretative community. Customers do not share the same training, background, norms. It is therefore problematic for interpretative communities to regulate those aspects of their activities which relate to people who are outside of this community and who are thus not in a position to appreciate or interpret rules in quite the way they had been intended.

Diagram 5.2: Interpretative Community Overlap

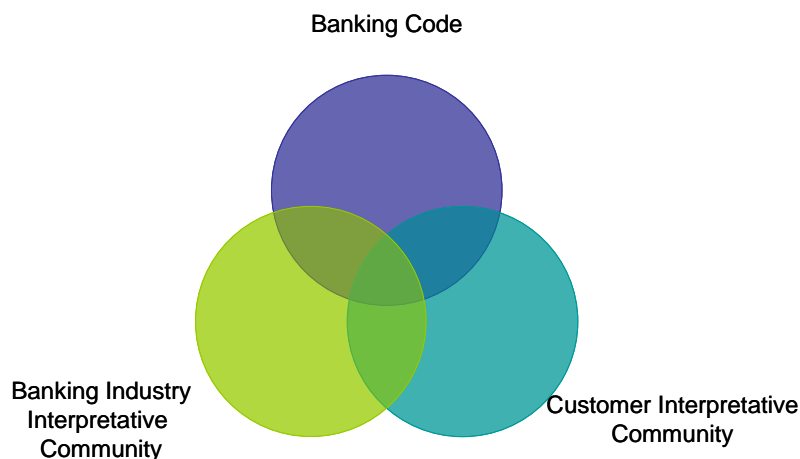


Diagram 5.2 illustrates the problem inherent in the development of a set of rules which will relate to both the industry and the customers when the two groups are not from the same interpretative community. The Banking Code will be able to overlap both communities but will not be interpreted in the same way by both communities. It will appear that some rules are drafted for the banking industry and some for the customers and those from each community are less likely to understand the others as well as it was intended by the rules maker. There is therefore a gap of interpretation between the two communities and this will lead to ineffective regulation. The rule maker in the case of banks is the banking industry itself, as it is self-regulated.

To overcome these difficulties, self-regulation does not just come in one format but is divided into several sub-categories. An examination of the types of self-regulation and how it can be put to effective use is examined below but it is still questionable whether the rule makers will ever bridge the gap between the two interpretative communities.

Types of self-regulation

Before one can decide on the type of regulation, whether it be voluntary or statutory, consideration must be given as to its purpose.

Regulation of any kind is a means to an end, not an end in itself. It provides a means of achieving defined goals, by adopting rules directed at shaping conduct or controlling behaviour in some way, and then putting machinery in place to enforce those rules. (National Consumers Council 2000 p.2)

The National Consumers Council's (hereafter NCC) report of 2000 highlighted eight concepts for the control of which regulation may be utilised. They are:

- Fraud, deception and oppressive marketing practices
- Imperfect information

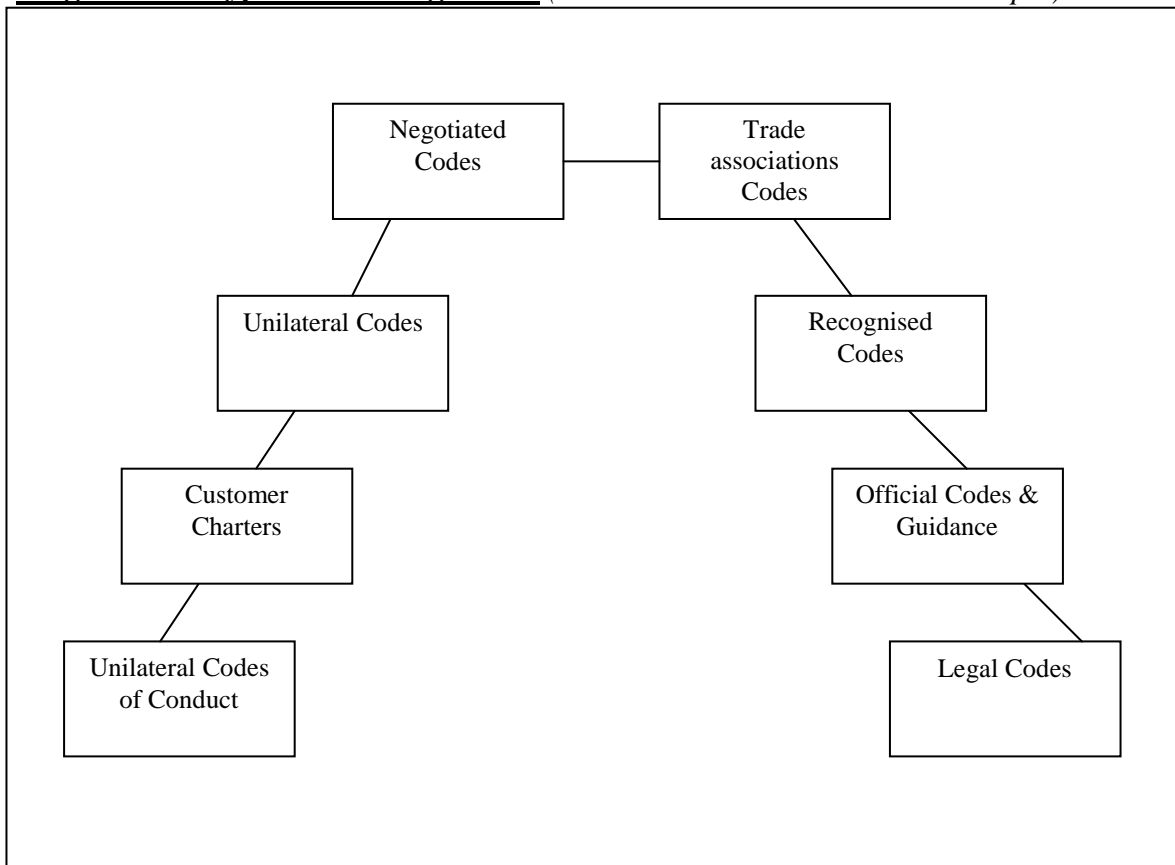
- Safety
- Resolution of disputes and the pursuit of redress
- Externalities
- Social objectives
- Vulnerable consumers
- Raising Standards. (National Consumers Council 2000 p.3)

Self-regulation is defined as:

A collective activity involving participants from a market sector who agree to abide by joint rules...it is normally voluntary, with benefits for those who participate. (National Consumers Council 2000 p. 4)

There are eight main types of self-regulation stemming from merely voluntary to those which are legally enforceable as shown in diagram 5.3.

Diagram 5.3: Types of Self-Regulation (National Consumers Council 2000 p.6)



The Banking Code is a unilateral code of conduct which is described by the NNC as one in which:

An individual business decides to adopt and implement specific policies which amount to some form of self-restraint on its conduct towards its customers. In a sense it is the purest form of self-regulation. (National Consumers Council 2000 p.7)

A customer charter is one step on from the unilateral code, “*with a formal exercise covering all key aspects of its dealings with customers, though still stopping short of collective participation with other companies*”. (National Consumers Council 2000 p.8)

A unilateral sectoral code is almost extinct but it is the most genuine form of self-regulation as it is entirely voluntary, self-imposed and collective. The code of practice sets out rules and standards but does not confer with any outside body on drawing up the rules.

Negotiated codes are common in situations of stakeholder involvement where the governing body discusses the rules with consumer organisations and the government.

Trade association codes approved by the Office of Fair Trading (hereafter OFT) are “*a variant of negotiated Codes*” (National Consumers Council 2000 p.13) but have to be approved by the OFT. There are relatively small numbers of such codes in existence.

Official codes and guidance have been described by the National Consumers council:

There are many examples of governmental department or regulatory agency issuing a code or guidance, which has had self-regulatory input and is intended to be followed within the business sector in section. The enforcement of such codes is left to the traditional methods – in other words, civil or criminal action in the courts. (National Consumers Council p.13)

Legal codes are not truly self-regulatory but are present under this heading as businesses usually have a period of consultation to put forward recommendations before the draftsman will finally produce a Parliamentary Bill.

Although all these types of self-regulation are distinct from one another they are all linked by three factors. These are;

1. Rules
2. Monitoring and Enforcement
3. A redress system. (National Consumers Council 2000 p.16)

Advantages and disadvantages of self-regulation

In deciding whether self-regulation or legal regulation offers the most effective systems it would be prudent to evaluate the advantages and disadvantages of both.

Self-regulation: the advantages

Self-regulation is relatively cost effective as there is no arduous consultation required as with legislation and it is relatively cost effective to implement. Self-regulation also demonstrates best practice within the industry as well as being designed to fit specific industry needs and can deal with more than just right and wrong, but can consider moral and ethical stances. Self-regulation is also quicker to put in place and should be linguistically understood by the interpretative community and should also be more flexible in its application and interpretation. With self-regulation the burden of proof

lies with the industry and redress will be tailored to that specific area and will be more effective.

Self-regulation: the disadvantages

A major disadvantage of self-regulation is the lack of awareness from those who it is designed to protect and the fact that industry providers are not obliged to comply with the regulations. Self-regulation may also lead to anti-competitive behaviour and thus distort the market. Additionally self-regulation may not be taken seriously by the industry as the sanctions attached to the regulation may not hold any real threat to the industry itself. There is also a cost burden to educate consumers and industry about the new regulations and the cross-over of interpretative communities may mean a lack of linguistic understanding and thus application of the rules. Furthermore self-regulation may have a limited effectiveness if there is inadequate monitoring and compliance as well as encountering issues relating to separation of powers between rule makers and the regulated, leading to an under-regulated industry.

Legislation: the advantages

Placing regulations in legislation provides a sense of legitimacy as they are backed up by sanctions, they have a form of status over self-regulation, ultimately meaning that legislation is taken more seriously than self-regulation. Another advantage of legislation is that it is universally applied and has a broad application of rules and thus can incorporate and regulate more aspects.

Legislation: the disadvantages

However, legislation does have some disadvantages. Legislation is not necessarily industry specific and could create linguistic difficulties for ordinary people to understand the application of the rules. Indeed there may be a general lack of awareness of the existence of the legislation. Legislation is costly both in time, money and resources for the government to implement and may contain a political bias. Legislation is often complex and rigid and is often out of date when it is finally enacted and thus may not keep pace with changes in society.

Key factors for self-regulatory good practice: How does the Banking Code measure up?

There are several points which should be kept in mind by rule makers and the industry when using self-regulation as a method of control.

There must be clear objectives from which to start. The regulations should deal with areas that are known to cause problems. The Banking Code does deal with many problem areas but the manner in which it deals with financial difficulties is poor and guidance on financial exclusion is non-existent. The Banking Code fails to deliver adequate guidance as to how banks should deal with customers experiencing financial problems, yet it is an area of great concern.

Another element of good practice is that the Code should make provision for a monitoring and enforcement agency and a redress mechanism. All of these the Banking Code and industry has set in place and through the modernisation of the Banking Code in 2003 and the work by Professor Kempson, there is stronger evidence emerging of impartiality of enforcement, monitoring and redress.

There must be a process of wide consultation. Previously the Banking Code consultation was achieved through the industry and thus lacked impartiality and arguably credibility. The introduction of the 2003 Code however brought with it a desire for impartial consultation, although the independent review panel was appointed by the British Bankers' Association and thus lacked the credibility of complete impartiality.

Any self-regulatory scheme must have a clear and unambiguous structure. The Banking Code has undergone a thorough revision and the Code itself is very clearly structured and easy to read and understand. However, the relatively short Code is accompanied by a fifty page guidance booklet which explains to the bank how each section should be interpreted. This can surely only work against the customer's best interest as interpretation of the Code is carried out by the bank staff for the bank's interest which is therefore devoid of any customer involvement. Indeed as customers do not have access to these guidance notes, it is difficult to see how they can hope to obtain anything but the most general and basic of understandings of the Code itself.

As previously mentioned, independent representation on any regulatory body is advantageous. Kempson in her review of the Banking Code (2002) suggested that there should be more independent input into the Banking Code. These recommendations were approved by her employer, the BBA, and it shall be seen whether they are truly taken into account. At the present time the Banking Code is industry regulated.⁴⁵

⁴⁵ At the time of writing the BBA has just appointed Professor Kempson to review the Banking Code again for her second term in this role. The results should be published in 2006-7.

Monitoring compliance is very important if a self-regulatory scheme is to work effectively. A major problem with the Banking Code and one which was not completely addressed in the recent review is the underlying notion that it is not mandatory and not all banks comply with it. Although most banks do comply with the Banking Code, the lack of awareness surrounding its existence negates the compliance of the banks that do subscribe. For example, if customers use a bank which complies with the Code but do not realise that there exists a Code which governs the banks conduct, how can the customer know if the bank is behaving correctly towards them? Also, customers cannot use the Code to their advantage when they experience financial difficulties, which is one of the Code's principle aims, if they are unaware of its existence. The banks that do subscribe to the Code are monitored by the Banking Codes and Standards Board and are visited by mystery shoppers to test the bank's compliance with the Code. This is one positive aspect of the Banking Code even if the Board which monitors compliance is industry related and so not totally impartial.

Public accountability is also important to the good practice of self-regulation. The Banking Code has the method of redress via the Financial Services Ombudsman, which publishes its report annually. Again a problem with the effectiveness of this scheme is the lack of awareness among customers and especially those in financial difficulties, of the ombudsman and the facilities it could offer them. A good system of redress is important for effective schemes and the Banking Code uses the Financial Services Ombudsman but its use is limited as stated in the following chapter.

A lack of awareness is the biggest problem faced by the Banking Code. For self-regulation to be effective there must be a sound level of knowledge and good publicity around the regulations. There is neither for the Banking Code. Furthermore for a self-regulatory scheme to work there must be adequate resources. There is no problem of this within the banking industry and the Code is available for those who know about it in various sources.

A further important point of good practice is that there must be effective sanctions available. As can be seen in chapter 6 the Ombudsman can only redress wrongs by fines and reprimands. It is debatable whether a big multi-million pound bank would actually take any notice of a fine for X amount of pounds when they are making XX amount of profits.

The banking industry does not comply with the need for performance indicators. The only publication of performance and compliance to the Code is anonymous and is published by the Banking Codes and Standards Board. There are no league tables and no indication charts to show how responsible or compliant a particular bank has been.

Finally, a good self-regulatory scheme should be reviewed regularly. The Banking Code is reviewed regularly and is now going to be reviewed every two years by independent reviews, but whether the recommendations are taken into account and implemented is yet to be seen.

The Banking Code was initially designed to regulate performance and to ensure that customers were getting the correct standard of customer care. However, it is the

researcher's proposition that the Banking Code 2003 still does not go far enough to control the banks' behaviour regarding their social obligations and vulnerable consumers. It is demonstrated through this research that the lack of public awareness of the Banking Code means that it is infrequently utilised by people who are in financial difficulties or who are financially excluded. It is an aim of the data analysis in chapter 9 to demonstrate that the use of self-regulation does not go far enough to help customers in difficulties and that perhaps there is a need to back up self – regulation with legislation.

Alternative regulations affecting the banking industry

The banking industry is not just regulated by voluntary codes of conduct but is subject to various other regulations. In this section, the researcher will demonstrate the justification for examining mainly the Banking Code and the statutory objective and not the legal regulation of the relationship between the banker and the customer by way of tort and contract. Also, why the researcher is not examining the consequences of prudential regulation on the banking industry and those who are financially excluded is also considered.

Firstly the relationship between the customer and the banker is regulated and monitored by the law of tort and contract. A tort is “*a breach of a legal duty to an individual which may be remedied by the award of damages or other relevant remedies to compensate for the infringement*” (Banking: The Legal Environment 1998 p. 43). There is case law according to which a bank can be sued for infringing the rights of the customer. In Cornish v Midland Bank plc (1985) 3 All ER 513 the claimant successfully sued the bank due to the tort of negligence on behalf of its

employee. Similarly in the case of negligent advice the bank is also vulnerable to be found liable for damages to the claimant. In Box v Midland Bank plc (1979) 2 Lloyd's Rep 391, the bank was held to be liable as the manager did not take "the care expected of an ordinary competent bank manager".

Similarly, in contract law, once the customer has entered into negotiating with the bank there is a binding contract which should be honoured. However, the terms and conditions of any such contract must be made clear to the customer as in Hedley Burn & Co ltd v Heller & partners Ltd (1964) AC 465 where it was held that a disclaimer was valid and this negated the negligence. However, this case, since the enactment of the Unfair Contract Terms Act 1977, may not be relied upon and the banks are once more at the mercy of its customers when it comes to negligent advice.

Although tort and contract are very important to the regulation of the banking industry, in the researcher's opinion they do not have a direct effect upon those who are financially excluded. If a person is excluded from entering into the financial market place then there can be no contract and no tort on behalf of the bank. As such, this type of regulation will not be considered in any more detail in this thesis.

Prudential regulation occurs when banks are regulated to stop or minimise the risk of bank runs or crises which would affect the customers' money. Such bank crises have been seen at various points in history and have done little for consumer confidence or the industry itself. However, prudential regulation does not directly affect people in society who are financially excluded. Indeed, it affects those who are financially included. As such, this too will not be considered in any depth in this thesis.

Financial Services and Markets Act 2000 (FSMA) – statutory objectives

“The FSMA is an Act which wears its heart on its sleeve: it contains within its body – and not merely in its short title – a comprehensive statement of the regulatory objectives which underpin the Financial Services Authority (FSA). The regulatory objectives are:

- Market confidence
- Public awareness
- The protection of consumers
- The reduction of financial crime”. (FSMA 2000 s2(2))

It is the researcher’s proposition that although the statutory objectives are not directly associated with underpinning the regulation of the banking industry in relation to financial exclusion, they can affect and could be used to affect those financially excluded.

Section 3(1) FSMA 2000 states:

The market confidence objective is: maintaining confidence in the financial system.

Applying this section of the FSMA in relation to the legal regulation of the banking industry and financial exclusion, then this section could be interpreted to read: ‘to maintain market confidence in the financial system (banks) so that customers and society do not lose confidence in the market place and as such feel excluded from participating within the market’. This would allow the regulators greater scope for regulating and monitoring the banks’ behaviour and conduct towards the market place and the customers. This may cause there to be less financial exclusion because there

would be direct legal regulation over the banks' conduct towards financial exclusion. However these regulations are not read as encompassing financial exclusion.

Section 4 (1) FSMA 2000 states:

The public awareness objective is: promoting public understanding of the financial system.

This objective can be considered the most important when considering financial exclusion. It is the researcher's proposition that financial exclusion can be linked to inadequate financial education among those who exhibit features of financial exclusion.⁴⁶ This objective does not need to be read differently as above but can be interpreted to mean that the Financial Services Authority (FSA) has a legal obligation to make sure that society has a sufficient degree of financial education which would enable them to become financially included. The objective though does not place the onus on the banking industry but rather the FSA to ensure that society is sufficiently educated. However, the objective does not specify the type or method of education.

This thesis argues that the lack of awareness of the legal regulation of the banks and the rights that customers have causes many people to experience financial difficulties. If this objective was correctly applied and people were financially educated to such a degree as to negate financial exclusion, then financial exclusion would not be associated with the banking industry but with the social inadequacies of those excluded. An example of this would be one in which an elderly person who prefers to keep money under the mattress might be educated that it would be safer to keep the money in a bank. Education is therefore not just for the young; it is for all ages so that

⁴⁶ See Chapter 4.

as many people as possible can make informed and educated decisions about their financial affairs. Although there are some schemes to get more people financially educated, it appears through this research that the majority of people are unaware of the Banking Code and how it could affect them when they get into financial difficulties. This thesis does not wish to analyse or criticise the statutory objectives but merely to state how they could affect financial exclusion.

Section 5 (1) and s6 (1) will be dealt with jointly. They state:

The protection of consumer's objective is: securing the appropriate degree of protection for consumers; and
The reduction of financial crime objective is: reducing the extent to which it is possible for a business carried on –
(a) by a regulated person, or
(b) in contravention of the general prohibition,
(c) to be used for a purpose connected with financial crime.

These sections can be seen to demonstrate the need for a stable and secure financial market where the aim is to make society fully financially included. It can be seen from the history of the banking industry and the development of the banking culture that it is important for both the industry and society for consumers to be protected from risks and to keep their money safe from fraud. If these do not occur, then the market place becomes apathetic and interest wanes and in turn this is detrimental to the banks. To ensure that the market place is ready to include everyone in the financial market, it must already be stable enough to encompass all the possible risks of inclusion such as a drop in bank profits and an increase in consumer debt. These objectives could be used to regulate the banks' behaviour towards increasing financial inclusion.

As these objectives have a statutory backing they are more likely to be adhered to more stringently than the voluntary codes of conduct. Although banks are included within the remit of the FSA,⁴⁷ these objectives are not used for the sole purpose of increasing financial inclusion. This thesis will extend this idea and use the statutory objectives to create a model on which to base the effects of the legal regulation of the banking industry in relation to financial exclusion.

Conclusion

This chapter examines the legal nature of regulation and self-regulation in the context of the banking industry. It extrapolates ideas from various sources beginning with the notion that all rules, of any type, stem from the theory put forward by Bentham and Austin that all laws are rules issued by a sovereign backed up with a sanction. This chapter uses this analogy and demonstrates that although the banking industry is self-regulated, the rules contained within the Banking Code could, under Bentham's definition, be considered to be laws and that it is in fact the application and the manner in which they are perceived which then enables the rules to be labelled as self-regulatory. The chapter also demonstrates the conflicting viewpoints of different interpretative communities who either draft the regulation of the banking industry or those that use the regulation. This notion of interpretative communities takes Black's (1997) work one step further by detailing how draftsmen's interpretation of rules can differ from that of those who will be regulated by it. This conflict and distortion of interpretation has been demonstrated to cause regulatory problems within the banking industry. How best to rectify these difficulties and how to develop an alternative to

⁴⁷ House of Commons, Standing Committee A (c. 164) July 13, 1999.

the present method of regulation in the banking industry will be considered in the remaining chapters.

Chapter Six: **The United Kingdom's Banking Regulation: The Banking Code**

Introduction

Customers deserve better. If the financial service industry is to enjoy their trust it must treat customers fairly throughout the terms of the commercial relationship and not just when making the sale. (Christine Farnish FSA Consumer Director 2002)

The United Kingdom's banking industry is regulated through an industry regulated voluntary code. The Banking Code is now reviewed annually by the British Bankers' Association and a list of subscribers to the code is published on its website⁴⁸. Although there are numerous statutes which provide the legal framework within which the United Kingdom's banking industry operates, the Banking Code is the only written format through which a bank's conduct towards its customers can be regulated and monitored. This chapter examines the old Banking Code; the old system of monitoring banks' compliance and the developmental and review process leading to the introduction of the new Banking Code 2003. The researcher examines these aspects of banking regulation with reference to the effects the Code has on those classified as being financially excluded or who suffer from financial difficulties.

History of the Banking Code

The Banking Code was established following a review of the financial services sector initiated in 1989 and put into action in 1992.

The old Banking Code

Prior to March 2003 the Banking Code had remained substantially unchanged since its introduction in 1989. It was in essence to provide a:

⁴⁸ <http://www.bba.org.uk>.

[V]oluntary Code which sets standards of good banking practice for banks and building societies to follow when they are dealing with personal customers in the United Kingdom. As a voluntary code, it allows competition and market forces to work and encourage higher standards for the benefit of customers. (Banking Code 2001 p. 3).

By the very nature of being a voluntary code of practice, not all banks and building societies subscribe to or comply with the Code. It is therefore difficult if not impossible to regulate and monitor such banks' conduct towards customers. In practice a voluntary code is also problematic in so much as awareness of the code among bank customers is very limited. This creates problems as customers are unaware of the rights that they have and the obligations of their chosen bank.

The Banking Code in its former state was merely a method of regulation for the banks and was not in practice used by customers, as was its design aim. The Code's main objective was to ensure that customers were provided with information on areas of financial management such as 'information on products', 'account operation', 'account protection', 'financial difficulties' and 'obtaining help'.

As stated in the 2001 Banking Code subscribers have ten key commitments to customers, namely that they will:

1. Act fairly and reasonably in all dealings with customers;
2. Make sure that all the products and services offered meet this code, even if they have their own terms and conditions;
3. Give information about products and services in plain language and offer help if there is anything the customers do not understand;
4. Help the customer to understand the financial implication of the products and services offered, how they work, and help them choose the one that meets their needs;
5. Have secure and reliable banking and payment systems;
6. Make sure that the procedures staff follow reflect the commitments set out in this code;
7. Consider cases of financial difficulty sympathetically and positively;

8. If things go wrong, correct mistakes, tell the customer how to make a complaint, and handle complaints quickly;
9. Make sure that all products and services meet relevant laws and regulation including those relating to discrimination; and
10. Tell customers if products and services are offered in more than one way (for example, on the internet, over the phone, or in branches and so on) and tell the customer how to find out more. (Adapted from the British Bankers Association 2001(b) p. 4)

Sections fifteen to eighteen are of particular relevance to this thesis and are given due consideration and examination. Section fifteen concerns what the bank can do for those customers who are in financial difficulties. The Code states that the banks will try to contact the customer to discuss the matter but if customers find themselves in difficulties then they should contact the bank as soon as possible. The Banking Code then provides that the bank will work with the customer to overcome the problems and to develop a plan to deal with the financial difficulties being experienced. The Banking Code also states that the bank will work with debt agencies to help solve the financial problems. (British Bankers Association 2001(b) p. 18)

Section sixteen deals with branch closures for which the only obligation is to inform the customer that the branch will close eight weeks beforehand and how they will provide the customer with banking services in future. (British Bankers Association 2001(b) p. 19) Section seventeen concerns procedures for complaints. The code sets out for the customer various ways of complaining ranging from direct complaints to the bank, to complaints to the Ombudsman and the Financial Services Authority.

Section eighteen details the manner in which the banks comply with and monitor the code. The Code states that *“we have a code complaint officer and our internal auditing procedures make sure we meet the code”*. (British Bankers Association

2001(b)p. 20). It further stipulates that the Banking Code Standards Board also monitors the bank's compliance. However this appears to be the cause of many administrative problems. The code is a voluntary industry regulated method of regulation with only internal auditing procedures to ensure the banks do actually meet the standards set out in the code. It is therefore questionable how the public can be sure that banks are complying and doing their best for their customers. However the Banking Ombudsman monitors the banks and deals with complaints made by customers.

Banking ombudsman report 2000 -2001

By virtue of the Financial Services and Markets Act 2000, the banking ombudsman was merged with other ombudsman services and complaint procedures to become the Financial Ombudsman Service.

The Banking Ombudsman scheme began in 1986 and resolves individual complaints about banking within the United Kingdom. The complaint procedure is free of charge to complainants, with redress being in the form of compensation up to a maximum of £100,000. The bank has to accept the decision of the ombudsman whereas the complainant does not and can if they wish take the bank to court. (Banking Ombudsman 2000-2001 p. 3). Customers who wish to complain must first contact their bank with their complaint and if the bank does not deal promptly with the complaint then the aggrieved customers may seek redress from the Ombudsman. The ombudsman scheme is a:

“[S]cheme [that] can only deal with individual complaints. It does not have powers to make rules for the banking industry. It cannot give general advice about banking, financial matters or debt problems. The banking ombudsmen and their staff of over 40 are independent and impartial. The banking

ombudsmen are appointed by the Council of the Office of the Banking Ombudsman and employed by the Financial Ombudsman Service”. (Banking Ombudsman 2000-2001p.3).

In 2000,

- The scheme received 14,583 written complaints –14.7% up on the previous year.
- Twice as many cases were settled by mediation as by formal decision.
- 50.5% of formal decisions awarded compensation to the complainants.
- Compensation awarded averaged £3,453.
- The highest award was £100,000.
- Business accounts provided 5% of the complaints and 8% of the investigations. (Banking Ombudsman 2000-2001p.4).

Financial ombudsman service 2001-2002

Under the first statutory regulated year, the Financial Ombudsman Service pledged to ensure that the service would keep up with the increase in the number of complaints and cut the waiting time for complainants. (Financial Ombudsman Service 2001-2002). The annual review produces a plethora of key facts and figures which demonstrate that the number of complaints have increased greatly and that awareness of the scheme is widening. As the report states:

The ombudsman service is here for everyone, not just for the articulate letter-writing classes. This is why we are developing ways to make it easier for people to complain by phone or by using our website. (Financial Services Ombudsman 2001-2002 p. 6.)

Table 6.1 shows the number of telephone and written enquiries received by the ombudsman during 2000, 2001 and 2002.

Table 6.1: Initial Enquires from Consumers after the Banking Ombudsman came under the guise of the single ombudsman scheme.

Enquires	Year ended 31st March 2000	Year ended 31st March 2001	Year ended 31st March 2002
Phone enquires	175,000	259,848	242,168
Written Enquires	130,094	154,874	146,071

Total	305,084	414,722	338,239
Complaints referred on to our case-handling teams	25,000	31,347	43,330

In 2002 there was an increase in all complaints, including those within the banking industry. The new cases are summarised in Table 6.2.

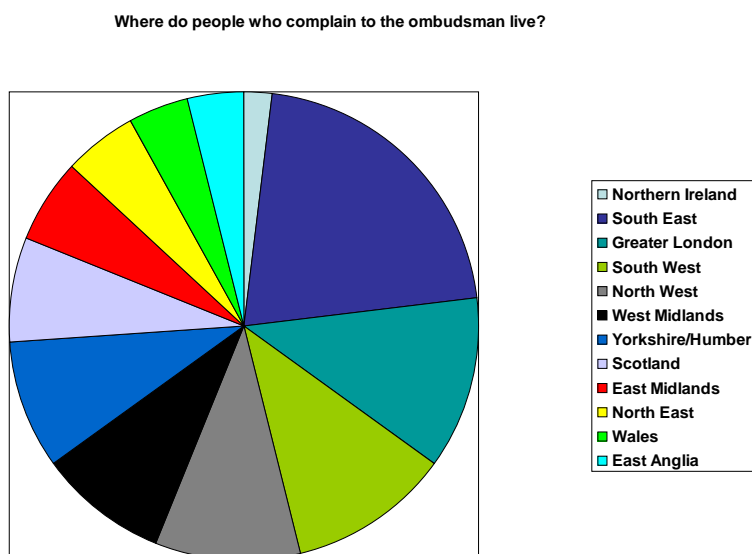
Table 6.2: Complaints referred to case handling teams within the Financial ombudsman: The banking Industry.

New Cases	Year ended 31 st March 2002	Year ended 31 st march 2001
Current Accounts	793	1,280
Savings and deposit accounts (including 58 complaints about cash ISA's)	1,679	1,230
Other banking services	518	803
Other lending (unsecured loans)	442	556
Loan protection insurance	711	513
Credit cards	222	372

It appears therefore that the only areas where complaints have risen from 2001 to 2002 are regarding other lending and credit cards and current accounts. These are, however, the pieces of fundamental financial equipment for people who are in financial difficulties and it is in these crucial areas that the banks are still not meeting consumer requirements.

The average age of a complainant is between 35 and 54 years of age. 67% of complainants are male compared to 33% of female complainants. (Financial Ombudsman Service 2001-2002 p. 18-19) Chart 6.1 illustrates the geographical locations of complainants.

Chart 6.1: Where do people who complain to the Ombudsman live? (Financial Ombudsman Service 2001-2002 p. 19.).



NCC report on how the Banking Code of practice works for customers in hardship

In 1997 the National Consumer Council undertook a piece of research which focused on the apparent gap between consumers' experiences and the provision of the 1994 code with regard to financial hardship. The piece of research was conducted in connection with the British Bankers' Association and considered how banks could use the Banking Code in a more effective way to help consumers who suffer financial hardships. This research is now six years old (at the time of writing) yet still the discussion as to the reform of banking industry regulation goes on. The report found heavily in favour of the argument that the Code simply does not work. (National Consumers Council 1997 p.3.) It must be asked why then does the British Bankers' Association insist on reviewing and re-vamping the Banking Code in the same format when clearly research has found that it does not produce the desired results for bank customers?

Banking code standards board 2001/2002

The Banking Code Standards Board's (BCSB) role is to help personal customers ensure they are treated fairly by their banks. The BCSB do this by assisting banks who subscribe to the Code, (all high street banks do), to interpret the Code and by monitoring and enforcing this compliance. (BCSB 2001-2002 p.3.)

The chairman of the BCSB Richard Farrant, believes:

[T]he industry is now in a much better position to demonstrate that self regulation can work to the advantage of consumers and the industry itself. Working together, the BCSB and the banking industry have a real opportunity to reverse the long decline of the industry's reputation with consumers for fair treatment. I believe this should engage the active attention of top management. We notice that where top management of a subscriber demonstrates an interest in the codes and commitment to their principles, the beneficial effects percolate throughout its business. (BCSB 2001-2002 p. 4)

However, if customers of the banking industry are not aware of the Banking Code's existence and what the banks should be doing, then this method of regulation, whether it is voluntary or statutory, cannot be meeting their needs. This is especially so for customers in financial exclusion or hardship. If customers who are facing financial difficulties are unaware of the Banking Code, then they are unaware of the obligations the banking industry has set out for the banks to comply with. Conversely, though, it could be argued that customer knowledge or customer financial education is not within the remit of the business of the bank. As stated in the following chapter, a bank is a business and could be said to have the primary aim of profit maximisation. By the very nature of having a code, which deals with financial difficulties, the banking industry may be said to be negating the needs to do anything further to fulfil their social obligations. It could be argued that having the Code means that they are doing more than is actually required of them. However, this research has found that there is

a difference between the stipulations of the Code and the banks' actions in practice. It therefore appears to the researcher that although the banks do have an operation policy in place, it is often not strictly adhered to. Similarly because of the lack of customer knowledge, customers do not know their rights and are unable to complain or ask the bank for the help that should be automatically offered to them.

The BCSB monitors bank compliance to the Code through various means such as mystery shopper field visits. In the financial year ending 2002, there was a total of 224 that were used as part of the BCSB field visits. (BCSB 2001-2002 p.9) There are several categories devised by the BCSB which outline the level of compliance that the banks reach. They are as follows:

'Green' - Compliance arrangement satisfactory overall although some improvements may be necessary. In 2001/2 61 banks reach this level compared to 23 the year before.

'Amber' - A number of weaknesses and/or breaches identified for corrective action. 27 banks had an amber classification in 2001/2 compared to 13 in 2000/1.

'Red' - A number of weaknesses and/or breaches, some significant or extensive overall identified for corrective action. The number of banks obtaining a red grading fell by three in 2001/2 to two over a one-year period.

'Black' – Significant weaknesses in compliance arrangements, urgent remedial action necessary. The BCSB found that in 2001/2 there were no banks which fell within the black grouping, but in 2000/1 there was just one bank with a black mark against its name.

The BCSB illustrates the various areas in which banks breach the requirements set by the Code:

- Explaining the rights and responsibilities of joint account holders
- Giving notice of changes to terms and conditions
- Giving notice of interest rate changes
- Giving notice of changes to the customer's account
- Providing information on ISAs
- Providing information on the right not to receive marketing material
- Providing information on complaint procedures. (BCSB 2001-2002 p.10.)

Within the report the BCSB publishes the 'Annual Statement of Compliance'.

Table 6.3: Annual Statement of Compliance (BCSB 200-2002)

As at 31 December	2001	2002
Number of ASC's received (65 Banks and 65 Building Societies)	130	135
'Clean' – no queries made	65	68
Subject to minor queries	46	23
Subject to significant queries Main Queries 2001: Annual summary of saving account products and interest rates (Banking Code s.4.7) Financial Difficulties (Banking Code s.15)	2	30
Revealing one or more material breaches	2	7
'No action' letters issued	10	7
Issues arising encompassed in action plans following monitoring visits	5	N/A

As can be seen from table 6.3, the old code did not appear to fulfil its objectives enough to satisfy the banking industry and thus the Code from 2000 underwent a thorough review process which began with the Cruickshank Report: (2000).

The Cruickshank report: competition in UK banking

The Cruickshank Report was published in March 2000. The aims of the review were to examine the effectiveness of the banking industry and to establish an appropriate level of competition within the industry. The review was also asked to make international comparisons and see what lessons could be learnt. Finally, they were asked to consider what the government may alter to improve the industry.

Cruickshank made a series of recommendations in his Report. One of the more contentious issues involved the Financial Services Authority (FSA).⁴⁹ The FSA currently have four statutory objectives under the Financial Services and Markets Act: namely to maintain market confidence,⁵⁰ to promote public awareness of financial services,⁵¹ to enhance consumer protection⁵² and to reduce financial crime.⁵³ Cruickshank advocated the addition of a fifth objective, to maintain competition within the financial industry. Other recommendations made by Cruickshank included reducing the cost of using Automated Telling Machines (hereafter ATMs), and that the financial services sector should not be exempt from competition law.

Responses to the Cruickshank Report were varied and wide-ranging. Jon Kirk of Fox Pitt Kelton said:

It's slightly milder than it was expected to be. He's left the personal customer well alone and I'm surprised he hasn't gone further into the portability of personal accounts.(British Broadcasting Corporation 15 March 2000)

However, reaction from the banking industry was more favourable. The National Association of Bank Customers welcomed the findings of the Report. Adrian Graves of the Association said, "*The big issue is whether or not now the government is prepared with political will to take on what the findings of the Report are.*" (British Broadcasting Corporation 15 March 2000) The Consumers' Association, Federation of Small Businesses and the National Association of Bank Customers were also in favour of the findings of the Report.⁵⁴

⁴⁹ Created Under the Financial Services and Markets Act 2000.

⁵⁰ Section 3.

⁵¹ Section 4.

⁵² Section 5.

⁵³ Section 6.

⁵⁴ To see Government response see: <http://www.hm-treasury.gov.uk/mediastore/otherfiles/66.pdf>.

The Banking Services Consumer Codes Review Group published their Report, entitled 'Cracking the Codes for Banking Customers', in May 2001.

Recommendations for reform – review group 2001 DeAnne Julius report

On 3 November 2000 the Chancellor of the Exchequer, Gordon Brown, announced in his pre-budget statement, that the government would be setting up a Banking Consumer Codes Review, which would form part of the government's response to the Cruickshank report. Gordon Brown stated that the aims were to:

...examine whether the voluntary codes for banking and mortgages were delivering sufficiently strong benefits to consumers, and to recommend changes, if necessary, in the codes' content or in the process for revising them.
(British Bankers Association 2001(a))

The report was deemed to be necessary due to a growing feeling of unease amongst customers. The nature of banking is changing from a traditional over-the-counter service to other methods of transactions, including telephone and internet banking. Branches across the country have been closing, leading to bad publicity for some of the main High Street banks in regards to the reduction of consumer access to financial services. Statistics by the British Bankers' Association show for example that the number of Barclays Bank branches within the United Kingdom decreased by 28.2% between 1989 and 1999. Furthermore, within the same time frame, the number of National Westminster branches decreased by a substantial 42.9% (British Bankers Association 2001(a)). The BBC television programme 'Watchdog' summed up the situation on 19 April 2001, in stating that:

In the last ten years over 4,000 bank branches across the United Kingdom have closed, leaving around 800 rural communities without any banking facilities.
(British Broadcasting Corporation 19 April 2001)

There were four specific aims to the review. First, to examine whether consumers could expect sufficiently strong benefits from the adoption of voluntary codes by the banks. Secondly, to examine what scope there would be for consumer representation in the drawing up of these codes. Thirdly, to establish the role the Ombudsman has in influencing or determining the standards for consumers. Finally, to examine whether greater information disclosure can be achieved without the need for further extensive regulation.

On 8 November 2000 the Economic Secretary, Melanie Johnson, announced to Parliament that Dr DeAnne Julius, a member of the Bank of England Monetary Policy Committee, would chair this review. (HM Treasury 2000(c)) Johnson stated:

The review is an important step forward in getting an improved deal for financial service consumers. I am pleased that the review will be carried out by a group from a broad range of backgrounds, including consumer bodies, the financial services industries and others familiar with customer concerns. This will help the review to develop recommendations with a clear focus on consumer interests, so that codes of practice are easily accessible and easily understood. We want effective tools to ensure that consumers are treated fairly and in accordance with clearly set out standards. (HM Treasury 2000(c))

Johnson continued by stating that the codes, which would be subject to review, included the Banking Code, the Mortgage Code, the proposed Banking Code for Small Businesses and the Statement of Principles of Business Banking.

On 23 November 2000 the members of the review group were announced and included individuals from consumer groups, the financial services industry, the media and private business representatives.⁵⁵ Referring to the appointed group, Johnson stated:

⁵⁵ The full list of members is as follows: Michelle Childs (Head of Policy Department, Consumers' Association), Adrian Coles (Director General, Building Societies' Association), Janet Conner (Director of Savings, Banking and Consumer Credit, Abbey National plc), Gerard Lemos (Independent Director, Banking Code Standards Board & Director, Mortgage Code Compliance Board), Stan Mendham

Their expertise and experience will help to ensure that the review produces a fully rounded analysis of how industry codes can be developed to deliver the improvements for consumers essential to meeting public concerns, and to taking forward issues raised recently by Don Cruickshank in his Report on banking in the UK. (HM Treasury 23 November 2000)

The DeAnne Julius group were asked to publish its findings by April 2001.

Key areas

The DeAnne Julius Report focused on four key areas where it was believed the voluntary codes of the banking services were failing in their objectives to improve customer services. Within these four key areas the Report proposes seven main recommendations with a further five ancillary recommendations. The four main areas that the Report recommended were:

- Easier account switching
- Better customer information
- Clearer code review processes and
- More information on code compliance

It is these recommendations that will be explored in greater detail, along with the areas of investigation and proposals made from the findings of the DeAnne Julius Report.

Easy account switching

This area was a main concern for the Group given that account switching is one of the most common forms of banking activities the general public carries out and is an area in which a large amount of customer dissatisfaction arises. Customers in general have found, or believe difficulties to exist, when they choose to switch bank accounts. The

(Executive Chair, forum for Small Businesses), Brian Morris (Director of Consumer and Retail, British Bankers Association), Teresa Perchard (Head of Social Policy, National Association of Citizens Advice Bureau) and Neil Simpson (Deputy Personal Finance Editor, Financial Mail on Sunday)

Group considered it important that consumers could switch accounts easily in order to ensure a constant level of market competition. Furthermore the Report suggests that:

Consumers would be more inclined to switch banks if they were dissatisfied, because the hassle and uncertainty around moving their accounts would be reduced. (HM Treasury 2001 p.19 para 4.3)

A major problem which arises when a customer wishes to switch bank accounts is that of direct debits and standing orders which are already set up. The Report suggests that this should be made significantly easier to allow the customer more scope for choice. The Report focuses on the fact that consumer competition is an important facet of modern banking and as such they made two recommendations with a view to making switching bank accounts easier for customers.

The first recommendation under this area is ‘a new standard for switching accounts’. The Group recommended that when a customer wishes to switch accounts, the banks should guarantee a five day period in which the account would be switched from one account to the other and makes proposals on how this is to be achieved. The Group also suggested that banks should provide a published account of the average times it takes to switch the accounts of their customers. This, the DeAnne Julius Group suggests, will help facilitate customer competition and satisfaction.

The second recommendation is that banks should make a customer’s credit history portable to other banks. This would further enable the five-day guarantee for switching accounts to be further facilitated as an absence of credit history hinders a customer in their search for a new bank account. This would allow a customer to have the same terms and conditions (for example, overdraft limit) in their new account as in their old. The rationale for this is that the credit history belongs to the customer as

opposed to the bank. If the credit history of a customer was more easily accessible it would help speed up the provision of evidence required for the opening of a new bank account. The Group however recognised that the right to consent for this information to be shared with other banks should lie with the customer, so they have the option of whether or not to allow banks to inspect their credit history.

Better customer information

The Group was of the opinion that people are not provided with enough effective information about their current, personal and saving accounts or the codes that regulate the banks. The Report highlights that customers can find it hard to obtain even simple information about their different accounts. The Group believed that this does not assist in financial planning or management within the home structure and more importantly it “*inhibits them for comparing their products against alternatives*”. (HM Treasury 2001 p.X)

The Report’s first recommendation is that customers should receive a customer annual summary statement, which details all the financial activity on any of their accounts, loans and credit cards with that particular bank. This summary should be given to the customer at the end of every tax year. This would enable customers to check all their finances at the same time.

The Group further recommended that the Banking Code should be produced in three different formats. For example the Report outlines the code should be in the format of a leaflet, a full copy of the code and in guidance notes. It is suggested that the leaflet be distributed to account holders biennially and the code and guidance notes should

be available to anyone who wishes to view them. The aim of this is to make the information as universally comprehensible as possible.

Clearer code review

It is widely acknowledged that although the Banking Code has been reasonably re-worked, the Mortgage Code and the Business Banking Code still contain many of the problems inherent in an informal, non-legal, voluntary, industry controlled code. As such the group recommends that there be a biennial code review, led by an independent review which would be made more transparent and formalised. The Report suggests that the Code review should be carried out as much as possible in the public eye and with as much public input as possible. As such the provision of information on websites and advertisements would raise public awareness.

The Report recommended as a methodology for a code review that an independent body consisting of experts in the area make proposals for alteration to the Code which could or could not be accepted by the industry.

More Information for the customer on code compliance

It was the Group's belief that the greater disclosure of code compliance, the more credible banks will appear. If data is published which shows that banks are complying with the voluntary industry regulated codes then the consumers may be more likely to have faith in their abilities to regulate this contentious area of financial services. The Group were cautious however, not to over-develop such a sensitive area and as such, proposed the following two recommendations.

Firstly, it was suggested that data relating to the aggregate code compliance should be published to enable customers to have informed knowledge when considering their banks to ensure a balanced view is presented. Secondly, the Group recommended that there should be a publication of individual bank compliance data. The Group proposed that regulatory bodies of those institutions should formulate a way in which to objectively rate code compliance. This has several advantages, as well as giving customers a more informed choice; it also acts as a big incentive to firms to improve their compliance to the Code internally. Success at this would ultimately lead to a better public image. However the problem arises in introducing a system of monitoring which is both fair and objective which we have yet to see.

The concluding five recommendations were classified in the Report under the heading 'Further Recommendations'. These recommendations although not falling into one of the four above categories were nonetheless noted as being problematic and as such should be recommended for reform.

Recommendation eight suggests that all banking service providers should have universal coverage of the relevant codes. This would ensure an industry-wide open market and equality of competition. Furthermore, it could be perceived that the failure of a particular institution to sign up to the Codes could act as a warning sign to consumers that the bank may not be fully Code compliant.

Recommendation nine proposed an interim Mortgage Code during which the old Code can be updated under the new rules imposed by the FSA and a full review could take place whilst FSA rules are implemented. Although the various financial

ombudsman schemes have been bought under the guise of the Financial Ombudsman Service (FOS), mortgage intermediaries are not required to be part of these schemes. The Group therefore suggests in recommendation 10 that the Financial Ombudsman Service covers mortgage intermediaries.

Recommendation eleven states that there should be a better deal for those in financial difficulties. This would ensure that banks cater for all types of people whether they are wealthy or financially deprived. The Group seems to be suggesting that banks' inept treatment of those in financial difficulties has led to widespread consumer dissatisfaction, as shown by this research, so much so that action must be taken. They recommend that prompt action must be taken, for example, by ensuring that those in debt be referred to specialist debt recovery groups and that they should work with customer advisers to ensure that the bank is as customer friendly as possible.⁵⁶

The last recommendation draws upon the already existing individual consumer safeguards and sees them transposed into a Business Banking Code for small businesses.

As the Group sets out:

Consumer codes are not a panacea for dealing with the issues of consumer detriment nor do they exist in a vacuum. Many issues are best dealt with by other means. (Review Group 2001 p.4)

The other means to which they refer are those used by the FSA for dealing with complaints; the new measures set out for combating financial exclusion and the FSA's new rules on money laundering.

⁵⁶ See Appendix 1.

Responses

Although the Report is not a universal solution to the failings of the banking industry it has been met with positive responses.⁵⁷

Ruth Kelly, Economic Secretary, stated that:

The Report contains a number of useful recommendations directed at significantly improving competition and increasing the levels of consumer service in banking services. (Downing Street 2001)

The British Bankers' Association agrees with the emphasis of the Report and states that:

The BBA welcomes the opportunity to participate in the consultation on the Independent Review of Banking Services. (HM Treasury 2001 p.6)

The National Westminster Bank like many of the other suppliers has also welcomed the Report's recommendations and Alliance & Leicester in fact stated:

[The] review could not have been launched at a more appropriate time... the retail banking industry in the United Kingdom is undergoing far-reaching change. (HM Treasury 2001 p.13)

The way ahead

Banking services play a major, and ever increasing role on people's lives...Problems in delivery of these services therefore have the potential to cause significant disadvantages to consumers. (HM Treasury 2001 p.14)

Given that banks do play such a major role in society it is of the utmost importance that the code regulating the banks is revised in such a way. The banking industry is changing shape and its regulation must keep pace with this change if it is to continue to satisfy customer needs. In order to retain customers banks will have to change the

⁵⁷ Responses: 27 from suppliers (banks, building societies etc.); 9 from consumer groups and association; 10 from members of the public and over 70 complaints against particular suppliers from members of the public. HM Treasury Financial Services, 'Competition and Banking Services in the UK'. www.hm-treasury.gov.uk/Documents/Financial_Services/Banking/fin_bank_comp9.

way they treat them. Customers are now in the position to have the pick of the market. They are now able to decide which supplier will best meet their individual needs. The DeAnne Julius Report has added ‘fuel to the fire’ in banking competition. The industry is now facing a period of change whereby the customer is to be in the driving seat and the banks will have to comply with the demand of the nation and not just the voluntary industry regulated codes of conduct.

Kempson’s independent review of the Banking Codes

Although many of the Review Group’s recommendations were met with enthusiasm within the banking industry, the Banking Code was still a contentious and confusing idiom. So much so that yet another review process was set in place to consider the Banking Code’s future. The Review Group stated in its report that “[T]he code review process should be formalised, made more transparent, and led by an independent ‘Reviewer’.” (British Bankers Association 2000(d)). Thus in November 2002 Professor Elaine Kempson of Bristol University published an Independent Review of the Banking and Business Banking Codes. For the purposes of this thesis emphasis will be placed on the recommendations for the Banking Code with regard to personal customers, rather than by businesses.

The independent report is divided into five sections:

1. Coverage of the Code
2. Presentation and structure of the Codes
3. Areas of the Code requiring substantial revision
4. Less extensive revision, including the ‘informal remedies’ proposed by the Competition Commission
5. Assessment of the independent review process. (British Bankers Association 2000(d) p.1)

Coverage of codes

The review deliberated on whether there should be separate Codes for personal and business banking or whether banking conduct compliance could be better served

under one unanimous code. Kempson recommended that there should continue to be two codes one for personal banking customers and one for business customers, but that they should assimilate each other as far as possible. (British Bankers Association 2001(c) p.7)

The review considered whether the relationship between the Code and the guidance notes given to banks were adequate to serve customers' needs. The Banking Code at first glance appears to be short but it has an accompanying fifty-page guidance book to facilitate the interpretation of its carefully worded content. The review group believed that the best approach was to set out a short but prescriptive Code but that there should be very detailed guidance notes in order to interpret the principles within the Code. However "*there were concerns that, if the Codes became more prescriptive, consumers would be less likely to read them and could well become confused if they did read them*". (British Bankers Association 2001(c) p.7) The review group concluded that the balance of guidance and prescriptive Code was "*about right*" and thus should continue to be "*principle-based, with guidance spelling out the details of how the principles should be interpreted*". (British Bankers Association 2001(c) p.8)

Kempson suggested further that the Code should apply to all customers holding an account within the United Kingdom, but she recommend that only those account holders who live within the UK should be covered by the Code.

Presentation and structure of the codes

Recommendations in this category were to ensure that customers were aware of which particular institutions are covered by the Code as there was a belief that customers did

not know that the Code covered credit card companies and building societies as well as banks.

Further recommendations under this section were intended to make sure that all banks provided their customers with a copy of a generic Banking Code and not one which had been tailored to each individual bank. This was to counter the problem of lack of Code awareness among customers.

Kempson also detailed that the Code should be re-reorganised so that the sections of the Code which deal with lending and financial difficulties are grouped together to make it easier for staff and customers to ensure the bank is acting correctly and fairly.

Kempson furthermore reviewed the structure of the Code. The recommendation was to make the introduction succinct with a brief description of the code at the beginning.

Kempson recommended that the opening passage should read:

About this code

This voluntary code sets standards of good practice for banks and building societies to follow when they are dealing with personal customers. It provides protection for you and explains how banks and building societies are expected to deal with you day-to-day and in times of financial difficulty. (British Bankers Association 2001(c) p. 9)

Kempson stated that this passage should then be followed by the section on 'key commitments'. Kempson suggests that the key commitments should be divided into four general areas. The areas are:

[t]o act fairly and reasonably in all our dealings with you; to help you to understand how our financial products and services work; to deal with things that go wrong quickly and sympathetically and to publicise this Code, have

copies readily available and ensure that our staff are trained to implement it fully. (British Bankers Association 2001(c) p.9)

The recommendation opined by Kempson regarding financial difficulties was very small. It concerned nothing more than a reshuffle of where the sections should be placed in the Code. It read:

I recommend that section 15 Financial difficulties is moved into the lending section of the Codes; section 16 Branch closures into section 3 and the remainder of this part of Codes is renamed 'Complaints'. (British Bankers Association 2001(c) p.11)

These recommendations seem very small and inadequate to deal with such an area. This would seem to epitomise the views both of the banking industry and many independent reviewers that the manner in which banks currently deal with those in financial difficulties is perfectly adequate and not in need of reformation.

Kempson suggests that other areas such as Section 4 Interest Rates; Section 7 Account Switching; Section 8 Advertising and Marketing and Section 11 Lending should have a more extensive review process.

Section 11 Lending should now encompass how the banking industry should deal with people in financial difficulties. The recommendations made by Kempson were influenced by the Department of Trade and Industry (DTI) report on over-indebtedness concerning the number of people borrowing money that they could be unable to pay back and were thus placing themselves in an enormous amount of debt. This can be seen to have influenced the independent reviewer's wording of the section. The section was recommended to state:

Before we lend you any money, or increase the credit limit on an overdraft or credit card, we will always assess whether we feel you will be able to repay it. The Guidance notes should spell out a range of good practice options for checking customers' ability to repay, e.g. use of credit reference agencies. (British Bankers Association 2001(c) p.17)

Kempson expands on this recommendation by stating that the bank should make clear why the person's application for a loan had been declined and if necessary to provide a written explanation of the refusal.

BBA 's response to the review

The BBA's response to Kempson's recommendation for reforming the Banking Code was to embrace all the recommendations subject to a few small minor amendments or comments.

The new Banking Code March 2003⁵⁸

The review of the Banking Code came to fruition in March 2003 when the newly revised edition was published. Along with the new Banking Code the BBA decided that all new customers of any subscribed bank should be provided with a leaflet outlining the main elements of the Banking Code.

⁵⁸ See Appendix 5.

The leaflet reads:

“The Banking Code and You.

Setting standards for banks, building societies and other banking service providers

We subscribe to the Banking Code. Not all financial institutions do. Doing your banking with someone who subscribes to the Banking Code gives you extra confidence. You should check that any financial institutions you deal with for banking services (such as savings accounts, current accounts, loans and credit cards) also subscribes.

The Banking Code sets minimum standards of good service that you can expect from banks, building societies and other providers of banking services. This leaflet tells you about our key commitments and responsibilities to you under the Banking Code.

In subscribing to the Banking Code, we promise to do the following:

1. Act fairly and reasonable in all our dealings with you by:

- Making sure all our products and services meet the standards of the code;
- Having safe and reliable banking and payment systems;
- Considering cases of financial difficulty sympathetically and positively; and making sure our products and services meet relevant laws and regulation.

2. Help you to understand how our financial products and services work by:

- Giving you information about them in plain language;
- Explaining their financial implication; and
- Helping you choose one that meets your needs.

3. Deal with things that go wrong quickly and sympathetically by:

- Correcting mistakes quickly;
- Handling your complaints quickly;
- Telling you how to take your complaint forward if you are still not satisfied; and
- Cancelling any bank charges that we apply due to our mistake.

4. Publicise the Code, have copies available and make sure our staff are trained to put it into practice.”

(Banking Code 2003)

The actual code itself is divided into eight sections; introduction; key commitments; information; account operations; protection; lending; further assistance and glossary.

The sections are set out clearly and deal with the majority of the issues considered in both the Julius Report and the Review Group Report. However the detail is limited and vague. This can be best illustrated by section 13.10-13.13 which deals with Financial Difficulties.

Section 13.10 states that *“we will consider cases of financial difficulty sympathetically and positively. Our first step will be to try and contact you to discuss the matter.”* (Banking Code 2003 p.17) Although this appears at first glance to be a move forward from the old Code which stated that the customer should contact the bank when they realise that they are in difficulties, the onus placed on the bank is very small. The bank only has to ‘try’ to contact the customer. The Code additionally does not state at what stage of financial difficulty the bank will get in touch with the customer. However, as stated previously in this chapter, the bank’s business aim is not to make people take responsibility for their financial position and can only offer help to those who want to take up that offer, although this could be considered as part of their ethical and social obligations. It is a fine balance to be struck between helping customers and making them receive the help that is offered. It is also important to note that this research shows that customers who are in difficulties are still not receiving the treatment that is stipulated within the Banking Code 2003.

It is questionable as to whether the banks are obliged to help customers who do not want help. However the researcher proposes that part of the banks’ social responsibility towards these people is to help to educate them so that the cycle of financial exclusion and difficulties is broken. Although this could be considered to fall outside the remit of the banks’ corporate activities, if they provided help and financial education to their customers then the bank would be in a better position as fewer people would get into debt.

Section 13.11 states that *“if you find yourself in financial difficulties, you should let us know as soon as possible. We will do all we can to help you overcome your*

difficulties. With your co-operation, we will develop a plan with you for dealing with your financial difficulties and we will tell you in writing what we have agreed.”

(Banking Code 2003 p.17) This deal places the emphasis back on the customer and mitigates the bank’s responsibility for detecting difficulties.

However the Code does state that the banks should help customers in drawing up a repayment plan to overcome difficulties, although this is only with the co-operation of the customer. This will potentially create many problems and possibly negate the purpose and usefulness of the sections as many customers who find themselves in difficulties may not wish to go and talk to bank staff or even let them know that they are in difficulties. Research has shown that many customers in difficulties feel alienated by banks, that they are only for affluent members of society and that the establishment is against them. (Kempson and Whyley 1998). These people therefore are unlikely to admit to strangers in the ‘establishment’ that they have a problem. The solution could also lay within the remit of financial education. If the banks could financially educate these customers in an informal manner and demonstrate that the industry and the employees of the bank are similar to them, the culture of division and alienation existing between the two groups could be set aside.

Section 13.12 states that *“the sooner we discuss your problems, the easier it will be for both of us to find a solution. The more you tell us about your full financial circumstances, the more we may be able to help.”* (Banking Code 2003 p.17) This statement is more common sense than a regulatory guidance. It does not prohibit nor does it allow anything. It is a statement, which once again may fail before it has a chance to work. Customers may not want to disclose their entire financial situation as

they may be fearful that what little they have may be taken away from them. They may fear that their loans or overdrafts may stop and this may be the only way in which they manage to survive financially from one month to the next. They believe that the bank will not understand them. The process of financial exclusion is sometimes a conscious decision as well as a forced situation. This is especially true for customers who are of an ethnic minority, the elderly, single mothers, and marginalised workers. Kempson and Whyley's research into financial exclusion demonstrated this through various case studies.

Case Study One: Elderly Low-Income Households

A widow aged 78 had always dealt in cash, often keeping substantial amounts at home until it was needed. She had closed her building society account "because there is nothing to put in it". She did have a life insurance policy, taken out for her grandchildren, which had been sold to her by a door-to-door salesman; the premiums were also collected from her home. She never used credit because she "...was brought up in the belief that if you wanted something you saved for it and then when you had enough money you went and bought what you wanted".

Case Study Two: Single Mothers

One single mother who had worked on and off since the birth of her first child, had opened a savings account for her wages to be paid into, but had stopped using this when she gave up work to look after her youngest child. At 37 she had never applied for a current account because she thought she would not get one, and had never used credit in any form. She had almost no knowledge of potential sources of credit in any form including mail order, which is unusual for someone in her circumstances. She knew no one who had used anything other than the Social Fund to obtain credit.

Case Study Three: Ethnic Minorities

Despite having lived in Britain for 35 years, a 65-year-old Bangladeshi man had a remarkably poor understanding of the British financial services provision. The only financial institutions he was aware of were banks, and the only financial product he had ever used was a savings account that was no longer in use. He described banks as 'very fussy', adding that there was a lot of paper work, requiring so much personal information and checks on identification that he did not want to open an account with them. He preferred to rely on family and friends if they needed to borrow money or to replace possessions following a burglary. He also looked to his children to provide for him and his wife in old age.

Case studies from Kempson and Whyley 1999. (p. 15-16)

The problems encountered with this section may also be helped by the bank taking an active step in financially educating these people to show that the banks can help them and that it is advantageous to their needs to have a bank account.

Section 13.13. states that *“if you are in difficulties, you can also get help and advice from a debt counselling organisation. We will tell you where you can get free money advice. If you ask us to, we will work with debt counselling organisations such as Citizens Advice Bureau centres or The Consumers Credit Counselling Service.”*

(Banking Code 2003 p.17-18) This section, if the others are successful in getting customers to admit to problems, is advantageous to the customer's needs but could again fall foul to the misconceptions that some customers hold of the banking industry. The promise to help customers and to work with them with debt agencies is fine if the customers agree to it; if not, what is the bank to do then? The Code does not stipulate this and it appears that if the customer does not want help then the bank can do nothing and the situation will only get worse. The Code also does not state how the customer's account, overdraft and cards will be handled. In most situations the account is suspended until either it is closed or the situation has been resolved. The customer in the meantime is left without financial means. They are left to use cash chequing agencies that take up to 40% of the value of the cheque. There is also the additional worry over receiving a bad credit score and the possibility of being refused credit in the future. For these reasons customers in financial difficulties are unlikely to seek the banks assistance, which presents a considerable hurdle to the banks' effectiveness in assisting such people. The view of the banking industry is a great barrier for customers relating to banks.

[P]ossibly the greatest barrier to accessing banking services was people's mistrust of banks and other financial institutions...People felt very strongly that

banks did not understand and indeed were not interested in the needs of people living on low incomes:

“They have got to realise what it’s like at the bottom – it’s really, really hard. So if they want us to know about banks, and know what is going to be good for us and everyone else then they’ve got to start from the bottom and try their hardest to get through to the people.”

[B]anks [were also] considered to be a rip off, only interested in making as much money as possible from their customers. (Collard, Kempson and Whyley 2001 p.16)

However it is recognised that there cannot be a compulsory scheme for forcing customers to receive help and so not all situations could be dealt with, but it is the recommendation of the researcher that the code does not go far enough to help those who are financially excluded. The people who experience financial exclusion or difficulties require help and financial education. Only the customer can help himself or herself, the bank cannot take responsibility for the millions of their customers. The researcher believes that only through an effective method of financial education will there be any difference made to the increasing numbers of people who are in debt, in financial difficulties or who are financially excluded. The Banking Code does not offer this help or financial education. All the Code does is lay down the guidelines that the bank should follow and informs customers how to complain if they are dissatisfied with their treatment.

The Code states that if a customer is dissatisfied with a bank’s conduct toward them then there are two methods of complaint. First the customer must make a complaint to the bank branch itself. Within five working days the bank will acknowledge in writing the customer’s complaint and within four weeks the bank will write to the customer with a final response to the complaint. If the customer is still unhappy with the bank’s response, then the bank will inform the customer of how to take the complaint

further to the Financial Service Ombudsman Service. (Banking Code 2003 s.14. p.18-19)

However, the problem again is the lack of awareness among customers, which will mean that they will not know if the bank has acted in accordance with the Banking Code and therefore whether or not they are eligible to complain. Furthermore, customers who are in financial difficulties are unlikely to want to complain or have the skills to complain in the circumstances where the bank has not acted properly. These people are distrustful of the establishment and do not want to get involved with a seemingly bureaucratic system. They may not understand how the system works and may not feel able to cope with it. As already stated, the people who are marginalised in society do not feel that they 'fit in' with the system; it is 'not for them'; it is something for 'rich people'; something that only 'they' use. Collard, Kempson and Whyley (2001) believed that there were key problems relating to personal banking. Firstly that the design of the bank account was inappropriate for people with little money who did not want to run the risk and incur the costs of inadvertently overdrawing. Furthermore people mistrusted the banks and held a negative view of them. (Collard, Kempson and Whyley 2001 p. vi)

As stated in the ombudsman report, the people that are likely to complain are the middle classes who do not generally have such severe financial difficulties.

The solution therefore is once again financial education. If a person is financially educated then they will feel able to complain about the bank. As it is, the banking establishment is 'alien' to them and they are not sophisticated enough in their

knowledge to complain and so many breaches and bad behaviour by the bank go unreported.

Banks in breach of the Banking Code

Although many breaches remain undetected, as in cases such as above, there are many that are detected. In January 2003 the Halifax was found quite publicly to be in breach of the Banking Code.

The BCSB has found Halifax to be in breach of the Banking Code over its handling of charges made in July to the terms of its Bonus Gold Account. Two types of customer were affected. Firstly, just over 2,200 customers with average balances of £41,000 who were entitled to bonus interest and, secondly 11,160 customers with balances below £10,000 which was the minimum balance required to open a Bonus Gold Account. (British Bankers Association 2003)

The breach came about when the bank simplified the features of the account and improved access to the account. Accompanying this improved access was a rise in the interest rates for balances on the account. The bank allowed the requisite amount of time for customers to transfer funds without notice or loss of interest. The breach arose when the bank effectively introduced a penalty to customers who withdrew their funds and did not reinvest in one of the four specified accounts. The penalty meant that the customers were losing their accrued bonus. The bank was found to be in breach of the first section of the Banking Code; to act fairly and reasonably in dealing with all customers. Halifax has since decided to reinstate the pro-rata bonus to the customers who had the penalty inflicted upon them and have written to all customers informing them of the precise interest rate they are obtaining on the account.

Seymore Fortescue, Chief Executive of the BCSC said:

This incident reflected an initial interpretation of the Banking Code that was too legalistic and literal and failed to follow the spirit of the Code. As a result

customers were going to be unfairly disadvantaged. However we welcome the constructive co-operation Halifax has shown over the matter, and the prompt action the bank has taken to rectify the situation. (British Bankers Association 2003)

This public breach of the Banking Code dealt not with poor disadvantaged customers but with customers who are affluent and who possess sufficient funds to have a special savings account designed for high savings. The publicity around the breach was raised due to the nature of the high profile accounts and not just because ordinary customers of the banks were being disadvantaged.

The Chief Executive's explanation for the breach also demonstrates that the Banking Code works for customers who do complain and who do know how to work the system. The fact that, as Fortescue stated, the spirit of the Code had not been followed illustrates the loose hold the regulators have on the banking industry. If the industry is just governed merely by a spirit which cannot be interpreted too legalistically or literally then it does not bode well for all customers but particularly those at the bottom end of the affluence scale. Such customers will surely continue to fail to gain the full benefits of the code until the regulations are changed to work for all customers and not just for advantaged customers.

Conclusion

The banking industry is obviously aware of the problems of the Banking Code and financial exclusion, but it appears that they do not place these two factors together. The researcher believes that the industry could use the Code to a better effect in relation to financial exclusion and difficulties. The key to combating and reducing financial exclusion is to offer help and financial education to those suffering from

financial problems. However instead of trying to combat financial exclusion the Code has been used as a 'window dressing' to hide the real problems affecting the industry. Awareness of the Code is marginal and those who are aware of it do not know what the code states and what help it could be to them. The research shows that among those who are financially excluded there is a lack of general financial education in terms of managing their finances to avoid difficulties. The researcher proposes that there should be a system of help created by the banking industry to educate customers. Although the third statutory objective of the financial services authority aims to financially educate consumers, there has not been a marked reduction in the number of people experiencing financial difficulties. In fact, over the past year, there has been a marked increase.

Chapter Seven: **Corporate Social Responsibility**

Introduction

In this chapter, the researcher will explore the culture surrounding the way in which banks carry out their business and the ethical and moral constraints that affect their business decisions. The aim of the chapter is to consider whether banks are already fulfilling their social obligations through their ethical policies or whether they could do more to incorporate those who are without financial products. The researcher will also examine whether banks actually need to be socially and ethically obligated given that banks are simply organisations. (Friedman 1962) The aim is to examine both Barclays Bank and the Co-operative Bank's social and ethical policies and also the general effect of corporate social responsibility on the banking industry. This chapter will demonstrate that rather than banks being simply corporate entities they have, in fact, due to the growth of industrial society, become part of everyday life to such a degree that they have developed into utility entities and have thus created a need for corporate social responsibility (hereafter CSR). In order to examine the above it is necessary to examine the literature regarding corporate social responsibility.

Literature review

One of the main themes in this thesis is that of the economic justification for financial exclusion offered by the banking industry. In other words, the banks believe that they are already doing enough to fulfil their social and ethical obligations without doing more to incorporate the financially excluded. Additionally the banking industry believes that the cost of making people financially included would be too much to bear for the rest of the financial market. Stemming from these economic justification arguments are a number of phenomena and sub-phenomena.

The main phenomenon examined by Chatterjee (1996) is that of corporate social responsibility. The literature suggests that CSR is an aspect of general business which entails not only the maximisation of profit for the benefit of the shareholders in the company but the adoption of a socially responsible attitude in conducting business. This links into another main phenomenon, that of corporate governance. The ideology behind corporate governance is that the company in question is primarily a business which has responsibilities to shareholders as well as the rest of the nexus group and this does not always lead to a socially responsible corporation. However the phenomena of corporate governance and CSR are not necessarily harmoniously integrated. There are constraints and ties in both phenomena and the consequences for those who are financially excluded are not always favourable.

Chatterjee notes that although profit maximisation may be beneficial to those under the corporate governance guise, those under the guise of CSR and financial exclusion may in fact be hindered by such motivation. He states:

In recent years societal uneasiness has become manifest particularly in respect of the issue of profit-maximisation, as opposed to profit-optimisation, by corporate bodies. But is profit-maximisation a source of harm, or a source of benefit to society? If profits are channelled appropriately for the welfare of society, then it may be difficult to condemn the profit maximisation policy that corporate bodies usually pursue; but the appropriate channelling of profits is a matter for the Government, not for the corporate bodies, unless the latter takes the initiative to do so. In the absence of any legislation in this regard, it may be unjust to condemn corporate bodies on this issue in mind that not all corporate investors may be persuaded by the concept of corporate social responsibility. (Chatterjee 1996 p.388)

These phenomena of CSR and corporate governance may be both linked to the sub-phenomenon of the rules and regulation of the banking industry and the effects on

those who are financially excluded.⁵⁹ The effects of over-regulation or under-regulation are discussed later in this thesis but the effects are very real, a fact reflected in this sub-phenomenon in the literature. Chatterjee claims that:

Unless the components of ‘corporate social responsibility’ are identified, it may be difficult to establish any causal connections between corporate governance and corporate social responsibility. On the other hand, if the concept of ‘corporate social responsibility’ is stressed too far in a society which perceives profit maximisation as the primary goal of corporate bodies, then shareholders and investors may be inclined to discharge their responsibility by artificial means, for example, by donations, or by performing other charitable work. (Chatterjee 1996 p.388)

A third phenomenon within the literature is that of the relationship between customer and banker under the guise of the concept of economic elements to financial exclusion. The argument, which stems from the literature is that banks see the relationship between banker and customer to be one purely for the purposes of business and profit maximisation and attach little in the way of social obligations to the relationship. The changes in banking practices and culture over the past two decades have contributed significantly to the formation of these views. Although the literature focuses upon the phenomenon of the relationship between customer and banker the sub-phenomenon of rules and regulation is also explored and linked back to the phenomenon of CSR. Chatterjee denotes this idea by stating:

The dilemma about corporate social responsibility of banks with regard to highest returns on investment is promoted by society and the lack of propitiatory legislation. (Chatterjee 1996 p.388)

The phenomenon of the banker-customer relationship is also associated with a sub-phenomenon of financial crisis with the demise of the widespread geographical distribution of bank branches. It is clear that many bank branches have been closed

⁵⁹ See chapter 4.

and most of them were situated in areas which are either rural or possess a very low-income average. (Collard et al 2001) This sub-phenomenon stems from the phenomenon of financial crises.

Financial crises have been experienced all too frequently in the past couple of years. Leyshon and Thrift (1995) states that the phenomenon of financial crises leads society in search of an alternative way of ensuring the safety of the financial markets and hence the regulation and economic justification of the banking industry is placed under investigation.

Financial crises have profound economic and social consequences. They tend to induce what the financial services industry describes as a 'flight to quality'; that is, a search for 'safer markets, a process which tends to discriminate in favour of more affluent and powerful social groups and against poor and disadvantaged groups. (Leyshon and Thrift 1995 p.321)

Financial crises do have a pronounced effect on both those who are more affluent and those who are disadvantaged or excluded, but the effects on the latter appear to be more dramatic.

The phenomena of CSR and corporate governance are explored within this chapter but the ideas discussed here stem from their effect on the economic elements of financial exclusion. They are explored in relation to regulation and cultural change experienced by the banking industry and whether the banks can offer adequate economic justification to exclude people from mainstream financial participation.

The phenomenon of the customer and banker relationship is explored in some detail in relation to the changing culture of banks and how this now makes it now difficult to define and set the boundaries between customer and banker in chapter 5.

Banks and the United Kingdom's infrastructure

A bank is a corporate entity. (Chatterjee 1996) It has shareholders, directors, employees and customers. It is governed by company and banking legislation. A bank therefore may be said to be a business with the primary aims to maximise profits and performance. The operation of the company affects a wide-ranging proportion of society, known as stakeholders. Examples of these stakeholders include the shareholders, directors, employees, customers and local communities. These stakeholders constitute the company law theory of the 'corporate nexus'.

Although banks are primarily businesses there has been a lot of criticism from the media and amongst academics surrounding the manner in which banks have been conducting their business in recent years. Why does society pay such attention to profits being made, shareholder dividends, director's salaries and the returns being made on customer accounts? The customers of a normal corporate situation would not be making an objection, but with the banking industry it has become second nature to criticise. Why? The reason would seem to lie with the preconception that a bank plays a social role within society. A bank, it is believed, performs a service for society and is essential to everyday life. It offers a service like no other. A bank takes in money and then enables people to live their lives to a financial maximum. It facilitates living in a financial world. With the introduction of modern technologies it is becoming easier to use money as an aspect of living. People use banking facilities everyday. As such a bank has progressively come to be seen as a utility and as an important if not essential facet of life. It can thus be considered almost impossible for people to survive without a bank. This coupled with the controversial activities of the banking

industry in recent years has resulted in questions being asked over the banks' ethical and moral obligations as well as their business obligations.

A sociological explanation stems from the notion that within the structure of an effective industrial society there subsist both an infrastructure and a super-structure. An infrastructure constitutes the economic base, which predetermines the superstructure or the conceptions behind a society. Therefore if the infrastructure alters then so does the super-structure. (Haralamos, Holborn and Heald 1995 p.10)

By using this description it can be seen that the Banking industry is part of the infrastructure of the United Kingdom and what the banking industry does affects the rest of society on a number of levels. The banking industry by the very nature of the business it conducts exists as an integral part of society and does not work in isolation from society. It is therefore important for this thesis to explore the banking culture and ideology which governs such an organisation in order to determine whether the industry is regulated in such a manner as to fulfil their social obligation without giving regard to the issues of financial exclusion.

Banks in their role as lender and depositor represent an important aspect of society as other groups in society will receive economic benefits from such transactions. The money savers deposit in a bank can be used for a variety of purposes, for example government investments. Any profit made will benefit not only the account holder and the bank, but also society. Similarly if a customer takes out a loan from a bank then the profit made by the bank as part of the repayment contract could be put to

good use by the bank, for example, to fulfil one of the many social policies it has in place.

The researcher then questions the ambidexterity between the bank that is a corporate entity, concerned with profit maximisation, and the recent trend that banks should conduct their business in an ethical and responsible manner. As Chatterjee states:

In the world of banking, ethics in business must be judged in the perspective of profit maximisation as that is the philosophy on which the bank's business is based, irrespective of whether this aspect of ethics meets the meaning of 'general ethics' or not. (Chatterjee 1996 p. 389)

One possibility could be that if banks do behave ethically and morally it increases competition in the market place because the bank can command a greater customer base and thus more profit. A less cynical argument may be that banks have an ethical consciousness (Weiss 1994 p.90), which predetermines how they conduct their business affairs.

Ethical aspects of businesses – the banks' perspective

Ethical practice in business is not a new phenomenon but the relationship that has developed between the importance of ethics and the banking industry is relatively new. The Co-operative Bank was the first bank to give thought to the ethical implications of its operations but other banks have taken a great deal longer to approach the same standards. Today all main high street banks have ethical mission statements applicable to the conduct of their business. It is these ethical mission statements, which now constrain the business decisions. Banks have two considerations when making such decisions.

1. Is this good for the bank in terms of profit maximisation;
2. Is this ethically sound?

The law however cannot totally regulate these ethical decisions but does play an integral part in the formation of the ethics that are focusing the decisions. The values and beliefs of a society reflect the societal belief in what is right and what is wrong. These same notions of right and wrong are also normally assimilated into what is law. There is, however a cross-over between that which is right and wrong and unregulated and that which is right and wrong and is regulated.

Businesses have to determine and regulate their ethical decisions in their own way and it is this which can lead to criticisms over the bank's activities. Although the law by virtue of the Financial Services Authority⁶⁰ is beginning to think about regulating the banks' ethical decision making process, it seems that the regulator's thinking does not go far enough to offer protection to those people who suffer from financial difficulties and exclusion in the event that such decisions cause further problems of this nature. Given the integral nature of the banking industry within society it can be viewed that the banking industry and society co-exist and are directly affected by one another. As such, banks have become more than just a business and are now more ethically and morally aware of their business conduct.

⁶⁰ For more information see: Financial Services Authority, 'An ethical framework for financial services', Discussion paper 18. October 2002.

Corporate social responsibility

CSR is a key term and policy throughout most of Europe today. As Wittingdale states:

It is self-evident that business cannot simply rule out the exercise of moral judgements in its activities. The question must instead be how corporate social responsibility is defined and managed. (Wittingdale 2001 p.10)

It is here that the main problem lies. CSR is an intangible term which is proposed to regulate intangible activities such as morals and ethics within business. It is therefore difficult to manage and govern even from the point of defining the term.

Lord Holme and Richard Watts defined CSR thus;

Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. (Mallenbaker 2002)

However, in different parts of the world alternative definitions are offered. For example in Ghana CSR is defined as being:

About capacity building for sustainable livelihoods. It respects cultural differences and finds business opportunities in building the skills of employees, the community and the government. (Mallenbaker 2002 Website)

In the Philippines, it is believed that “*CSR is about business giving back to society*”. (Mallenbaker 2002)

Although these definitions are not identical they all focus on pivotal words such as ‘ethically’, ‘economic development’, ‘quality of life’, ‘building sustainable livelihoods’ and ‘giving back to society’. It is this ethos which best describes CSR and highlights its importance.

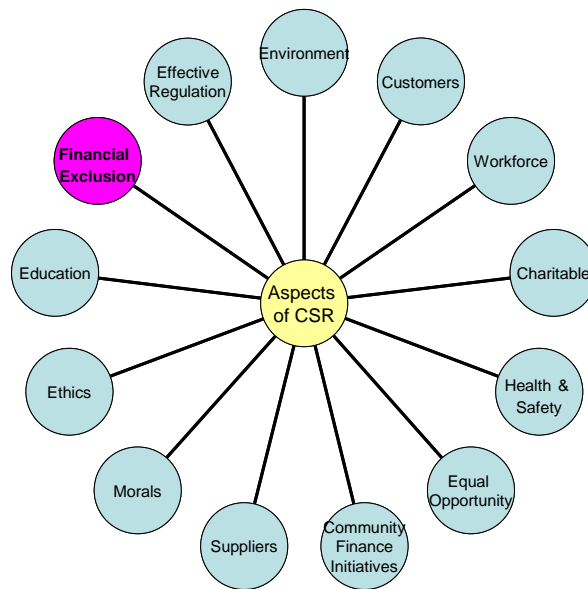
The United Kingdom Government realises the importance of CSR and the implications for behaving responsibly in business and in complying with European law, and has now produced CSR guidelines for good practice. Additionally, Dr Kim Howells has been appointed as CSR Minister.

The importance of CSR is now globally recognised and has been present in the United States of America since the enactment of the Community Reinvestment Act 1977. Its main role is the reinvestment of money from banks and lending institutions back into the community and is an integral part of wealth creation in the United States of America.

However, CSR in the United Kingdom is a relatively new phenomenon but one which has been taken on and adapted by the Government. Voluntary guidelines have been issued to assist companies in displaying social responsibility⁶¹ and focus closely on charitable and environmental issues. Although this is beneficial to society and no doubt fulfils some social obligations from a bank's point of view there are other important social responsibilities which are not being tackled. For the purpose of this thesis, it is this missing facet of the bank's social and financial exclusion, which is discussed. Diagram 7.1 depicts this by showing all the social obligations that banks do fulfil. Yet they fail to recognise that they have an obligation to combat financial exclusion. This is why this is highlighted.

⁶¹ See website <http://www.societyandbusiness.gov.uk>.

Diagram 7.1: Factors affecting Corporate Social Responsibility and Business Decisions



The main problem with the guidelines, other than their voluntary nature, is that they are not industry specific and as such are of a general nature which cannot cover all the necessary areas in all types of businesses within the UK.

Why then is CSR so important that Europe and the United States feel it necessary that they should try to monitor business behaviour? The answer lies within the developing belief that business and society co-exist; as Cannon (1992) states:

The enterprise, its proprietors and other stakeholders depend on their community in which they operate for their existence and prosperity. This is not a one way street. Society expects business to make its contributions. The fundamental role of commerce is to provide the means by which the material needs of the community are met. (Cannon 1992 p. 37)

Society expects that business and banks should pay a necessary contribution to the well-being of the whole community. It is this notion which has led to the speculation of a lack of social responsibility within the banking industry.

A contrary view is provided by Friedman (1962), Hayek (1969) (found in Cannon 1992) and others who believe that this is wrong and that the purpose of any business is to make profits for shareholders; its role in society is purely economic. Friedman believed that:

There is only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, engages in open and free competition, without deception and fraud. (Cannon 1992 p. 38)

Friedman also states that;

If businessmen do have a social responsibility other than making maximum profits for their shareholders, how are they to know what it is? Can selected private individuals decide what the social interest is? (Cannon 1992 p. 37)

Friedman appears to have been ignored by the majority of the banking industry, and thus aspects such as social responsibility and ethical and moral consciousness are present as a consideration in any business decision that is made by the banking industry.

How does the UK banking culture measure up?

Although the banking industry does claim to behave in a socially and ethically correct manner the difficulty lies within the areas these policies do not directly cover. Included within such areas is help for those who are in financial difficulties or financially excluded. It is an aim of this thesis to discover why people are still financially excluded, why the law cannot regulate against this and why this does not fall into the social responsibility categories. This section of the chapter focuses upon the socially responsible activities that the banks do undertake and identifies shortfalls in the banks' policies with regards to financial exclusion.

Social responsibilities are increasingly being taken seriously since 2003 brought the first publication of an index from ‘Business in the Community’(hereafter BitC) which has listed in order the most and least socially responsible companies within the UK.

BitC group 2003 states that:

Companies have an impact on society and the environment through their operations, products or services and through their interaction with key stakeholders such as employees, customers, investors, local communities, suppliers and others. Corporate responsibility means managing this impact so as to add value to the company and increase wider economic and social well-being now and over the longer term. (BitC 2003)

Out of the seven banks that entered into this index results, none came in the first quintile of the top FTSE 350 companies, Dow Jones sector leaders and companies reporting globally. Table 7.1 depicts their ratings in the results.

Table 7.1: BitC results 2003

<u>Bank</u>	<u>Rating</u>
<u>Credit Suisse</u>	<u>27th</u>
<u>HBOS</u>	<u>31st</u>
<u>Abbey National</u>	<u>41st</u>
<u>Barclays</u>	<u>44th</u>
<u>UBS</u>	<u>59th</u>
<u>Bradford & Bingley</u>	<u>60th</u>

The Co-operative bank was compared to other BitC member companies who are not FTSE 350 listed companies as above and came first overall.

As the results show, the ratings of the UK high street banks are still not very favourable. Although they appear to be conducting business in a socially responsible manner there is still considerable room for improvement. To explore this further, an examination is conducted of two main high street banks’ ethical policies and social

activities within the wider community. The two banks selected are Barclays bank and the Co-operative Bank. These two banks have been singled out because they appear on the face of it to lie at the two ends of the scale, with Barclays having been at the forefront of criticism for many years, whereas the Co-operative Bank is founded on the principles of mutuality. The policies and practices of both banks will be compared and contrasted to see how they differ and if the criticism offered can be explained by such differences.

Barclays' Bank Plc:

Barclays bank have published annual reports on their ethical and social policies since the mid 1990's. The reports focus upon the activities the bank carries out in relation to their ethical mission statement. The following is an example of the activities the bank believes to be advantageous to society. It is important to note that the reports are written by Barclays and that there are no other independent sources to clarify these claims.

Such social responsibilities that the bank claims to conduct range from offering employees in Botswana and Zambia free, voluntary and confidential HIV/AIDS testing and providing an HIV/AIDS employee education and awareness programme in other sub-Saharan locations, to becoming the first UK high street bank to receive ISO 14001 environmental certification. (International environmental management system certification). Barclays also state that they have a number of other social activities. However, as the researcher discusses, the objectives are not always as socially driven as they are made out to be and do not necessarily help to promote financial inclusion. As such the researcher will comment upon the following stated objectives which affect financial exclusion.

- Provide access to mainstream banking for 85,000 new customers, many of whom had not previously held a bank account.

Although this is Barclays' claim it is hard to find the exact figures and statistics, which would outline who these new customers actually are. It is unlikely that all of these new customers are actually people who could be classified as being financially excluded, as that majority are likely to be accounts opened by young people for the first time.

- Support more than 16,000 UK employees in their voluntary and fundraising activities.
- Invest a further £7.7 million in an ongoing project to make branches more accessible to customers with disabilities.
- Provide £2.3 million for independent monetary advice service and financial education.

The claim that Barclays invest in promoting financial education, a key factor of reducing financial exclusion, does seem to be morally sound. However, the researcher can find no evidence of how this money is used and who benefits from it. Financial exclusion is still a prominent feature of society and so even if Barclays did give £2.3 million to promote financial education this amount has clearly not gone far enough to have a positive effect on financial exclusion.

- Provide modern banking access facilities such as internet, phone and cash machines.

One of the major problems with widening access to financial services is that it misses out those people at the bottom of the financial ladder. If a person is financially excluded then they are more than likely to lack financial education and thus would not be able to use the modern banking facilities that the banking industry is adopting, thus making them more excluded from financial society.

- Provide a financial link and importance to small and medium enterprises.

- Are committed to Regional Venture funds.
- Operate under effective regulatory codes and safeguards.

Barclays does adhere to the Banking Code and other forms of regulation and does take the nature of regulation seriously. However the respondents within this thesis have criticised Barclays for their treatment of customers who experience financial difficulties, which should be covered by the Codes to which the bank subscribes.

- Operate a Social Banking Team.
- Barclays stated that they understand the problems created if people do not have a bank account and as such they have developed gateway products to help people without accounts to be integrated into the banking culture.

Although it is encouraging that Barclays are aware of the problems associated with the lack of a bank account, the procedures that have been put in place do not appear to be advantageous to people. Many respondents of this research have stated that the gateway accounts do not meet their needs in accessing and managing their finances.

- Support credit unions.

This is an important step towards creating a more diverse market place within the financial industry. As can be demonstrated by this research, many people who have experienced financial exclusion use credit unions as an alternative to the main banking industry. This is because people know credit unions are not just-for-profit organisations and actually care what happens to their members' money. By giving money to credit unions banks are helping to promote financial inclusion. However, this was a government initiative.

- Assist people in financial difficulties by working with a number of debt agencies which improves the relationship between the commercial banks and the money advice sector. (Barclays Bank 2000)

Again this objective, although appearing to be advantageous and socially responsible, cannot be backed up with key statistics or figures. Therefore if Barclays are to appear more socially responsible they need to have more transparency within their social objectives.

All of the above activities are linked to the overall aim of achieving total financial inclusion within the United Kingdom. The information provided by Barclays provides a conclusive view that Barclays are in fact fulfilling their social obligations and more so. It is contended that if all the above were working to their optimum then financial inclusion would be an attainable target. However, the researcher queries whether these social activities of Barclays are working effectively. Society is still uneasy with the bank's profit maximisation regardless of their social activities. It is therefore questionable whether any bank could meet the actual needs of society when the culture surrounding the bank is such that society appears to view a bank as a social utility rather than a corporate entity. (See templates created in chapter 9)

Barclays also operate a social charter. This charter outlines the manner in which the bank carries out its business in relation to its shareholders, customers, employees and the community. The following list offers an example of the type of consideration Barclays believe are important when carrying out business.

Barclays Charter 2001:

For shareholders:

- We aspire to be a beacon of enlightened equality and diversity policies and practices world-wide, and to be emulated by our competitors..

For customers:

- We embrace customers of all backgrounds, meeting their individual needs by adapting products and services and making them accessible and appropriate for an increasingly diverse society.

For employees:

- Our employment policies and practices support Barclays people in balancing their work and personal lives, allowing them to be themselves at work and giving their best to the organisation.

For the community:

- We aspire to be a leader in embracing and responding to changing social values.
- We aim to encourage financial inclusion and sustainable prosperity.
- We will take cultural differences into account when applying our equality and diversity principles in each country in which we operate.
- We seek to be known in each country in which we operate as a fair, open – minded and progressive company.

The latter category ‘for the community’ demonstrates that the banks are aware of the need to consider financial exclusion and inclusion. Although Barclays state that they ‘aim to encourage financial inclusion and sustainable prosperity’ they do not however state anywhere in their literature how they are going to achieve this. The researcher has found that there is a gap between what the bank states that it is doing in relation to financial inclusion and what it actually does. This is illustrated through the templates created in chapter 9. It is this gap that must be bridged before financial inclusion can be achieved and this could be why society still believes that banks such as Barclays are not fulfilling their social aim.

The Co-operative Bank:

The view of the Co-operative bank is different. It is seen as an exemplar of socially and ethically sound banking business. The Co-operative Bank states that it is a seven-way partnership bank. (The Co-operative Bank 2000) The partnership of the bank is between the shareholders, customers, staff and their families, suppliers, local

communities, national and international society and past and future generations of co-operators. The bank conducts its banking business in view of the beliefs and ethical position of the seven-way partnership and as such states that it:

[s]eeks to deliver value (as defined by the Partners, not the bank) to all Partners in a socially responsible and ecologically sustainable manner. Of course, conflicts of interest can arise: situations where giving to one partner will mean taking away from another. Therefore, alongside 'profitability', which is absolutely vital to the bank's continued existence, the pursuit of 'balance' is a key concept within the Partnership Approach. Is the bank getting the balance right over time? The bank believes it is. (The Co-operative Bank 2000)

The Co-operative bank has published its core objective and aims alongside its social and ethical policies. The following are taken from the Partnership Report 2000 which highlights the bank's main ethical and social work in relation to their normal banking business.

The Co-operative will only make a business decision once they have taken into account all of the following:

- Human Rights
- The Arms Trade
- Corporate Responsibility
- Genetic Modification
- Social Enterprise
- Ecological Impact
- Ecological sustainability.
- Animal Welfare
- Consumer Consultation

The ethical and social reports of the Co-operative are very specific. They denote the activities that the bank carries out to fulfil its social aims as well as factors the bank considered to be against its social obligations. The Co-operative appears to be much more socially focused than Barclays and takes its social position within society very seriously.

There is clear evidence of the Co-operative bank's adherence to its policy statements as, for example, in May 2003 the "*Co-operative Bank turned down business which would have been worth £4.4 million over five years in 2002 because it failed to meet its ethical and environmental standards*". (BBC News May 2003) However although the bank turned down more than a quarter of its average profits the bank believed that in doing so it "*offset the loss by gaining more than £30 million in new business*". (British Broadcasting Corporation 6 May 2003) Simon Williams the director of corporate affairs at the Co-operative bank said:

Whilst our ethical stance clearly leads to lost business, the customer value analysis shows that it has a very positive impact on our overall profits. About a third of all our new personal customers join us precisely because we are prepared to turn away certain sorts of business and also go out of our way to attract others. (British Broadcasting Corporation 6 May 2003)

The bank has also lost:

- £1.1 million in its environmental stance against fossil fuels.
- £240,000 by refusing to deal with weapons companies.
- £157,000 by refusing to deal with business due to animal welfare reasons. (British Broadcasting Corporation 6 May 2003)

The differences between the two banks are plentiful. Although both appear to be ethically driven, the expression of ethical policies differs in their overall essence. Barclays' written language and expression of values leads the researcher to believe that the motives behind the ethical statements are corporately driven, whereas the ethics of the Co-operative appear to be in direct correlation with the values and beliefs held by the seven-way partnership.

For example Barclays in their report state that they have:

- Reduced United Kingdom carbon dioxide levels by 10.2%

This cannot be proved or disproved. It is an intangible claim and does not really demonstrate the true social obligation of the bank.

Conversely the Co-operative are more specific and direct. They state what they will and will not do business in. The partnership report 2000 states that:

- The bank will not invest in any business involved in the manufacture or transfer of armaments to oppressive regimes.

The reader cannot help to make comparisons and although each social activity relates to a different agenda, it can be seen that the Co-operative appears to be more socially driven than Barclays.

The whole ethos of the Co-operative is centred on an ethically incorporated business, whereas Barclays appears merely to be a business trying to behave and conduct

business ethically and as such is producing information and justifications that it is fulfilling this new role that it feels it now has to play in society. Barclays is not alone. From the other four main high street banks almost identical examples can be taken. The Co-operative stands alone, its ethical policy and the weight that is attached to it is second to none. However this is not to say that the ethical activities of the other banks, Barclays included, are not worthwhile, as theirs represents an important step forward. It is simply that the motives behind the activities remain questionable.

Although there are differing standards between the Co-operative and the other banks, generally speaking the banks appear aware of their social and moral obligations. Furthermore, the banks are aware of the particular problem of financial exclusion and difficulties and are trying to solve a problem whose cause is uncertain. This then leads to the question, if banks are behaving in a socially responsible way then what is causing people to be financially excluded and why is there so much bad feeling towards the banking industry?

Conclusion

The chapter has demonstrated that although a bank is a business, it also plays an important role in society and is also affected by the banking culture. The banking industry does not operate in isolation and this is demonstrated by the interest society has taken in the manner in which banks conduct their business. Although Friedman (1962) and Cannon (1992) claim that the only social responsibility a bank has is to maximise profit, society now expects that a bank should fulfil its social obligation to the whole of society and not just the corporate nexus. It is this ambiguity which causes the nebulosity between the social activities that the banks are carrying out,

what they could carry out and what they should carry out to fulfil their social responsibility. These three elements demonstrate the very heart of the problem that regulators face when trying to regulate such an intangible facet of business and appears to be why the regulators have left the decision on social activities to be made by individual banks.

Chapter Eight: **Template Analysis**

Introduction

As indicated in chapters 1 and 2, template analysis is a method of analysing data from a textual format and creating codes and categories of interrelating importance which can be interpreted by the researcher to “uncover the real beliefs, attitudes, values and so on of the participants in their research”. (King 1998 p.119) In this thesis, therefore, template analysis is used to uncover the real beliefs, attitudes and values of people who have experienced either financial exclusion or financial difficulties and their relationship with their banks.

The main advocate of template analysis’ is Nigel King.⁶² King states that “template analysis is a very widely used approach in qualitative research”.⁶³ (King 1998 p.118)

King (2003) states that:

The term template analysis refers to a particular way of thematically analysing qualitative data. The data involved are usually interview transcripts, but may be any kind of textual data...or open ended question responses on a written questionnaire. (King 2003 – Website)

Template analysis can also be termed as ‘codebook analysis’ or ‘thematic coding’.

King further claims that:

[t]he essence of the approach is that the researcher produces a list of codes (a template) representing themes identified in their textual data”. (King 1998 p.18)

⁶² See the School of Human and Health Sciences at the University of Huddersfield’s Template Analysis Website: www.hud.ac.uk/hhs/research/template_analysis/intro.htm. Accessed November 2003.

⁶³ See, for example, Kent (2000), King, Carroll, Newton and Doran (2002), King, Bell, Martin and Farrell (2003), King, Thomas, Bell and Bowes (2003) and King, Thomas and Bell (2003).

However, this initial list is then added to and modified by continually coding the data that is collected by the researcher who organises them in a meaningful and useful manner. (King 2003)

Researchers using template analysis do come under criticisms from grounded theorists who believe that template analysis is a 'soft option' and a denigration of grounded theory. However, King (1998) offers several justifications for choosing template analysis over grounded theory as a qualitative method of analysis.

King states that:

One reason for such a preference is philosophical; while it may be argued that grounded theory is not wedded to one epistemological approach (Charmaz, 1995), it has been developed and utilised largely as a realist methodology. (King 1998 p. 18)

As previously stated, the researcher here is aiming to uncover the real beliefs, attitudes and values of financial exclusion and as such this falls within a realist methodology.

King further states that:

Template analysis may also be preferred by those who are not inimical to the assumptions of grounded theory, but find it too prescriptive in that it specifies procedures for data gathering and analysis which must be followed.

The procedures must be followed in doing research...It is only by practising the procedures through continued research that one gains sufficient understanding of how they work, and the skill and experience that enables one to continue using the techniques with success (Strauss & Corbin 1990, p.26). (King 1998 p. 119)

King expands on this by stating that although practice is required within template analysis, the methods are more flexible and offer the researcher more choice and

freedom of interpretation. (King 1998 p.119) Furthermore, King states that this flexibility allows researchers to tailor the analysis to match their own requirements. (King 1998 p.119) In this thesis, this is to be one of the major advantages of this method of analysis. Template analysis provides the freedom and flexibility to analyse data in a manner that is appropriate and specifically suitable to the information collected. There is no predetermined or prescriptive method to analyse data and this allows the real truth of the experiences to emerge, thus producing a more accurate reflection of the phenomena occurring from financial exclusion. The researcher sees that as beneficial, especially in relation to research within the legal sphere. Law has to be interpreted, manipulated and be applicable and as such requires a method that allows for freedom and flexibility in the research.

Coding

Template analysis, like grounded theory, uses codes to create a template, which then allows the truth to emerge from the data. A code is a label attached to a section of text that has its origins in the overall theme of the text that has been identified by the researcher. The researcher highlights sections of text that are relevant or important to the research as a whole. The label will therefore be an important tool of unravelling the phenomena from the text. As King opines, codes are normally descriptive in nature. However, codes can also be more interpretative and it is these that are harder for the researcher to define clearly.

Within template analysis, codes are normally categorised in a hierarchical manner. The researcher will study the codes that have been collected from the data and will group the codes together that display similar characteristics or relate to the same

feature of the research. This will then allow the researcher to produce a higher order code name for a set of initial codes. King states that this higher order coding:

[a]llows the researcher to analyse text at varying levels of specificity. Broad higher order codes can give a good overview of the general direction of the interview, while detailed lower order codes allow for very fine distinctions to be made both within and between cases. (King 1998 p. 119-120)

Essentially, template analysis can have many levels of coding but it is normal to have anywhere between two and four levels. King believes that it is a fine balance to find as too many may cloud the accuracy of the themes being unravelled and too few could limit the interpretation of the themes. (King 1998 p.120)

Coding may also occur on a parallel level whereby the same section of text is coded within two or more different codes at the same level. (King 1998 p.120) However this causes problems for those who are working within a positivist research field where researchers compare findings with elements of quantitative content analysis (King 1998 p.120)

A researcher will therefore spend a substantial amount of time making sure that lower order codes and higher order codes are developed and are accurate in nature, for these are the foundation of the themes that will emerge from the data. However, once codes have been identified, researchers must then go about developing a template in which to frame their work.

Creating a template

Template creation is a cyclical process. The text is analysed and codes are identified. These codes are revised and grouped together to provide a basis for connections

between codes to be made. These are then verified by continually adding to and revising the codes by collecting more data. Once codes and levels have been verified then a template is created and this can then be interpreted into a textual format which explains the relationships between the codes and the data.

It is important that this process is thorough and full and as such the process of creating a template will be explained in greater detail. King states that:

[i]t is crucial to recognise that development of the template is not a separate stage from its usage in analysis of text... the initial template is applied in order to analyse the text through the process of coding, but is itself revised in the light of the ongoing analysis. (King 1998 p.121-122)

It is thus important not only to analyse from the beginning of data collection but to continue to collect data to verify the initial template. Similarly it is important to create a draft initial template which focuses on all the themes within the initial research. To accomplish this, the researcher normally starts with a few predefined codes that help to guide analysis. (King 1998 p.122) In this instance, the researcher has used the codes created by analysing the phenomena and sub-phenomena stemming from the literature reviews. (King 1998 p.122) These codes therefore provided a basis for guiding code creation. The researcher at this stage faces the dilemma of how extensive to make the initial template. If the codes are too extensive then the actual trends and themes of the research may be lost within the plethora of codes, yet if the template lacks an appropriate breadth of codes, then the analysis will be limited in its interpretation and scope. King believes that:

Often the best starting point for constructing an initial template is the interview topic guide – the set of question areas, probes and prompts used by the interviewer. (King 1998 p.122)

The researcher thus has drawn from the interview questions the aims and objectives of each question and has placed these within the context of the themes emerging from the literature review. The researcher then coded sections of text from the interviews and profiles. Within the research, there are three main groups of data: these were from financially excluded respondent profiles (T.1); industry response interviews (T.2) and financially excluded in-depth interviews (T.3). The researcher coded each set of data separately and labelled each respectively T.1, T.2 and T.3. The researcher then grouped together similar or like codes into higher order codes and labelled each of these with a code name. The research then found that a process of progression was emerging from the template and thus the researcher coded these processes. The researcher then combined T.1 and T.3 as both templates reflected similar outcomes: this was called T.4. T.4 combined the lower order codes, higher order codes and the processes within T.1 and T.3 and produced a template which illustrated the process of exclusion within the context of the banking industry. The researcher used a colour coding system and index cards to chart the coding and preferred to hand code rather than use electronic sources. The reason for this preference was that the researcher could make sure that the codes and higher order codes were exactly where she wanted them and that a template was created that the researcher had full control over.

Once the initial template was created the researcher continued to undertake extensive data collection and continually modified the template through various methods, such as inserting new codes that were not uncovered within the initial template; deleting codes which would then appear obsolete and irrelevant to the updated template; changing the code of the analysis by realising that the scope was too broad or narrow

in certain instances within the template and by changing higher order code classification. (King 1998 p.125- 126)

As King denotes, deciding when to stop and to produce a final template is often the most difficult and it is a decision that only the researcher can take. As a rule of thumb King believes that although coding can carry on ad infinitum once all sections of text have been coded and the text has been read through two or three times then the template should reach its final stage of alteration. (King 1998 p.127)

Template interpretation and presentation

The template and the coding derived from it are only means to the end of interpreting the text, helping the research to produce an account which does as much justice as possible to the richness of the data within the constraints of a formal report, paper or dissertation. (King 1998 p.130)

Thus a mere description of the working of the codes and template will not be sufficient. A detailed account of the processes, results and recommendations stemming from the template should be presented to the reader along with a diagram of the template analysis. King recognises the importance of individual interpretation conducted by the researcher and this is another advantage to the method, because as there are no prescriptive guidelines the research is allowed to emerge with themes and processes on its own. King states:

It would be inappropriate to set out any general rules for how a researcher should go about the task of interpreting coded data; a strategy must be developed which fits the aim and content of the particular study. (King 1998 p.130)

However King offers some examples of how he interpreted data. Firstly King opines that he finds it useful to compile a list of all codes occurring with each transcript. (King 1998 p.130) The reason for listing such codes is to enable the researcher to count the frequency of the occurrence of that code. Although the qualitative researcher is not interested in the frequency of codes, it may prove to be a useful indicator of relationships or important areas within the research. In the thesis, this method of interpreting has been used as a means of illustrating inter-relationships between higher-order codes within T.2.

King also offers the useful advice that the researcher must be selective:

Perhaps the opposite danger to that of drifting into a quasi-quantitative approach through counting codes is that of unselectivity, where the researcher attempts to examine and interpret every code to an equal degree of depth. (King 1998 p.131)

This offers the researcher more flexibility and openness within the analysis of the data. Conversely, though, the researcher must code sufficient amounts of text to allow the most central themes to emerge from the data. Once again, template analysis allows the researcher to decide on the correct balance between too much and too little coding. The advantage of this, the researcher believes, is that the researcher can tailor the coding to suit the particular research and is not prescribed by a method that will have no knowledge of the research question in hand. Within template analysis, it is not the data that is fitted to the method, but the method that is fitted to the data, thus allowing a realistic interpretation of the data to emerge.

Furthermore, it is important for the researcher to remain neutral within data analysis.

This is harder done than said and King states:

The need to be selective in analysing and interpreting data must be balanced against the need to retain openness towards it. You must not be so strongly guided by the initial research questions that you disregard all the themes which are not obviously of direct relevance. (King 1998 p.131)

The researcher believes that has been observed in the case of this research as many themes and concepts emerging from the data have differed from the initial predetermined set of codes offered to start the coding process. Template analysis through the suggested steps and procedures to create a template “forces the researcher to take a well-structured approach to handling data...producing a clear organised, final account of the study”. (King 1998 p.133)

One of the main disadvantages of using template analysis is the limited amount of literature. Yet this can conversely act as an advantage by allowing researchers to discover their own path to the truths emerging from the data. King’s final piece of advice to the template analyst is that “you must remember that there are no absolute rules here; in the end you must define an approach to analysis that suits your own research”. (King 1998 p.133)

Data collection for template analysis

In order to gather primary data for template analysis the researcher used surveys and interviews as methods of data collection. However, to produce effective data it is essential to design a questionnaire that asks effective questions. There are many facets that must be considered when designing an effective questionnaire. As Peterson (2000) explains:

Unless a researcher asks the right questions in the right way, a research project will not produce useful information, no matter how well other research aspects are designed and executed. Even worse, improper questions or questions asked improperly will most likely result in invalid and unreliable information –

information that virtually guarantees an incorrect decision, a poor theory test, or misinformation about a topic. (Peterson 2000 p.13)

To construct an effective questionnaire it is essential that the researcher follows a distinct format and structure of design and testing. Although many academics propose different methods of design construction all follow the same basic points. The method chosen here abides by the following format. (Questions posed by Peterson 2000 and explored by the researcher)

1. Review the information requirement necessitating a questionnaire.

In simple terms, researchers have to examine the research, determine what information they require and decide whether a questionnaire is the best method to gain that information. In this instance, the researcher had already conducted several interviews and believed that the research needed a questionnaire to obtain information from people who would not wish to participate in interviews. The researcher made numerous attempts to get respondents who showed financially excluded characteristics to participate in interviews. Although the magazine Big Issue offered to supply a list of possible respondents who would take part in the research, they would have to be paid five pence per minute of the interview. Unfortunately the research funds could not allow for this and so the researcher decided to use a questionnaire which allowed for the respondents to tick a box if they wished to participate in an interview after completing the questionnaire. This proved to be very successful and the researcher was able to collect data from this method.

2. Develop and prioritise a list of potential research questions that will satisfy the information requirements.

A list of potential research questions allows the researcher to examine the possibilities and the direction of the research for each individual question. Furthermore the more succinct the research question the easier it is for the researcher to develop questions for the questionnaire and thus to examine the data acquired from the questionnaire.

3. Assess each potential research question carefully.

One of the major disadvantages of using a questionnaire as a method of data collection is getting respondents to answer the questions and to answer them in a manner which is useful to the research. In order to minimise these effects, it is essential for the researcher to make each question as user-friendly as possible and as such it is important to ask the following questions of each question.

- Can the potential study participants understand the question?
- Can the potential study participants answer the question?

If a respondent cannot understand the question then they will either not answer the question or their answer will not be meaningful. The researcher must understand and recognise the potential characteristics of the respondents, and thus tailor the working and construction of the questions as such. The researcher was aware that part of the questionnaire was specific to issues that may not be understood by all respondents. Yet, through pilot testing, the researcher believed that the question on topics such as the Banking Code and the Government would provide useful and meaningful information regardless of whether there was a total consensus

of understanding from the respondents. The researcher believed that the usefulness of the data that was produced from these questions outweighed the possibility that some respondents would not understand those particular questions.

- Will potential study participants answer the question?

The questionnaire also deals with sensitive information regarding respondent's financial situation. An advantage of using a questionnaire is that the respondents may feel more inclined to answer sensitive questions where they are not face to face and will never be with the researcher. The researcher gave the respondents the option of total or partial anonymity and thus felt that the sensitive topics covered within the questionnaire would not hinder respondents from answering the questions.

It is useful at this stage to pilot test the potential questions on other researchers. In this instance the researcher used other research students to test and discuss the questions. The answers to the above three questions must be 'yes'.

4. Determine the type(s) of question to be asked.

- Open-ended questions

Open-ended questions are questions that have no predetermined answer or category and the respondents are free to answer as they choose. The researcher used several open-ended questions or used an open-ended suffix at the end of the question to extrapolate qualitative data from the respondent. The researcher wanted to gain as much qualitative data as

possible from the questionnaire in order not to bias the data without any predetermined beliefs that may appear within the questions.

- Closed-ended questions

Closed-ended questions are questions which have a series of predetermined answers and the respondent chooses which answer best answers the question. These were deemed necessary within the questionnaire to enable a comparison between respondents and the data and to gain valuable information that would not be suited to open-ended questions. Generally closed-ended questions are easier for the respondent to answer. The researcher was aware that some of the respondents would not be able to answer some of the questions and as such it was important for the respondent to feel that they had contributed to the research and that their answers were important, many of the questions are closed-ended.

5. Decide on the specific wording of each question to be asked.

It is important that the questions are worded in a way which is unbiased and is not leading the respondent to believe that one answer is to be preferred over another.

The researcher when designing the construction of the questions must use common sense, past linguistic knowledge and past experience. (Peterson 2000 p. 47-49) Peterson offers researchers further advice for effective questions. He states questions must be brief, relevant, unambiguous, specific, and overall objective. (Peterson 2000 p.50-57)

Although these factors appear to be simple, it is important for the researcher to keep these in mind constantly whilst constructing the questionnaire, as their correct use is important to the success of the questionnaire. These factors should be further broken down by the researcher and should be understood and used as a general rule for all research questions. It is suggested that questions should be no more than twenty words long and should have no more than three commas within the questions. (Peterson 2000 p.50) Any question which is not specifically relevant to the research should not be included. The question should be free from ambiguity, it should be clearly understandable. The research question should be specific and should not appear to be answerable from two different perspectives. Finally the research question should not be subjective or biased in any way. If it is then the question should not be included within the questionnaire.

6. Determine the structure of the questionnaire.

Once the researcher has determined the questions that will be used within the questionnaire they must then determine the structure of it. Peterson suggests that the questionnaire should have an introductory section and substantive question sections. Within this questionnaire the researcher has designed three sections: (1) an introductory section which includes basic information, such as gender and age; (2) and (3) are substantive question sections but deal with the financial characteristics of the respondents and the experience of the respondents with the banking industry respectively. The section structure is used for the questionnaire design and analysis of the data.

7. Evaluate the questionnaire. (Peterson 2000 p.13-14)

It is necessary, prior to major distribution of the questionnaire, that it is tested to determine whether the questions are effective in collecting data and whether the researcher has made any fundamental errors within its wording, design or structure. The researcher distributed a series of questionnaires among respondents to test the effectiveness of the questionnaire. The pilot study found a few minor problems regarding question wording and construction and thus was accordingly amended.

It is also important for researchers to decide, if they are using closed ended questions, whether they will use a rating scale to indicate responses. In this research, the researcher did use several rating scales. Firstly the researcher asked the respondent to grade aspects on a three tiered rating scale, with two extremes and a middle ground. This was used to identify the nature and emotion of an experience in a simple way.

Secondly, the researcher used a Likert scale. The Likert scale is named after its developer, Rensis Likert, who was a social scientist. The Likert scale consists of five categories and each scale consists of two parts: a declarative statement and a list of response categories ranging from “strongly agree” to “strongly disagree”. Within the Likert scale all scales are labelled. (Peterson 2000 p.75) The researcher believed that this was the most effective model for gathering opinion or attitudes and feels that the data gathered from these scales are indicative of the Likert scale’s effectiveness.

The questionnaire

This section outlines the questions asked in the questionnaire and the reason for their inclusion.⁶⁴

Questions 1 to 7 provided basic data on the age, gender, and ethnicity of the respondent. This information was necessary in order to compare the data with other research on financial exclusion, which has found correlation between financial exclusion, gender and ethnicity, geography, work situation and family background.

Question 8, together with questions 1-7, served to demonstrate the necessary characteristics of people who can be classified as being financially excluded. Previous research (e.g. Kempson and Whyley 1998) has shown that people who lack basic financial service products, such as current accounts or life insurance, can be classified as financially excluded. The researcher felt that it was necessary also to determine the characteristics of the respondents.

Question 9 illustrated the spread of the problem within the banking industry. The researcher indicated the main high street providers and allowed the respondents to name other banks that they used. The researcher wanted to see whether there was any correlation between banks and the way in which customers felt about them. Question 10 was used to explore why people had chosen their particular bank.

Questions 11 and 12 were designed to assess the awareness of the Banking Code in relation to the financial characteristics demonstrated by each respondent.

⁶⁴ See Appendix 3.

Question 13 listed all the situations within the Banking Code in which customers should be made aware of the Banking Code. The respondent was asked to tick all instances that applied when the bank offered a copy of the Code to them. The question was designed to explore whether customers were receiving information on the Banking Code, and if they were, in what circumstances were the banks demonstrating this.

Questions 14 and 15 were aimed at exploring whether customers who had received a copy of the Code had read it and, if they had, whether they found the information inside the Code to be useful to them. These questions were intended to test the usefulness of the Code and whether it was actually fulfilling its aims of helping customers be aware of their needs.

Question 16 was designed to question whether the respondents who were unaware of the Banking Code had gone to the bank for advice on matters that were listed within the Banking Code.

Questions 17 and 18 were designed to ascertain whether the respondents believed themselves to have suffered either financial difficulties and / or financial exclusion in comparison to the other answers given in the questionnaire. The researcher separated financial difficulties and financial exclusion for several reasons such as prior knowledge that many people who display financial exclusion characteristics do not necessarily deem themselves to have suffered exclusion, yet they will acknowledge that they have suffered financial difficulties. Similarly, financial exclusion is not a widely

used term which may have put off respondents from ticking the yes box for lack of knowledge.

Questions 19, 20 and 21 were designed to investigate the respondents' present and past relationships with their banks. This serves to highlight the changing nature of not only the banking culture but also the alteration in the customer once they have experienced either exclusion or difficulties.

Questions 22 and 23 were designed to investigate the modern facilities that customers possessed or had access to in relation to their financial situation and whether they used the modern banking facilities that are on offer from the bank. This served to illustrate again the changing culture of the banking industry and whether the new methods of banking helped the respondents in any way with their problems.

Questions 24, 25 and 26 were designed to act as a check against whether the respondents who believed they were financially excluded had been refused any financial products. This question also helped to check whether those respondents who believed that they had not experienced financial exclusion had been refused any financial product. As stated in chapter 4 exclusion can cover any aspects of being refused financial products. Questions 25 and 26 were designed to show how people who had been refused products coped with the refusal and how they felt.

Question 27 explored the respondents' feelings towards their present situation and acted as a lead into questions 28 and 29.

Question 28 and 29 were designed to ascertain whether the respondents believed that their banks could have done more to help them when they experienced financial difficulties or exclusion. Question 29 offers the respondents a number of choices of actions the bank could have taken, and gives the respondents a space in which to expand on their answer.

Questions 30 and 31 were designed to explore respondents' feelings towards the banking industry and the government, and respondents were given space to expand on their answers. This provided a lot of qualitative data.

Question 32 provided the respondents with a blank page on which to write any further information relating to the questionnaire or their experiences. This also provided a lot of qualitative data.

The use of SPSS

To analyse the quantitative data that was collected from the survey, the researcher used the statistical package, SPSS. As discussed in chapter 2, the use of quantitative data in a primarily qualitative piece of research is justified due to the researcher wishing to triangulate the data collected. By analysing the statistics collected and formed through the use of SPSS the researcher is able to illustrate the main characteristics of financial exclusion.

The data from the survey was coded and entered into the computer package. A series of frequency and cross tabulation tests were run. The findings of these tests are used

to back up the findings of the qualitative data and play only a minor role in the research.

Conclusion

The choice of the qualitative method of template analysis, together with interviews and questionnaires, provided the researcher with many diverse ways of collecting effective and useful data. The process of research design, method design and data collection enabled the researcher to construct templates which can be analysed and explained as discovering a process of exclusion that is cyclical in nature. By triangulating the methods used, the researcher is able to form a wider and more sophisticated model and theory of how the process of exclusion develops and the indicative factors influencing this development.

Chapter Nine **Data Analysis and Process Building**

Introduction

Through the use of template analysis, questionnaires and interviews it has been possible to explore in depth the effects of the banking industry and the legal regulation of the banking industry, namely the Banking Code, on people in society who can be classified as being in financial difficulties or financial exclusion. This chapter demonstrates the process of data analysis and the eventual outcomes of building a process which explains the development of exclusion.

Data analysis

First, the questionnaire responses are described and analysed. Secondly, the data collected from interviews and the qualitative elements of the open ended questions contained within the questionnaires are analysed through the method of template analysis. Each type of data analysed is initially dealt with individually, but is then collated, allowing the researcher to analyse the whole of the data and to be able to make conclusions from the research and recommendations.

Banking Code questionnaire

As stated in chapter 8, the questionnaire contained 31 open and closed-ended questions and had a primary aim to collect data on awareness of the Banking Code and the feelings exhibited towards the banking industry from people who exhibit characteristics of financial difficulties or exclusion. The data collected from the banking code questionnaires have been analysed. The researcher has grouped together questions which focus on correlating themes to make the data analysis more meaningful.

To gather information the researcher targeted specific groups within society who, on the basis of other research⁶⁵, would be likely to possess certain characteristics of financial exclusion. The researcher acknowledges that the sample is therefore deliberately biased and is thus not representative of the population as a whole, but only of those who share similar characteristics of financial exclusion. However, this is not seen as a disadvantage as the work within this thesis is specific to people who have experienced financial exclusion to some degree and as such this was intended from the outset.

Furthermore, the statistical data that have been collected are used to support the qualitative research through template analysis and to illustrate the characteristics of the respondents and the likely characteristics of people who may be beginning to experience financial exclusion. As such, the statistical data analysis takes several forms, namely:

- Frequency tables of each relevant factor occurring, and
- Cross-tabulations of factors present within the questionnaire.

Statistical findings

From the questionnaire survey (see appendix 3) a total of 53 viable responses were received. As shown in table 9.1, 71.7% of the respondents stated in answer to question 18 that they had experienced financial exclusion, and 78.4% stated in answer to question 17 that had experienced financial difficulties. Taking question 17 and 18 together, we can say that 88.7% of the sample respondents had experienced financial problems to some degree.

⁶⁵ Kempson et al 1997-2002.

This is very high and demonstrates the prolific nature of exclusion within the United Kingdom. Once amalgamated 88.7% of respondents experienced financial problems of some degree and it was this proportion of respondents that were labelled and classified as having experienced financial exclusion for the purposes of this research. The Pearson Chi-squared test showed a -14.054 value.

Table 9.1: Financial exclusion and financial difficulties

Financial Characteristics	% of respondents
Financial difficulties	78.4
Financial exclusion	71.7

As shown in table 9.2, 24.5% of the respondents were aged between 31 and 40 with 17% being aged between 51 and 60 years of age. The lowest response rate was among the 70 plus age bracket. When the data are cross-tabulated with financial exclusion in table 9.3, it can be seen that the largest group of respondents who said they had experienced financial exclusion were also in the age range of 31-40, with the next largest being the under 20's and 21-30. This is relatively young and demonstrates that financial exclusion and difficulties are permeating throughout the generations. The lack of financial education the young are obtaining from their general education is also worrying and poses a lot of future debt problem for the country as a whole.

Table 9.2: Age and highest response rate

Age	% of respondents
Under 20	15.1
21-30	15.1
31-40	24.5
41-50	13.2
51-60	17
61-70	11.3
70+	3.8

It is also clear from table 9.3 that all 29 respondents in the sample under the age of 40 had experienced financial difficulties.

Table 9.3: Cross-tabulation of age and financial exclusion

Age	Under 20	21-30	31-40	41-50	51-60	61-70	70+	Total
Experienced financial exclusion								
Yes	8	8	13	6	6	5	1	47
No	0	0	0	1	3	1	1	6
Total	8	8	13	7	9	6	2	53

In relation to question 2, summarised in table 9.4, 58.5% of the respondents were female, and 41.2% were male, with 18 out of the 22 males and 29 out of the 31 females stating that they had experienced financial exclusion, as can be seen in table 9.5.

Table 9.4: Gender and response rate

Gender	% of respondents
Male	41.2
Female	58.8

Table 9.5: Cross-tabulation of gender and financial exclusion

Gender	Male	Female	Total
Experienced financial exclusion			
Yes	18	29	47
No	4	2	6
Total	22	31	53

Interestingly, the employment category with the highest response rate was that of full time employment with 28.3% responding to the question and 11 out of 15 respondents in full-time employment stating they had experienced financial exclusions. The next largest group was that of the unemployed who numbered 26.4% in response rate, and all 14 unemployed respondents stated that they had experienced financial exclusion. This dichotomy between the full time employed and the unemployed is surprising.

The results are shown in table 9.6 with the cross tabulation shown in table 9.7. Although it was expected that people who are unemployed would experience some degree of financial exclusion it was not expected that the next largest category of people who experienced financial exclusion would be those who are in full time employment. This highlights many questions, such as what factors are making these people experience exclusion if it is not the lack of employment? This research examines the other possible reasons for this exclusion and this is further explored in the qualitative element of the data analysis.

Table 9.6: Employment category, highest response rate and link with financial exclusion

Employment Category	% of respondents
Full time	28.3
Part time	17
Unemployed	26.4
Voluntarily unemployed	1.9
Student	5.7
Retired	11.3
Other	9.4

Table 9.7: Cross-Tabulation of employment categories and financial exclusion

Employment category	Full time	Part time	Unemployed	Voluntarily unemployed	Student	Retired	Other	Total
Experienced financial exclusion								
Yes	11	9	14	1	3	4	5	47
No	4	0	0	0	0	2	0	6
Total	15	9	14	1	3	6	5	53

In view of the above, one of the reasons claimed for exacerbating financial exclusion is the lack of financial products and although this research does support this notion, it demonstrates that there are other factors which aggravate financial exclusion. As shown in table 9.8 most respondents had between one to two financial products

(26.4% - 24.5) with 27 of the 53 respondents possessing a current account. However 31 out of the 53 respondents stated that they did not have access to a savings or deposit account. Similarly, 31 out of 53 respondents replied that they did not have home insurance and 37 from 53 stated they did not have access to personal loans or overdrafts; 39 did not have access to store cards; 28 had no credit card and 43 stated that they did not have a post office account. The financial products mentioned above are all cited as the basic financial products which enable modern day financial inclusion. Without these products many people will suffer the detrimental effects of exclusion and although this research shows that access to current accounts is not a direct problem, lack of access to other products is still a prolific problem for many people.

Table 9.8: Number of respondents lacking financial products; A key indicator of financial exclusion

Financial Product which respondents lacked	No of respondents out of 53 total
Current account	26
Savings and deposit account	31
Home insurance	31
Personal loans or overdrafts	37
Store cards	39
Credit cards	28
Post office account	43

Another aspect which could be said to be influential on whether a person exhibits financial exclusion characteristics is the respondent's family background. Within this research 28 respondents from 53 were from low income family backgrounds, conversely only 3 respondents stated that they had come from a high income background. This information supports the general research findings⁶⁶ in this area that people from poorer backgrounds are more likely to develop some form of financial

⁶⁶ See, for example, Mayo (1998) et al and Kempson and Whyley (2000) research.

exclusion. These results are summarised in table 9.9 whilst table 9.10 shows a cross-tabulation of family background and financial exclusion.

Table 9.9: Family background and response rate

Family Background	% of respondents
High income	7.5
Middle income	35.8
Low income	56.6

Table 9.10: Cross-tabulation of family background and financial exclusion

Family Background	High Income	Middle Income	Low income	Total
Experienced financial exclusion				
Yes	3	16	28	47
No	1	3	2	6
Total	4	19	30	53

As shown in table 9.11 when respondents were questioned on their awareness of the Banking Code, 52.8% replied that they were unaware of the Banking Code. Of the 47.2% who were aware of the Banking Code, 55.6% said that they had received a copy of the Code from their bank and 70% had actually read the code, but only 31.3% stated that the information contained in the Code was informative to meet their needs. When these findings were cross-tabulated with those who had experienced financial exclusion it showed that 26 respondents who had experienced financial exclusion were actually aware of the Banking Code. These findings provide support for the problems highlighted in chapter 7 on the relevance of the Banking Code in its present state. The Banking Code is not relevant to those people who experience financial exclusion, and the many other factors which influence financial exclusion are not taken into account by the banking industry when dealing with customers who are in financial problems. The recommendations made in the following chapter offer a new code which is specific to meet the needs of those who experience financial exclusion.

Table 9.11: Usefulness of the Banking Code

Aspect of Banking Code	Unaware of Banking Code	Received Banking Code from bank	Read the Code	Information was not informative to respondents needs
% of respondents	47.2	55.6	70	31.3

The research also demonstrated that the banks were negligent in making the customer aware of the existence of the Banking Code. The banks are now under an obligation to make the customer aware of their rights under the new Banking Code 2003 but this research demonstrates that this practice is still to be put effectively into place with many customers still unaware of the Banking Code and the possible implications it could have for their situation. This is highlighted by the statistical finding that although 38% of respondents had visited their bank for advice on financial difficulties fewer than half of the respondents were actually made aware of the Banking Code, as can be shown in table 9.12.

Table 9.12: Per cent of respondents who sought advice from bank and those who are aware of Banking Code

Sought advice from bank % of respondents	Aware of Banking Code % of respondents
38	49.5

When evaluating respondents' past experiences with the banks, 47.2% of respondents stated that their experience only rated as 'OK', with 28.3% rating it as poor and only 13.2% of respondents believing their past experience with banks was very good or good. Of those respondents who had experienced financial exclusion 23 out of 53 stated that their past experience with banks only rated 'OK' with 21 stating that his or her experience was 'poor' or 'very poor'. No respondents who had experienced

financial exclusion rated their past experience as ‘very good’. These results are summarised in table 9.13.

Table 9.13: Respondents past experiences with banks (%)

Poor	OK	Good or very good
28.3	47.2	13.2

Respondents were also asked to classify their present relationship with their bank. 42.3% stated that their experience was OK with 19.2% classifying their present relationship as poor. These statistics correlate to the respondents’ views on their present financial situation with 24.5% stating their situation was ‘poor’ and 20.8% stating that it was in fact ‘very bad’. When these statistics were cross tabulated with those who had experienced financial exclusion, it was demonstrated that 18 of the respondents who had experienced financial exclusion believed that their present financial situation only rated as ‘OK’ with 12 respondents believing that their situation was ‘bad’ and 1 stating their finances were ‘very bad’. It is important to note additionally that when asked about the helpfulness of banks towards their past and present financial situation 75.6% of respondents stated the banks were ‘not very helpful’. This cross-tabulation relates to 32 respondents who stated that although they had experienced financial exclusion the banks were ‘not very helpful’ towards their situation

Table 9.14: Helpfulness of banks

	Not very helpful towards past and present financial situation	Not very helpful when experienced financial exclusion
% of respondents	75.6	-
No of respondents from total of 53	-	32

The questionnaire was also designed to examine whether respondents who exhibited characteristics of financial exclusion were being refused the basic financial products as highlighted in chapter 4. The results are shown in table 9.15.

Table 9.15: Cross-Tabulation of financial exclusion and refusal of financial products

Financial products being refused	% of total respondents	Number who had experienced financial exclusion.
Current Account	34	18
Savings and Deposit Accounts	17	9
Overdrafts	37.7	20
Personal Loans	39.6	21
Credit Cards	30.2	16
Store Cards	30.8	16
Never been refused	30.8	10

It can therefore be deduced that for respondents who experience financial exclusion the financial product which eludes most of them is access to overdrafts and personal loans. When these statistics are cumulated they demonstrate worrying statistics. It has been found within this research that of those people who exhibit financial exclusion characteristics, 45% are refused one financial product, with 64.6% being refused one or two products, and 76.4% being refused one, two or three basic financial products.

The emotional responses to these refusals are an important aspect of this research and although used mainly in the qualitative element of the research it is important to note the statistical elements here. The respondents were given a choice of reactions that could have been experienced when they were refused the above financial products. The response rates for this question were very high, demonstrating the emotive effects that financial exclusion can have on people's lives. As shown in table 9.17, 50% of respondents stated that they felt angry towards the refusal with 56.8% stating they were demoralised; 52.3% believed they were victimised, and 45.5% of respondents

felt frustrated. When the results were cumulated they demonstrated that over 97.7% of respondents felt multiple emotions listed on the questionnaire.

Table 9.16: Emotions felt towards banks and financial situation in relation to refusal

Emotions felt	% of respondents
Anger	50
Demoralised	56.8
Victimised	52.3
Frustrated	45.5
Multiple emotions	97.7

The respondents were also asked if at any time they believed that the banks could have done more for their situation. As shown in table 9.18, 63.5% answered the question affirmatively. When asked what they would like the bank to have done for them, 69.8% requested that the bank should be more understanding of their needs. When this was cross tabulated with the financial exclusion it was shown that 30 respondents believed the bank could have done more for their situation and that 29 of the respondents wanted this to be in the form of the banks understanding their situation more. It is significant that people who experience financial difficulties and who have demonstrated that they have been let down by their banks should merely request that the banks be more understanding of their needs. This is not only a significant finding here but also in the qualitative analysis and can be seen to be illustrated in the following template analysis.

Table 9.17: Could banks have done more for respondents?

Could banks have done more for respondents	% of respondents
Yes	63.5
No	36.5

The final two questions were designed to assess the respondents' wider knowledge of the financial situation being experienced by a significant sector of the United Kingdom's population. As summarised in table 9.18 when asked if banks were doing

enough to help people in financial exclusion the response was overwhelmingly negative, with 90.4% of respondents believing that the banks do not do enough to help. Further, 41 out of the 53 respondents who answered that they had experienced financial exclusion and also did not believe the banks were doing enough to help people in financial exclusion.

Table 9.18: Are banks doing enough to stop financial exclusion?

Are banks doing enough to stop financial exclusion	% of respondents
Yes	9.6
No	90.4

The last question explored who the respondents felt was responsible for sorting out the financial exclusion problems being encountered in the United Kingdom. When asked if the respondents felt that the Government was doing enough to regulate the banking industry sufficiently, 71.1% said they did not think the Government was doing enough, but more significantly 18.9 % replied that they did not know. This is important because it exemplifies the lack of understanding the respondents have of the factors relating to financial exclusion and the regulation of the banking industry.

The results from this statistical analysis are not meant to be read alone but intended to be read in conjunction with and to affirm the analysis and findings demonstrated below. However the findings are very interesting and do confirm that the sample does demonstrate the characteristics and findings of other research, such as Kempson et al (2000) and Mayo et al (1998). It therefore gives credence to the qualitative data analysis which will now be explored.

Process building

Template analysis is used in this research to form and build templates from the data collected from interviews and the qualitative data received via the questionnaires which were then used to form respondent profiles. The templates formed are then used to create processes which can explain the development of financial difficulties and or exclusion. This section examines how the different templates have been created and co-joined, and analyses the outcomes of the templates.

Two main groups of society were targeted, those who possess financial exclusion characteristics and those who are part of the financial industry marketplace. In this way any bias is reduced and the researcher believes that there is a balance of views concerning financial exclusion and legal regulation. Without such a balance the research would not be objective and neutral and as such the data would not be able to express the real beliefs and attitudes which are integral to the effective use of template analysis. (King 1998) To reflect these different groups, different initial templates were created.

The researcher formed three initial templates termed T.1 (Financial exclusion data) T.2 (Industry responses) and T.3 (Financial exclusion in-depth interviews). T.1 and T.3 can be grouped together as they are templates collected from respondents who possess or believe they possess financial exclusion characteristics. T.2 is a template, which is formed through the codification of interviews conducted with respondents in the financial industry marketplace.

The researcher bifurcated the data of financially excluded respondents because T.1 represents a template which has been formed through the examination of the qualitative data stemming from the profiles whereas T.3. is created from the data collected from in-depth interviews with respondents who exhibited high levels of financial exclusion. The researcher then co-joined T.1 and T.3 to form a secondary template termed T.4.

T.2 is further sub-divided into six secondary templates termed, T.2.1, T.2.2, T.2.3, T.2.4, T.2.5 and T.2.6.

It is necessary to explore the manner in which the templates were formed and therefore a detailed examination of this process will now be undertaken.

T.1

As previously stated T.1 is generated through the codification of the data extracted from the qualitative elements of the questionnaires distributed to members of society who believe they have experienced financial difficulties or exclusion. There are several steps which the researcher took to create T.1.

Firstly the researcher reviewed and read over the qualitative data collected from the questionnaires. This data was then put into profiles which could be examined by way of template analysis. The researcher coded each line, phrase or paragraph in a manner appropriate to the data that was present. Once the initial coding had been completed, the codes were groups together into five categories. The researcher was able to group similar codes together to form these five categories which were then further coded with a word or a phrase which explained or illustrated the codes within each category.

Template analysis requires that template creation should be conducted whilst the researcher is still collecting data. Therefore, when new data was collected the researcher would then code and categorise this new data. This allowed for the importance of categories to change and be altered as new codes were continually being supplemented. It is important to note that this process of data collection and coding could theoretically be an on-going process forever, so it is up to the researcher to decide when the template is sufficient to explain fully the data that has been collected and analysed.

Once the researcher is convinced that there has been a sufficient level of data collected the categories of the codes are then examined. The researcher found that within the data there was a process which was occurring. It appeared that the categories and indeed the codes were exhibiting an order which could be used to explain how financial exclusion developed. The five categories were then grouped together into three other categories which exhibited similar themes. These groups were termed 'processes' and were coded with a word or phrase which best fitted that process. The processes could then be put into a chronological order which represented the development of financial exclusion.

The researcher used diagrammatical links and colour coded the templates in order to examine the process of the development of exclusion.

Diagram 9.1 illustrates this process, the categories and the codes used within T.1.

Diagram 9.1: T.1 Financial exclusion data

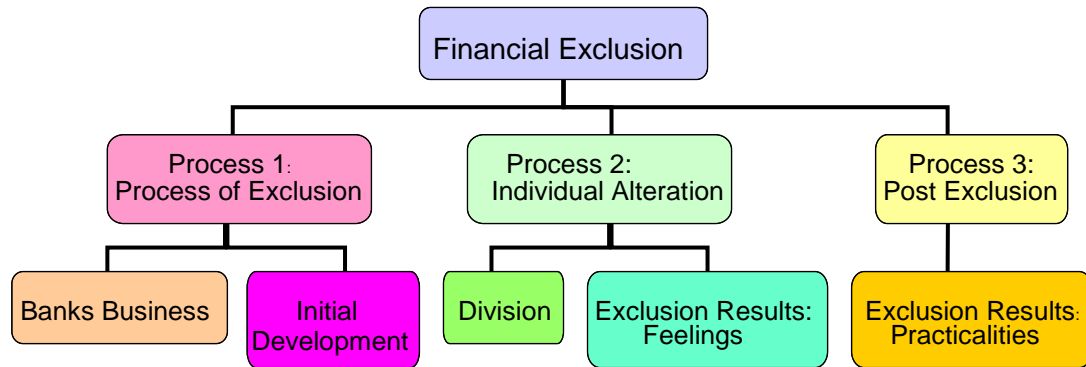


Diagram 9.1 illustrates the process of the development of financial difficulties or exclusion. The template is divided into three processes and five categories which are formed from numerous codes arising out of the data.

Both the processes and categories within T.1 can be ordered chronologically and this can be used to explain the development of exclusion.

Process one is termed the ‘process of exclusion’ and within this first process there are two categories namely the ‘banks’ business’ and the ‘initial development’. The category ‘banks’ business’ reflects the belief of the respondents that the manner in which banks carry out their business affects people who are on the margins of financial problems. The banks’ business activities, it is believed, are not designed to help promote financial well-being amongst this category of society. Some of the code words or phrases that were used within this category were ‘money driven’, ‘push products’, ‘forced situation’ and ‘ease of getting loans’. The second category, within process one, is termed ‘initial development’ because the codes within the category illustrate the experiences that respondents have had with their banks which have then

led onto further steps within the template. Examples of codes within this category are 'lack of help', 'breakdown in relationship', 'disability' and 'no choice'. All of these codes highlight the initial aspects experienced by respondents which have pre-empted the process of exclusion for each respondent.

The second process is termed 'individual alteration' and contains two further categories, 'division' and 'exclusion results: feelings'. This second process reveals that the second stage within the development of financial exclusion is that there is an individual alteration of the person who has experienced process one. The first category 'division' highlights some of the key themes emerging from the codes which cause this individual alteration such as 'alienation' and 'them and us'. 'Division' was a key code coming from the respondents and as such it was an important aspect to highlight.

The second category within the process 'individual alteration' is 'exclusion results: feelings'. Although similar to the codes exhibited in 'division' the codes within this category were emphasised in a much stronger manner and often were felt with desperation by respondents. Examples of this desperation are codes such as 'apathy', 'helplessness' and 'at an all time low'. This process demonstrates how people are affected by financial difficulties or financial exclusion, and is an important step towards the final development of exclusion which is termed as 'process three: post exclusion'.

Process three 'post exclusion' has only one category within it and is termed 'exclusion results: practicalities'. Once people have experienced process one and two;

they appear to deem themselves to have experienced financial difficulties or financial exclusion. Process three highlights the reality of financial exclusion and that is the practicalities for people who have gone through this process. Words that were used within the coding of this category were ‘credit scoring difficulties’, ‘difficulty in access’ and ‘incurred charges’. The reality for people who have had difficulties with finance is that once these processes have occurred the cycle of financial exclusion and difficulties is very hard to break and the situations that they find themselves in generally get worse.

T.1 demonstrates the three processes that respondents feel leads to the development of exclusion. It is important to note that throughout the processes, outlined above, there is an underlying blame by the respondents towards the banking industry that the process of exclusion was aggravated by the lack of help and support by the banks.

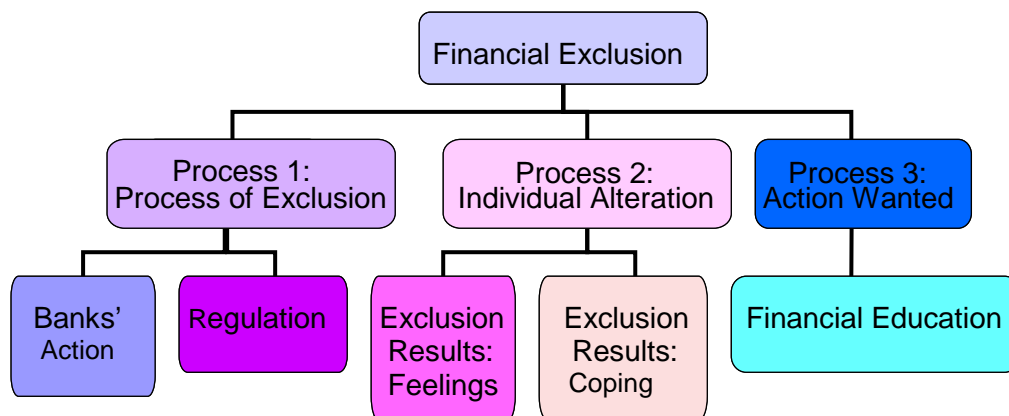
Respondents generally present signs of animosity towards the banks. Additionally there is a feeling of personal betrayal by the banks towards the respondents which represents itself as part of the ongoing cycle of exclusion.

T.3

T.3 was created by using data collected from in-depth interviews with respondents who exhibited severe financial exclusion. However T.3 was formed using the same methods that were used to create T.1. The researcher initially coded the qualitative data of the interviews either line by line, phrase or paragraph. These codes were then grouped together and, in a similar way, they also formed five different categories. The equality in the number of categories was merely coincidental.

The codes and categories of T.3 also were added to as more data was collected. Once the researcher was satisfied that enough data had been collected, the categories were ordered in a way which showed a chronological process of the experiences that the respondents felt led to their financial exclusion and difficulties. The categories were grouped together and coded as processes and were given a process name. As with T.1, T.3 exhibited three processes of the development of exclusion. Once again the researcher used diagrams and colour coding to examine these processes and these can be seen in diagram 9.2.

Diagram 9.2: T.3 Financial exclusion in-depth Interviews



T.3, like T.1, encompasses three processes and five categories and exhibits many similarities to T.1. The three processes are termed ‘process 1: process of exclusion’ ‘process 2: individual alteration’ and ‘process 3: action wanted’. Although there are many similarities between the processes and the categories, T.3 appears to be more progressive than T.1. T.3 explores the role the banking industry plays within the process of the development of exclusion and explores actions that respondents want to be in place to help financial exclusion.

'Process one: process of exclusion' comprises two categories, 'bank's actions' and 'regulation'. Process one explains how respondents believe financial exclusion was initiated. The first category 'bank's actions' contained codes such as 'unhelpfulness', 'conflict of information', 'staff unhelpful', 'no trust' and 'bad communication'. Respondents generally blamed the bank's actions towards them once they experienced financial difficulties. These feelings and experiences then created a path towards the next category and the next step towards exclusion. Respondents believed that 'regulations' within the banking industry are insufficient when banks are dealing with customers who showed signs of financial difficulties and exclusion. Codes which were used within this category were 'dismissive' and 'apathetic'.

Process two also demonstrates that as part of the development of exclusion there needs to be a form of 'individual alteration' of the respondent. Process two combines two categories in its steps to explain exclusion. These categories are 'exclusion results: feelings' and 'exclusion results: coping'. The addition of the second category illustrates the depth and sophistication of the data collected from the in-depth interviews. The first category codes demonstrate the extent of the emotions felt by the respondents either towards the banks or towards the situation in general. Codes such as 'anger', 'exasperation', 'realism', 'blame', 'resentment' and 'frustration' were used to form this category. The second category demonstrated that although respondents experienced an individual alteration they had to be realistic and cope with the situation. Generally those respondents who expressed coping strategies devised them for themselves. The basic coping strategies usually revolved round the use of cash in an ever-increasing cashless society. Code words such as 'cash environment' and 'ease

of cashless society' were present within the category. There was a universal lack of belief that banks would be able to help respondents' financial problems or even if they could they would not help them specifically. This again demonstrates the belief that the banks are discriminating against this sector of society because of their financial problems.

The final process of T.3 went a step further than T.1 and 'process three: action wanted', explores the actions respondents want to be taken to stop exclusion from occurring. The overriding theme of this is encompassed in the only category of the process and that was 'financial education'. Respondents felt that they were ill equipped to deal with even basic financial matters and when they encountered financial difficulties they were unable to resolve the situation and were not offered help by the banks. Codes that illustrated this were 'no experience' and 'no education'.

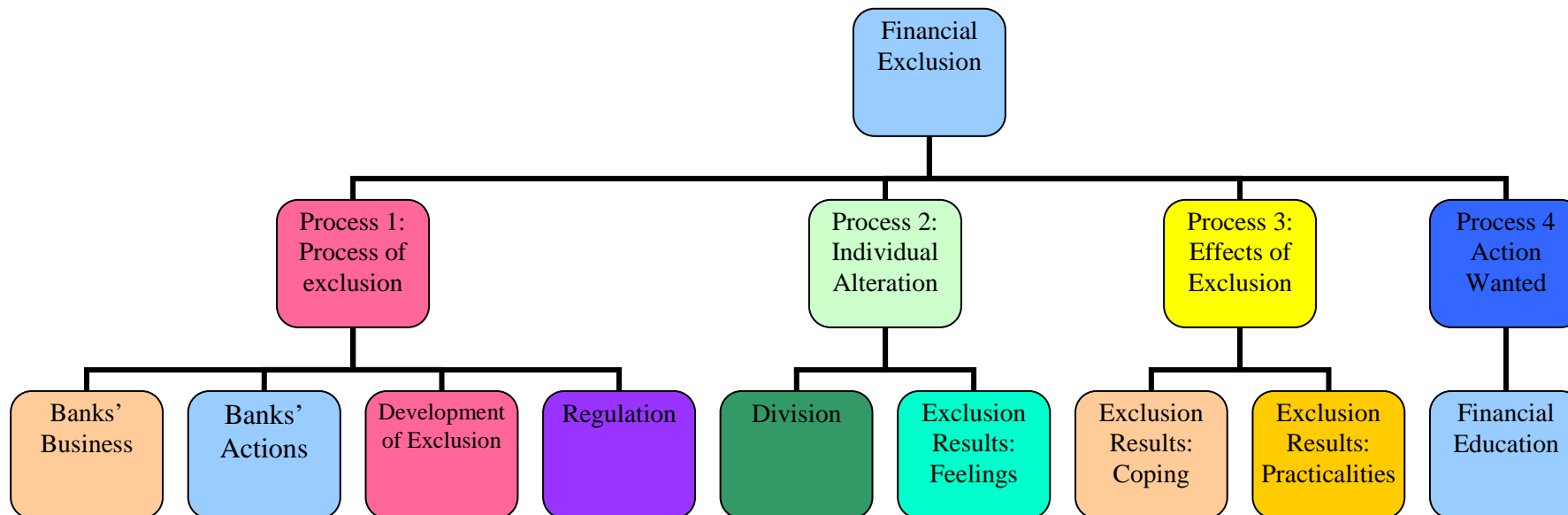
T.4

Although T.1 and T.3 had been created and explained two similar processes, the researcher felt there was a need to amalgamate the templates. This amalgamation would enable the researcher to analyse and explore processes on a greater in-depth basis. The data, codes and categories of T.1 and T.3 were joined to form one template, termed T.4.

The amalgamation of T.1 and T.3 created a template which exhibited nine categories and these categories were positioned in such a way that explained the development of exclusion by the respondents in a chronological order. These categories could then be grouped together to form four processes which were similarly coded to explain or illustrate the nature of the categories and the codes within that process. The template

illustrates the chronological order to the development of exclusion through both the processes and the categories. This can be seen by diagram 9.3.

Diagram 9.3: T.4 Co-joined financial exclusion data



The amalgamation of T.1 and T.3 created a four stage process in the development of exclusion and also provided a recommendation that respondents wanted to see. Within the processes there are nine categories which help to further explain and explore the process and the development of exclusion.

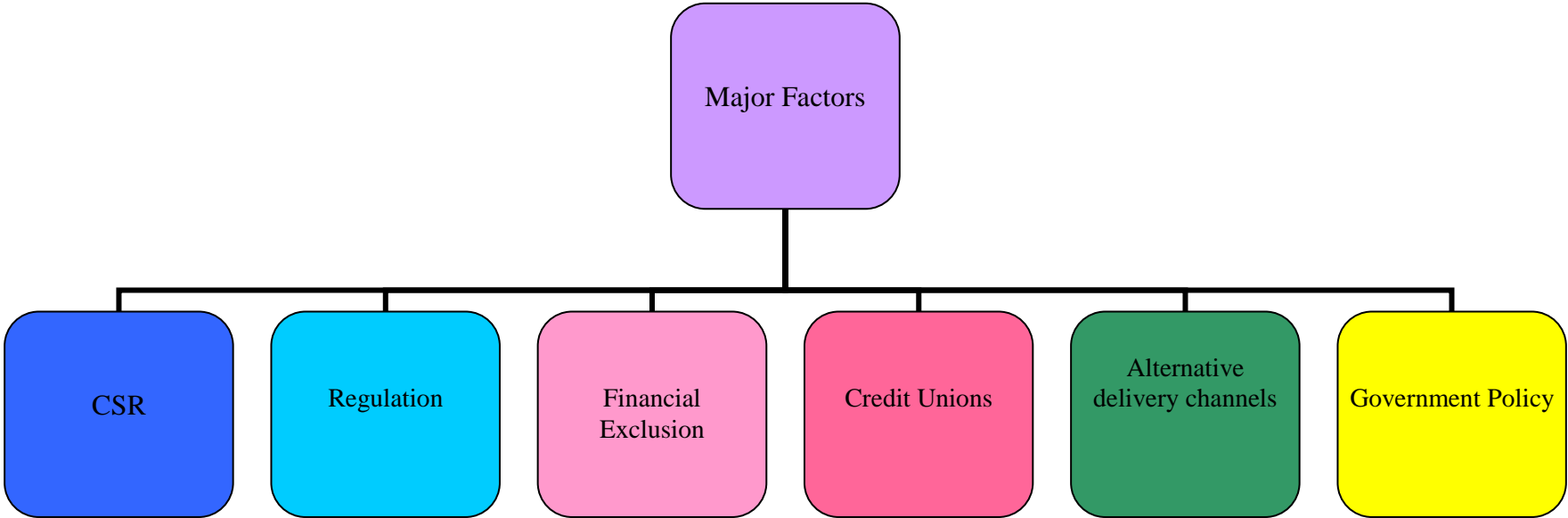
The template demonstrates that the 'process of exclusion' through 'bank's business', 'banks actions', 'development of exclusion' and 'regulation' leads on to 'process two: individual alteration'. Through categories within this process such as 'division' and 'exclusion results: feelings' the process leads on to 'process three: effects of exclusion'. Encompassed within this process are the categories of 'exclusion results: coping' and 'exclusion results: practicalities', which in turn lead onto 'process four: action wanted' which contains the category 'financial education'. Thus the template outlines a four stage process broken down into a nine stage category process of the evolution of exclusion, the results of exclusion and the possible recommendations that could offer help to people who experience financial difficulties or even prior to experiencing financial difficulties.

T.2

Template T.2 was created with reference to the same methods as were used to create T.1 T.3 and T.4. However, T.2 differs from the other templates because the data used was gathered from in-depth interviews conducted with members of the banking industry, government and other financial delivery channels. The researcher coded every line, phrase or paragraph as was necessary for each interview. These codes were then collated and grouped together into twenty categories and further grouped together to form six main categories, these were 'corporate social responsibility', 'regulation', 'financial exclusion', 'credit unions', 'alternative delivery channels' and

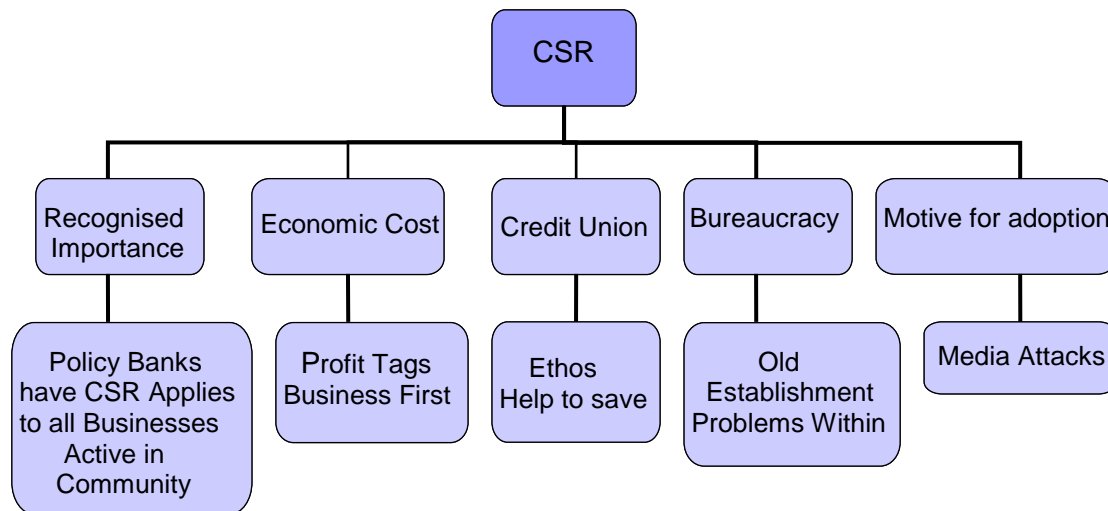
'government policy'. Although this template, as demonstrated below, highlights the important themes, attitudes and beliefs the industry has towards regulation and the effects on those who can be classified as being financially excluded or in financial difficulties, the researcher has further developed T.2 and created a template for each of the six main categories to help explain the banking industry's views in a more sophisticated manner. As such, each main category within T.2 was further broken down and a template for each category was created as demonstrated by diagram 9.4

Diagram 9.4: T.2 Industry Responses



T.2 was as such broken down into further templates stemming from the second layer categories highlighted in the above diagram. They were then termed as T.2.1 (Corporate Social Responsibility), T.2.2 (Regulation), T.2.3 (Financial Exclusion), T.2.4 (Credit Union), T.2.5 (Alternative Delivery Channels) and T.2.6 (Government Policy). Diagrams 9.5 to 9.10 illustrate the diverse nature of the categories and their respective codes.

Diagram 9.5: T.2.1. Corporate Social Responsibility

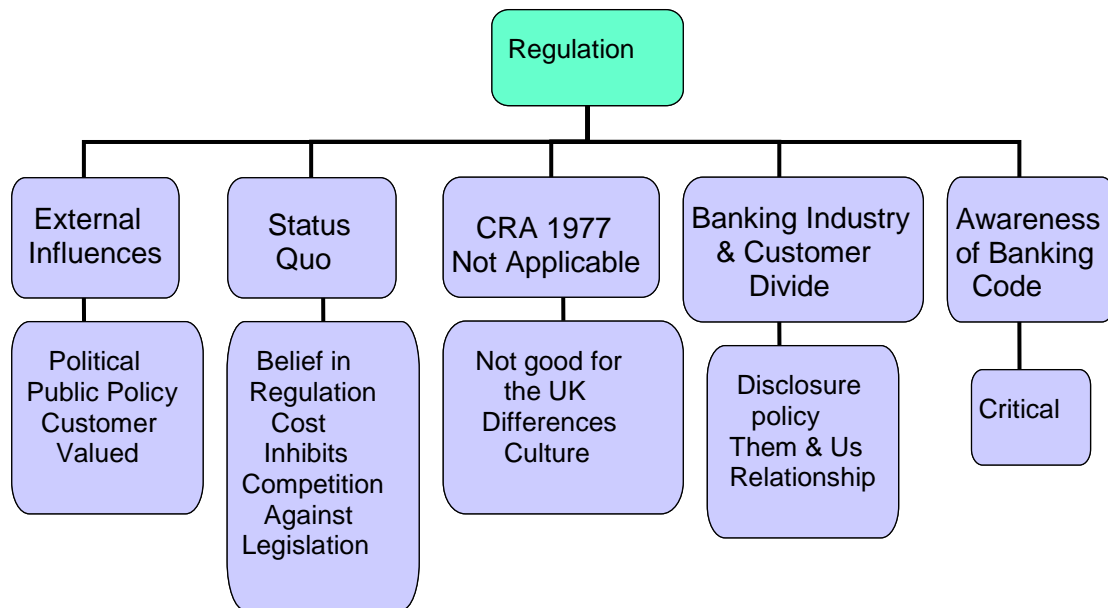


T.2.1. Corporate social responsibility was formed by the creation of five categories shown here on the second level of diagram 9.5.⁶⁷ Level three illustrates some of the codes that formed the second level categories, which in turn led to the creation of the top level category which forms one of the main categories used in T.2 This is the same process that created templates T.2.2 to T.2.6 and as such it is not necessary to outline the steps undertaken for the creation of every diagram featured below.

⁶⁷ The researcher labelled the levels of the template as First (top tier), second (middle) and third (bottom).

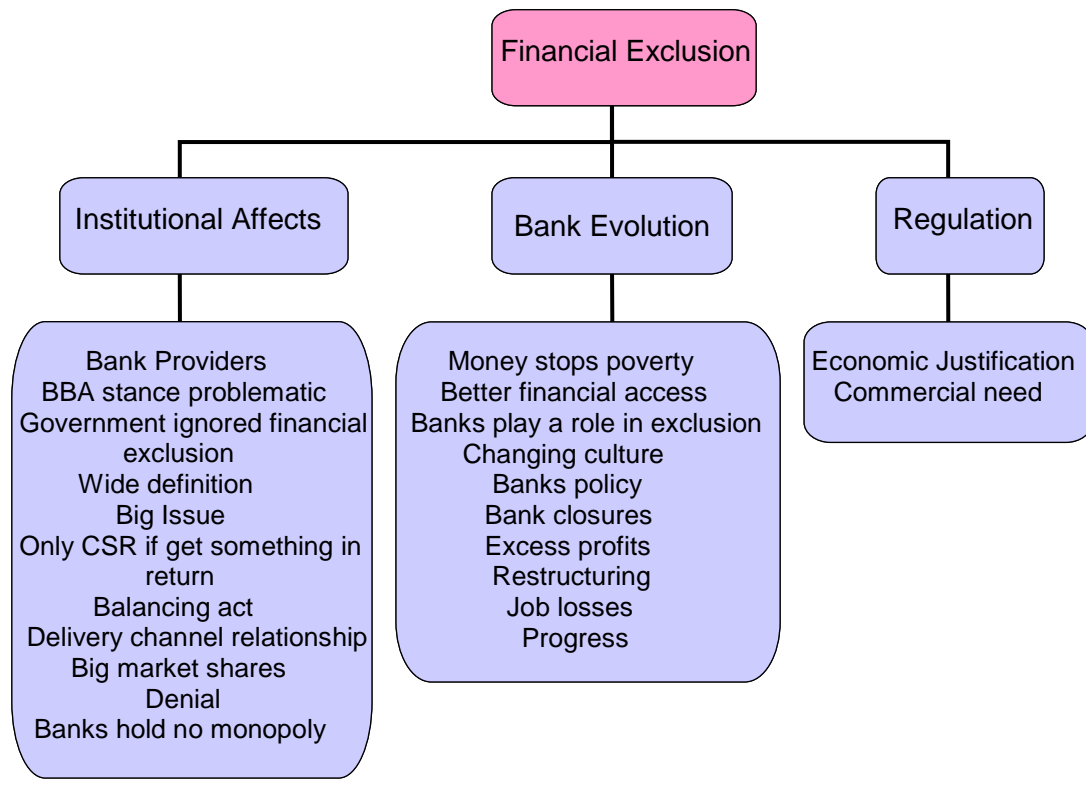
T.2.1 highlights the importance the banking industry places on CSR as well as the economic benefits which can be derived from being a socially responsible corporation. However the respondents did acknowledge that several problems face CSR such as bureaucracy and motivation for adopting socially responsible policies.

Diagram 9.6: T.2.2. Regulation



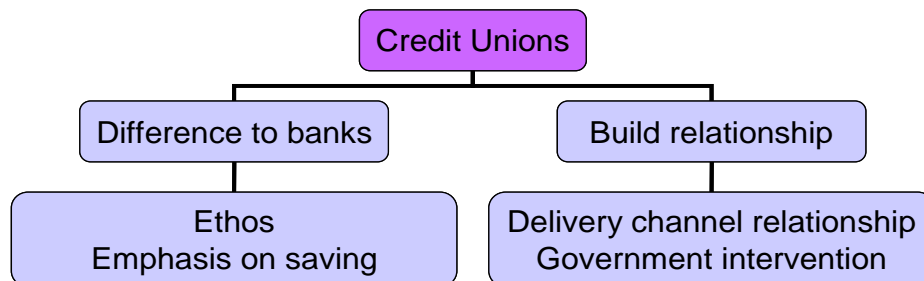
T.2.2, shown in diagram 8.6, illustrates how important regulation is to financial exclusion. It demonstrates that there are five main factors that influence regulation. These include ‘external influences’, such as political pressure, public policy, and keeping the ‘status quo’ thus showing a belief in existing regulation as well as a distinct dislike of legislation within the industry. The industry also believed that cost was an important factor in maintaining current regulation as well as that more regulation will inhibit competition.

Diagram 9.7: T.2.3 Financial Exclusion



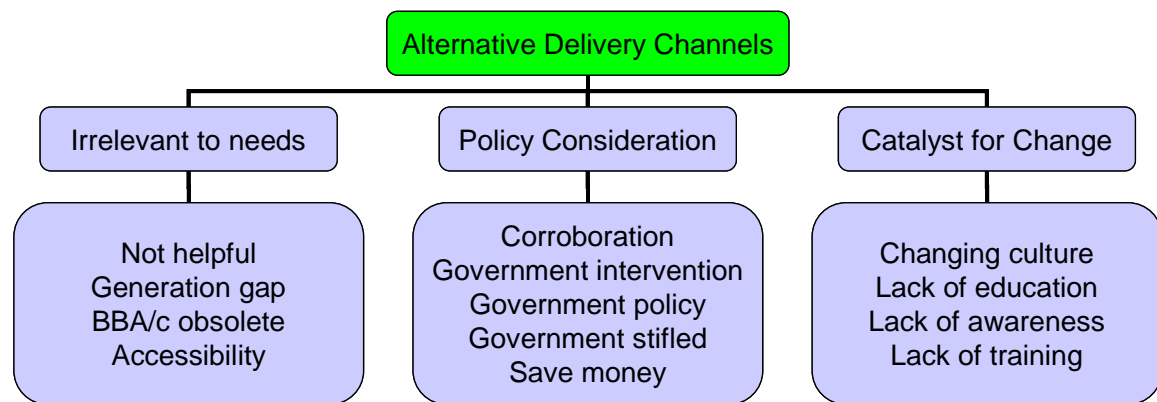
Financial exclusion played a pivotal role in this thesis and it can be demonstrated by the template that the industry also places emphasis on the need to explore financial exclusion. This can only be a positive action as long as industry looks not only at external influences but also at internal influences, namely how the banks are actually affecting financial exclusion. Template T.2.3, shown in diagram 9.7, shows three main factors that the industry places emphasis on. These are ‘institutional affects’ such as the service providers, the wide definition of CSR and the view that the BBA stance on financial exclusion is problematic. Secondly the ‘bank evolution’ has changed the shape of the industry as well as the customers’ needs and as such there is now a gap between bank delivery and customer expectation. Finally, the industry believed that regulation was the key to good CSR but that there needs to be strong economic justification and a commercial need for implementing regulation.

Diagram 9.8: T.2.4 Credit Unions



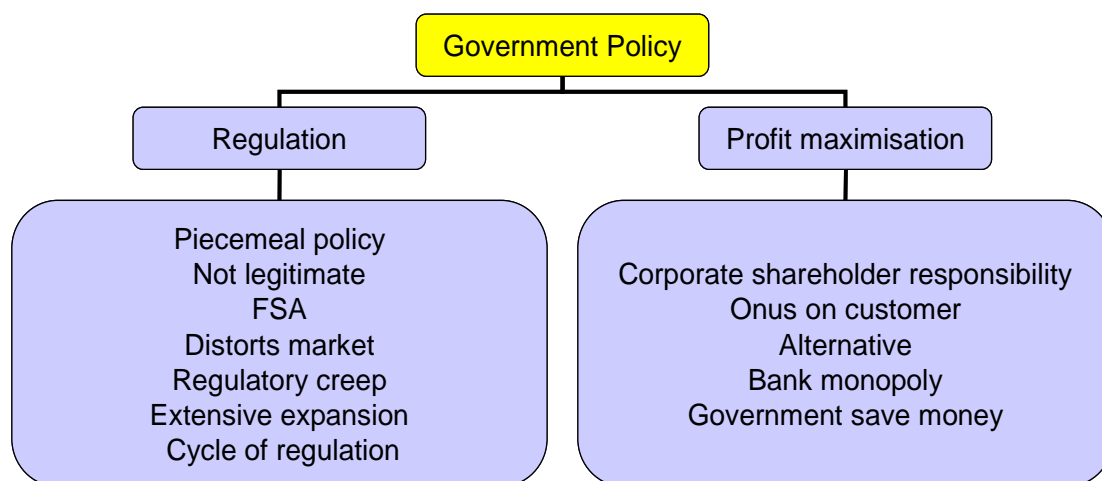
Credit Unions can help promote financial inclusion. Their ethos as being not for profit organisations and the importance they place on CSR is something for the banking industry to reflect upon. As shown in T.2.4 in diagram 9.8, the industry believes that credit unions do differ from banks and although they are not considered to be competition, it is felt that they could play a part in providing access to banking facilities to those without bank account. However this can only be achieved if the industry and the credit union movement builds a strong relationship and this generally will only come about if there is some form of government intervention.

Diagram 9.9: T.2.5 Alternative Delivery Channels



As shown in T.2.5 in diagram 9.9, the banking industry also believed that alternative delivery channels could play a part in promoting financial inclusion. However, the channels in place at the moment are not applicable to the needs of those excluded and only through policy considerations such as government intervention and corroboration would there be a change. The industry also felt that the increasing awareness of financial exclusion may act as a catalyst for change and this may lead to government intervention.

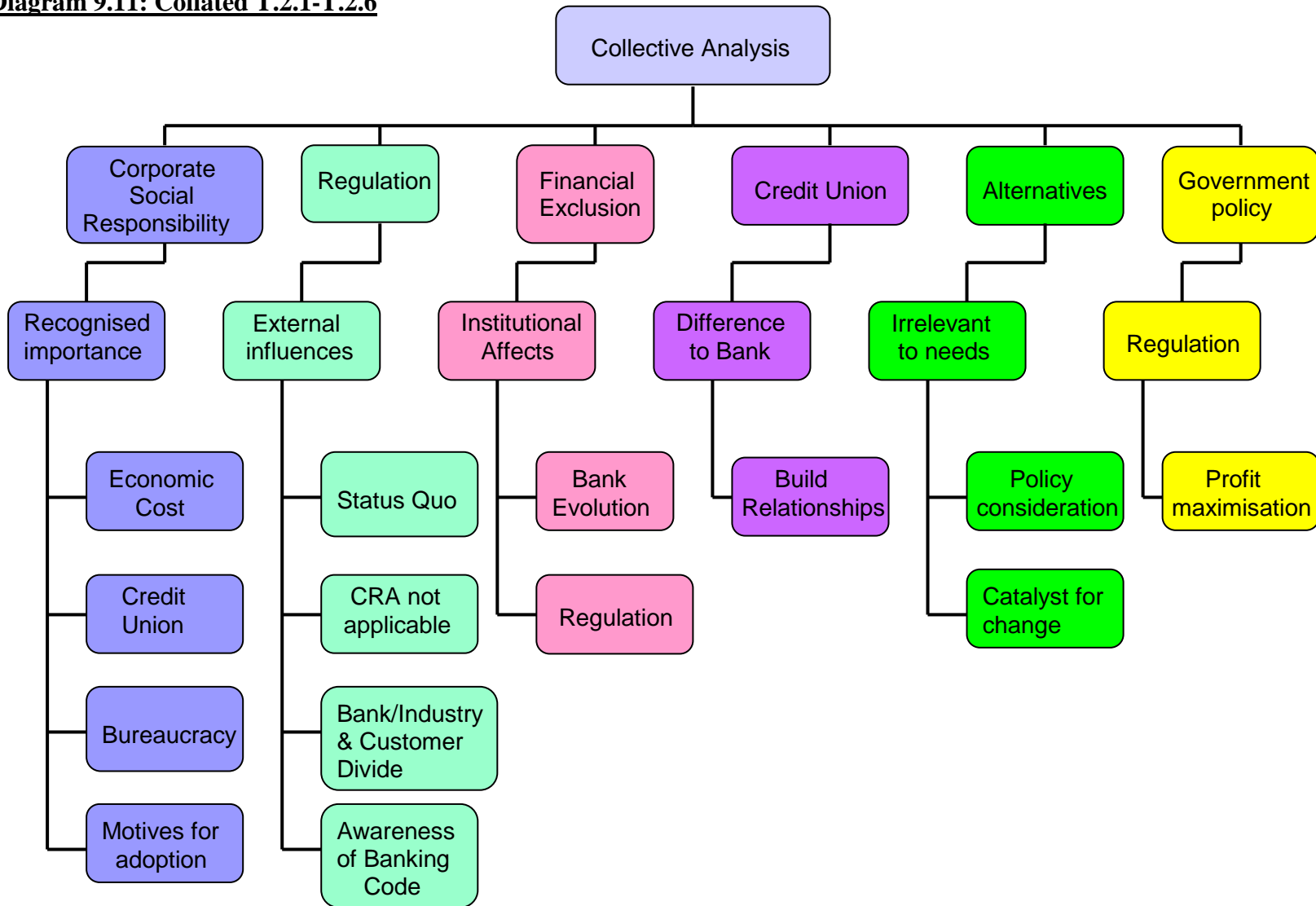
Diagram 9.10: T.2.6 Government Policy



The final template within T.2 (T.2.6, shown in diagram 9.10) highlights the role government policy could play in combating financial exclusion. The industry believes that regulation should self-regulatory and that government intervention will distort the market place and will lead to regulatory ‘creep’ which is seen to adversely affect the industry. Secondly the industry believes that the emphasis of regulation should be on profit maximisation as well and making sure that government policy is advantageous to the customer in addition to saving government money. The responses creating this last category and codes were confused and there was no uniformity of answers and as such this is demonstrated in the ambiguous objectives the industry wishes to pursue.

Diagram 9.11 links all the above templates together and forms an overall template which outlines the themes that the financial industry believes are important to financial exclusion and the legal regulation of the banking industry.

Diagram 9.11: Collated T.2.1-T.2.6



The template demonstrates that the themes that are impacting on the banking industry are factors such as corporate social responsibility, regulation, financial exclusion, credit unions, alternative delivery channels and government policy. The researcher then took the templates that illustrate these important themes and collated them into a frequency chart. Although King (1998) believes that counting the frequency of codes adds nothing to the overall importance of that particular code, the researcher believed that it was necessary, not to count codes, but to examine the inter and intra-relationships within the templates of the categories.

The researcher found that there was an equal spread of importance of the categories but each had an interlinking effect on one another. The researcher found that each of the six main categories was vital to the overall importance of the template, yet no one category was significantly more important than any other. This suggests that to combat financial exclusion there will need to be a strong corroboration between all six factors.

Diagram 9.12, 9.13, and 9.14 demonstrate the inter-template relationships and the intra-template effects the categories have on the template as a whole.

Diagram 9.13: Intra- template Affects

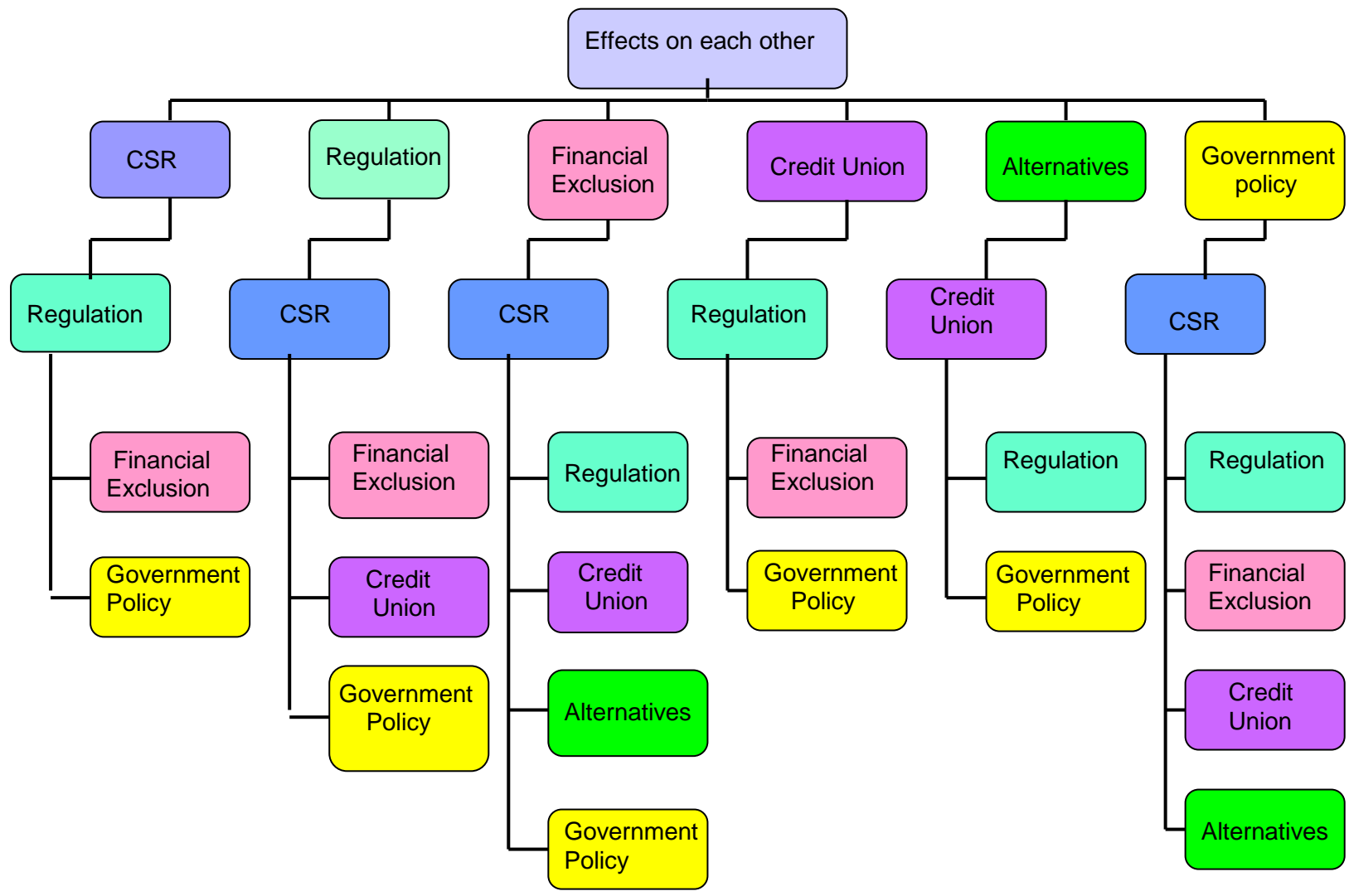


Diagram 9.12: Inter-template Relationships

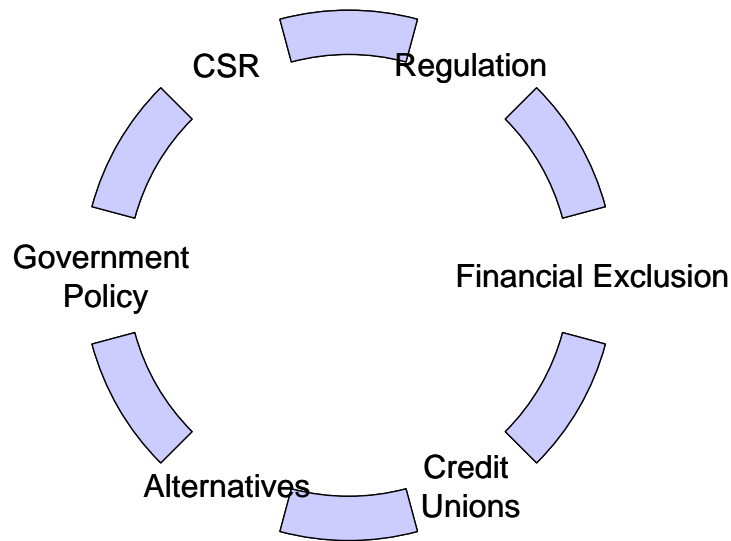
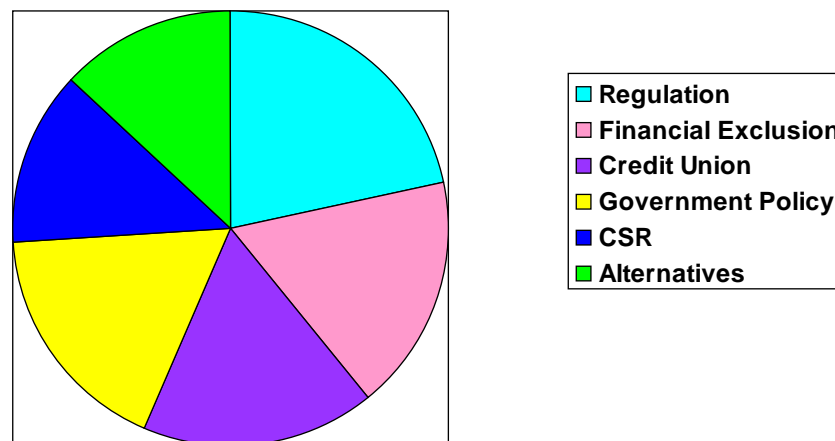


Diagram 9.14: The intra relationships of template categories demonstrating that no one factor is more or less important than the others

Chart to demonstrate the intra relationships between the templates arising out of the Industry responses



As diagrams 9.12, 9.13 and 9.14 demonstrate the templates created within this research have highlighted two important aspects.

Firstly, for the respondents within this research, financial exclusion is a gradual and multi-faceted process. The three main factors towards developing financial exclusion are the actions of the bank towards the person, the lack of regulation within the industry to monitor the behaviour of the bank towards the customer in financial difficulties and the individual alteration of the customer which leads to a breakdown in the relationship between banker and customer. This relationship has in many cases irretrievably broken down and as such this exacerbates the situation.

Secondly, for those within the industry, there is a belief that although there is a problem with financial exclusion, the problem does not lie with the regulation of the banking industry. The main areas that are important to the industry are corporate social responsibility, regulation of the banking industry, government policy and alternative delivery channels, such as credit unions, yet not one aspect is given more weight than another. It is suggested that the templates stemming from the financial industry, illustrate that although there is an interest in financial exclusion, the industry does not believe itself to be in any way to blame or partly to blame for people's financial difficulties. The research demonstrates that although the industry does recognise financial exclusion as a problem the very limited attempt at trying to solve the problems fails to take into account the sources of the problems which in part lie with the industry. The banking industry believes that the Banking Code does effectively regulate banks' conduct towards customers, yet this research has shown that the majority of respondents feel that their banks should have done more, that they were unhelpful and in some cases that they felt that they were not interested in them because of their financial problems. However, the banking industry does acknowledge

that financial literacy and education within the country is poor and as Ian Mullen stated at the Labour Party Conference in Bournemouth 2003;

Financial literacy is becoming a vital skill to possess, literally from the cradle to the grave; from baby bond to long term care. It has become both a “buzz-phrase” and a necessary part of a person’s lifetime skill set. (British Bankers Association 2003)

A white paper published in October 2003 by the British Bankers Association and the Financial Services Authority sets out the building blocks for a national strategy for the increase in financial literacy. The paper seeks to redress certain issues such as:

1. How can we ensure that all Government assets based welfare programmes (savings gateway, child trust fund etc.) are linked with suitable educative measures?
2. How can we ensure that all Government consumer education messages – whether proposed in the DTI’s consumer credit white paper on over indebtedness , through the OFT’s consumer education programmes or via the FSA’s statutory duty - are presented as a seamless set of messages?
3. If a Sandler/stakeholder range of products, sold without advice is pursued what is the role of Government/industry/advice providers/individuals in educating consumers to make an informed choice? Are we confident that selling these products without advice will be in the consumers’ best interest and will be “treating them fairly”?
4. If there is to be a generic approach to financial education/advice how is it to be delivered and funded and to what range of consumers, where and when?
5. Is financial education enough? What other tools should the Government look at to encourage long term saving and individual responsibility? (British Bankers Association 2003)

Although the white paper is to be encouraged, this research has demonstrated that points 1-3 (above) are not the vital questions that should be asked when considering how to help combat financial exclusion and difficulties. Point one looks at getting people to save, this research has shown that the relationship between many customers and their banks has irrevocably broken down and these customers do not want to use a bank to save their money. They mistrust the banks and the government and so

although this question is important, it offers little help for people who are in financial exclusion.

Point two focuses on the message the government and the banking industry wish to get across to the customer. However, as with point one, if the relationship and trust has been broken, customers will not want to hear any message offered by the industry.

Point three simply does not relate to the problem in hand. People in financial exclusion or difficulties cannot afford to buy products and so although important for protecting other customers who could be mis-sold products inappropriate for them, the paper avoids tackling the true problem.

Points four and five do offer some hope for those in financial exclusion. Financial education has been found, within this research, to be an important step towards breaking the cycle or even preventing exclusion or difficulties. However it is disappointing to see that the paper is aimed at helping those who are already participating in the financial market place and not those who are excluded. The paper aims to encourage saving and individual responsibility, but this piece of research has shown that exclusion does not just have one continuing factor but has three; the banks' actions, individual alteration of the customer and the regulation which regulates the conduct of banks towards their customers.

Other government initiatives such as AdFLAG (Adult Financial Literacy Advisory Group) have also been created (2000) but although these promote financial education their effectiveness is questionable. AdFLAG remains relatively anonymous especially

to the sector of society that it is meant to target. (Reports 2001 and 2002) Its work, although creditworthy, fails to target the fundamental factors affecting financial exclusion and as such is ineffective when trying to educate people with the aim of breaking the cycle of exclusion.

The findings in this thesis suggest that the industry and the government should be dealing with both the problems addressed above and additionally the problem of financial exclusion itself. The recommendations offered and the reports that focus on financial exclusion do not go far enough to tackle the problem. The industry needs to take responsibility for its actions and get the customers to be individually responsible for their financial affairs. This can only be done if the regulation of the banks corresponds to the needs of those who are financial excluded. The two distinct interpretative communities need to be able to understand the individual needs and aspirations of the other.

Although the Banking Code does regulate many of the problems encountered in the day to day running of people's financial affairs, it is suggested that there should be a distinct code which specifically outlines procedures for banks to undertake with customers who are exhibiting signs of financial difficulties and/or exclusion.

It can therefore be demonstrated by this research that there is a gap between customer needs and aspirations towards their situations and what the banking industry and government are prepared to acknowledge.

Summary

In this chapter, it has been demonstrated through both quantitative and qualitative data analysis that there is a distinct problem surrounding the application of the Banking Code in relation to customers who experience financial problems. Through template analysis the researcher has been able to propose a process of the development of financial exclusion. This is extremely important as previous research findings have focused on the personal characteristics of respondents as being the main problem associated with financial exclusion. This piece of research takes a reflective stance and explores the effect that the banks and bank staff have on people who experience financial exclusion and how this acts as a catalyst for further financial problems. The following conclusion and recommendations are proposed in order to help bridge this gap.

Chapter Ten: **Conclusion and Recommendations**

This thesis has explored the legal regulation of the banking industry in relation to the effects it has upon those who can be classified as experiencing financial exclusion. In order to carry out this research, a qualitative approach has been employed through the use of template analysis. Additionally, a detailed examination has been undertaken of the four pillars of this research: the cultural evolution of the banking industry; financial exclusion; the nature of rules and regulations, including of the Banking Code; and corporate social responsibility. It is from this research that the following conclusions and recommendations can be made.

Conclusions

This thesis makes two essential contributions to knowledge. In practice, the thesis promulgates the important benefits that financial education could have on people who are financially excluded or who possess financial exclusion characteristics. Additionally, the thesis exposes the link between financial exclusion and banking regulation. Without this being correctly addressed, financial exclusion can never be fully eradicated from society.

Secondly, the thesis makes an academic contribution to knowledge. This has been achieved through the use of a novel methodology, which has been used to provide a new insight into financial exclusion research. It is believed that through this novel methodology (template analysis) and the exploration of a different aspect of financial exclusion, it has been possible to gain a greater understanding of the reasons for financial exclusion.

This contribution to knowledge can be demonstrated by the following conclusions drawn from the thesis. The research results suggest there is an expectation gap between the customer and the banking industry. This gap in expectation arises from the cultural evolution which has taken place within the banking industry. The banking industry itself cannot be a static entity in an ever-changing world, but the manner in which it has evolved and the developments which have led to this expectation gap are unique. The banking industry has changed beyond all recognition and although this is advantageous to a wide sector of society and the world at large, there is a small proportion of society who have been adversely affected by this cultural evolution.

It appears that the majority of the banking industry, although aware of the new cultural expectations that require banks to take into account social and ethical policies in relation to their business practices, are not entering into this new phase wholeheartedly. The social responsibility and ethical mission statements made by the banks do not actually take into account the members of society who have been left behind or excluded from taking part in the modern financial world.

It cannot be morally justifiable to have a proportion of society who do not participate fully in the financial benefits that are available. This thesis is not concerned with how many people are excluded but rather why these people are excluded. The main reason seems to be that there is an expectation gap between the bank and the customer and it will not be until this gap is bridged that financial inclusion can become a reality.

This expectation gap is illustrated by the templates produced in chapter 9. They indicate that a major factor which influences people is the manner in which they are treated by the banks. This researcher therefore believes that financial exclusion is a more complex phenomenon than was previously recognised. Financial exclusion is not just the lack or total lack of financial products, but encompasses the attitudes and emotions of people, as well as the treatment by the bank of people who are susceptible to financial exclusion. It is these aspects which are ignored by the banking industry.

The regulations which are in place also take no account of these factors and thus do not regulate the banking industry in a manner which is conducive to promoting financial inclusion. In fact, it is these regulations, highlighted in the thesis, which have been found to exacerbate the problem of financial exclusion. There is an overwhelming belief among people in society, whether they are excluded or not, that the banks 'just don't care', and are unwilling or even unable to help when there is a financial problem encountered. Although this is not totally correct, as there are procedures in place to deal with financial problems, this thesis questions whether they are truly effective. These procedures are questioned within this research because it is believed that the regulations do not take into account the manner in which society views the banking industry. The research suggests that society views the banking industry as a 'them and us' situation. Respondents to the research surveys indicated that they felt isolated from the industry and that they could not really communicate with the banks. The amount of animosity towards the industry is not dispelled by the banks and as such no matter how much the industry tries to promote financial inclusion, they will not be successful until they take into account results, such as those reported.

The findings stemming from the templates in chapter 9 show that the industry needs to view people who suffer from financial exclusion in a different light. The templates also show that the industry should take into consideration the factors that they themselves promulgate, which affect those who suffer from financial exclusion. Thus, it is argued by the researcher that the industry should use regulation in a manner which helps and not hinders financially excluded people. Regulation, it has been shown within this research, should be able to relate to the people to whom it is applicable and therefore, as there is a sector in society that is distinct from mainstream society, the industry should be looking at readdressing the regulation to encompass this sector.

To do this would not just benefit the financially excluded but also the industry itself. If more people are financially included, then the banks will have a larger market place with which to work which will mean that the industry will not only recoup the money owed to them but will also be able to promote more products on a wider demographic scale.

The main essence of the findings is that although there have been dramatic cultural changes in attitudes towards the banks, the regulations which are in place are not sufficient to promote financial inclusion. Only when the banking industry takes responsibility for the part it plays in the process of exclusion will it be able to put forward a form of regulation which will promote financial inclusion.

Below are several recommendations that, it is believed, could help the banking industry alleviate these problems and promote financial inclusion.

Recommendations

There are four main areas that should be considered for reform. They are:

1. To create a specific Banking Code for financial difficulties⁶⁸;
2. To increase financial education nationally;
3. To create an organisation (National Debt Solution Society) to help implement recommendations 1 and 2;
4. To increase and focus the levels of corporate social responsibility of the banking industry by funding and supporting recommendations 1, 2 and 3.

The recommendations are not mutually exclusive because there is not just one cause of financial exclusion. There is a progression of factors, which then develops into financial exclusion. So recommendations 3 and 4 overlap with recommendations 1 and 2 and are examined as such.

Recommendation 1, 3 and 4

To create a specific Banking Code for financial difficulties

As demonstrated in chapter 3, there has over the last 20 years been a dramatic cultural change within society and the position of banks and their role within society have also changed. A bank has now become an essential part of everyone's life.

⁶⁸ The title of the new Banking Code for Financial Difficulties was thought to be preferable to one referred to financial exclusion because of the stigma attached to this label and the importance people place on being included rather than excluded as can be demonstrated by the template in chapter 9.

It is proposed, therefore, that banks should be required by regulatory reform to change their corporate ideologies so that they fit into the role in which they now find themselves. One way to facilitate such a change is by more stringent regulations. However, this is not anticipated to be of detriment to the industry. It is expected that, although a new Banking Code specifically for financial difficulties and a National Debt Solution Society be created, economically the banks will benefit. This benefit will come in the form of recouping bad debts and encompassing a wider sector of society into their business domain.

It is proposed that there should be a distinct Code to deal purely with customers who exhibit signs of financial difficulties and financial exclusion. This Code would set out a series of steps that would allow the bank to help the customers to help themselves. This will promote financial responsibility on behalf of the customers and thus not allow customers to feel that they are alienated from the process of rectifying their financial problems.

This Code would come into effect as soon as either the bank or the customer contacted each other in relation to the financial problems occurring. The researcher acknowledges that if the customer does not want the bank to help or does not agree with the advice being given, then the customer will be asked to sign a form relating to this refusal, negating the bank's liability.

The Code would not be enforced by legislation but would be self-regulatory. However, it would be monitored by the Financial Services Authority. If a bank did not comply with the Code, it could face sanctions, such as a fine. However, if a bank was

found to be negligent in the advice that it had given, then it could face civil litigation where the customer could be awarded damages. This could be a role for the Financial Ombudsman Service.

It is proposed that, along with the new Financial Difficulties Code, banks would be required to employ a specialist debt adviser who, although an employee of the bank, would also be a member of the National Debt Solution Society (hereafter NDSS). The NDSS would be a joint venture by the Government and the banking industry and would be funded by the industry itself. This would work toward recommendation 4 by increasing banks' corporate social responsibility. The specialist debt advisers of the NDSS would be specifically trained by this organisation and would offer independent advice regardless of the bank with which they are employed.

The aims of the Code and the creation of the NDSS are intended not only to resolve debt issues but to build a link with society and break down the barriers and misguided preconceptions that society holds towards the banking industry and thus break the cyclical effect of exclusion.

The researcher has designed a draft version of this new Code but the following outlines the operational procedures and guidelines that would work behind the code.

The Financial Difficulties Code

Step one:

Once a bank has noticed that a customer is experiencing financial difficulties (i.e. the account is not running as normal) over two consecutive months and the customer has

not made an appointment with the debt adviser, then the bank will contact the customer via phone, e-mail or letter asking for the customer to come and talk to the specialist debt adviser. The bank will offer a set time and date but will also give customers an opportunity to alter the appointment to a time and date convenient to them.

Step Two:

Before the appointment, the adviser will be equipped with the financial history of the customer and be aware of everything to do with the account. The adviser will have spent time before the appointment in thinking of possible general action plans that could be adopted by the customer. This is done prior to talking to the customer to demonstrate the bank's willingness to work with the customer to resolve the situation.

Step Three:

On the day of the interview it is important that the adviser keeps the appointment and is punctual. The treatment of the customer is of particular importance. The adviser needs to be sympathetic without being patronising and be able to listen to the customer and encourage the customer to talk openly and freely to the adviser.

Step Four:

The customer will have been asked to bring along all bills and documents which relate to the present situation. The adviser will then go through all the customer's outgoing and incoming money and all the customer's debt and creditors. The adviser will then talk to the customer to see what the actual problem is:

- (a) Job loss

(b) Overspending

(c) Illness

(d) Death of a relative

The adviser will then have a specific set of instructions to follow depending on the nature of the problem. The adviser will then discuss the issue with the customer. For example, if the person has lost his or her job through illness then the action plan will be specific to the person and will be tailored to that particular situation. It is important to work with the customer and to have a realistic picture of what is possible.

Step Five:

It is important to make the customer understand that the process of rectifying debt problems is a two-way operation. As such, the adviser will ask the customer to sign a form saying that they will undertake the action plan to the best of their ability and that it is a suitable action plan for them. This form will then negate any bank liability for negligent advice against the will of the customer.

Step Six:

The adviser has a responsibility to present the worst-case scenario to the customer as to what the bank will do if the customer does not comply with the action plan.

Step Seven:

The adviser will then make follow-up appointments to allow for the action plan to be put into practice and to see if there needs to be any alterations. If there are any alterations, then both the adviser and the customer must sign to say that both agree to the changes.

Step Eight:

The customer will be given an information pack which is tailored to greater financial education. The pack will inform the customer of general financial education as well as more specific help and advice tailored to their needs. The information pack will also contain the telephone number of the national debt advice line and the address of the nearest Citizen's Advice Bureau so that the customer has the choice to get independent advice. The adviser although employed by the bank will also be a fully qualified member of the debt association that runs the help line and the slots in the Citizens' Advice Bureau.

Recommendation 2, 3 and 4

To increase financial education nationally

It is recommended by this research that banks have a social obligation to educate their customers. The National Debt Solution Society and the FSA will have an obligation to educate society. This research has illustrated that respondents felt that they were ill-equipped to deal with financial affairs and as such financial education should begin in schools and should carry on through children's education and then should be continued throughout adulthood.

For those adults who do not receive the basic financial education whilst at school, the NDSS will offer basic, intermediate and advanced level financial education and will offer all those that undertake the course a certificate. The certificate will be recognised nationally and will make customer credit ratings improve with every stage that is achieved. This will be an incentive for both the customer and the bank. If the

customer is more aware, then they are less likely to get into debt and it will also help their credit ratings.

The NDSS certificates can be undertaken in a number of ways;

1. Delivered by CD-ROM with an electronic examination at the end of the database.
2. Delivered by tutorials within the community conducted by debt advisers with a written examination at the end of the six-week course. This will cost nothing if recommended by the NDSS or banks, but a charge will be levied for others.
3. Delivered by post, with a written examination also submitted by post.

Additionally it is recommended that the National Curriculum for schools within the United Kingdom should contain a course that focuses on financial education. The course could be delivered in a written format, but could also be delivered electronically with a series of CD-ROM's and accompanying information packs and books. NDSS debt advisers would also visit local schools to give talks on the importance of financial education. At each stage of financial education within schools pupils will be awarded a certificate of achievement at each stage. If all stages are completed then an overall qualification will be awarded when the pupil leaves full-time education. This will be nationally recognised and will help the students to obtain accounts and if they go to University will give incentives for their accounts and student loans.

As stated, the recommendations focus on the inadequacies in both financial education among the population at large as well as the regulation of the banking industry and

demonstrate that perhaps the best way forward would be to regulate those in financial difficulties separately. This would both be beneficial to the customer and bank alike. For customers it would enable them to become financially integrated into the financially included sector of society. Similarly, the banks would also benefit as there would be a larger, more knowledgeable sector of society demanding the diverse range of financial products on offer from banks.

It is believed that this style of regulating and promoting financial inclusion could be adopted by other financial institutions within the United Kingdom. The style and the manner in which the industry treats its customer is integral to breaking the cycle of financial exclusion and could prove to be beneficial to both parties.

Areas for future research

An interesting area of future research is to compare the process of exclusion in the United Kingdom with that of other countries. An international comparison could look not only at different regulations but at the cultural attitudes of people within those countries. This would allow the researcher to determine whether financial exclusion and the models proposed in this thesis are specific only to the United Kingdom or whether there is an international model of financial exclusion that could be promulgated.

The international comparison would be best conducted between the United Kingdom, the United States, Canada and Australia. The researcher believes that these countries would offer the greatest scope for research due to their regulatory attempts in the area of financial exclusion. The United States passed the Community Reinvestment Act in

1977, which focuses on community reinvestment and stops 'red-lining', a method of excluding customers because of their geographical location. This legislation has been amended to take into consideration the changing nature of the financial industry within the country. However, financial exclusion is still an inherent problem and it would thus be interesting to test whether it is the application of regulation by the banking industry that helps to promulgate financial difficulties and exclusion among customers.

Canada and Australia have for many years been trying to enact legislation similar to the Community Reinvestment Act to try and combat financial exclusion. It would thus be interesting to investigate the factors behind financial exclusion in these countries, and to use template analysis to explore the real beliefs and attitudes of people within these countries and compare them with those found in the United Kingdom. This would hopefully allow a model of exclusion to be developed, which could then be used around the world to try to limit levels of financial exclusion.

Another possible area for further research would be a consideration of other products offered in the United Kingdom from which certain people are excluded. For example, exclusion from insurance products, such as life, general insurance and pensions, could be investigated. As stated in chapter 4, financial exclusion does not have to involve the lack of a bank account, but may cover a range of financial products. The application of template analysis to a range of products and related regulations would extend the analysis of financial exclusion into related and complex fields.

Additionally, the researcher, as part of her forthcoming work in the financial sector, will use the findings from this thesis to explore the nature of financial exclusion in an international setting. The researcher will be putting forward a proposal of financial exclusion regulation for a new regulatory authority, grounding its ideology upon the Financial Services Authority within the UK. Due to the confidentiality of this project, the researcher is unable to expand on which regulatory authority is involved and how this research is going to be used.

Concluding remark

In conclusion, this research not only examines the present situation being experienced within the United Kingdom's banking industry, and explores the inherent problems and associated links to financial exclusion, but puts forward four recommendations which could be adopted to help promote financial inclusion. Overall, the principal conclusion is that factors affecting financial exclusion are more complex and diverse than was previously considered and only when this is recognised by the regulators of the banking industry will financial inclusion encompass the entire population of the United Kingdom.

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Appendices

Appendix 1 - Industry Interviews

Shaun Spiers – Interview transcript

Andy Williams - Interview transcript

Peter Kelly - Interview transcript

John Bromfield – reply he sent

Appendix 2 - Financially excluded Interviews

Rachel

Kelly

Appendix 3 - Questionnaires

Banking Code Questionnaire

Banking Industry Questionnaire

Appendix 4 - PhD Research Poster for Questionnaires

Appendix 5 - Banking Code

Appendix 1 Industry Interviews (verbatim)

Shaun Spiers

ABCUL

22nd May 2002

1) Social responsibility

Do you think banks have a social responsibility towards society and if so what is it and are they actually fulfilling their obligations?

Yes, banks do have a social responsibility; all companies do have a social responsibility policy. I guess for banks it is to make policy, which makes financial services available to all. However, the corporation has to consider the shareholders that attach profit tags to the business. The percentages of profits, which are actually given to social ends, are relatively small because for banks it is business first.

What do you perceive to be the social responsibility of credit unions?

Credit unions exist for members and in all the business which we conduct we display this ethos. The Credit Union Act means that the loans we offer are better for people. They are better value. This is only one type of social responsibility we display. The 1979 Act means that we are required to educate our member in financial matters, such as in thrift etc...

2) Community Reinvestment Act 1977 – (Voluntary Banking Codes)

Are you familiar with the Community Reinvestment Act 1977 in the United States?

Yes, but only a little.

America's financial industry is regulated by the Community Reinvestment Act 1977 as amended; do you see a role for this kind of regulation within the UK?

In a sense, this a political question. Credit unions would not benefit under this guise of legislation but this is because credit unions are wholly different from the main banking system in the United Kingdom.

The banking industry is currently regulated by voluntary industry regulated codes; do you think that Government legislation should be introduced to regulate the financial sector or are you happy with the financial industry regulating themselves?

I personally believe that the banking industry within the United Kingdom is already well regulated.

3) Social and Financial Exclusion – (alternative delivery channels)

Do you believe that banks have contributed towards social and financial exclusion within the UK and if so how do you think this could be over come?

Banks are the main financial providers and provide millions of financial facilities to lots of people. However, it is illogical to strictly follow the BBA's stance as it creates several problems. Firstly it is my personal premise that financial exclusion can only be helped by better access to finance and what overcomes poverty in the true sense of the word is more money. Financial exclusion is only a small part of the bigger problem of poverty. Secondly the Government only looked into the problems people encounter when accessing a bank account. They ignored the fact that people who are financially excluded cannot save their money. It is this saving gateway which causes more problems for people who are financially excluded. It is the access to savings which is a huge problem.

The introduction of the basic bank account was created to enable those without a bank account to enter into the financial market. What is your organisation's view on the basic bank account with regards to take up and advertising?

ABCUL have no particular view on this.

Personally though I think the basic bank account is welcome but then again it is limited in its uses as it does not have savings or credit facilities. I do not think people will be better off having this account than not having any account.

On the issue of take up it is purely a matter of what you read. The banks' produce figures of take up annually. Mainly, the figures demonstrate that older people do not

take up new accounts such as the basic bank account and younger people would have had an ordinary account before this account had been set up.

The universal bank account is also an account facility to enable those without an account to participate in the financial market. What is your expectation of the Universal Bank account?

I personally think this is a good idea but I am not sure when the scheme is going to start. No one is really. However, there are some problems, namely that the universal banking system is treading on credit union policy. In reality, the Government should let the Post Offices have a working relationship with the credit unions when it comes to this matter.

4) Government Policy

What do you perceive to be the Government policy with regards to the banking industry?

The Government policy over the past couple of years has been piecemeal. In November 1999 the Treasury taskforce conducted PAT14 and the result was that Goodwin persuaded banks that credit unions can reach people who are out of reach, that is financially, from the banks. However six months after this report detailing a closer working relationship between the banks and credit unions i.e other financial providers, the Government announces a huge reduction in the number of post offices. The closures appeared to affect mostly rural and marginalised societies and surprisingly the marginalised Labour seats, where social and financial exclusion was already very apparent. This needs to be clarified especially since this came shortly before the announcement of the Universal bank account which will be delivered via Post Offices.

In this case it demonstrates the bank has a social responsibility to its shareholders and to no-one else. It shows that the regulation from the Government cannot be legitimate.

The Government has suggested that alternative community financial initiatives, such as credit unions, may play a part in combating social and financial exclusion, what role do you see these initiatives playing in society?

I do see a role for these initiatives in society as it may make people look after their money better. The money people borrowed with a credit union would be then

reallocated back into that community and would thus benefit everyone. Incidentally, the social responsibility of credit unions is not just via the application and consent of current accounts but also with the union's stance towards its members. A credit union's volunteers and managers spend a lot more time with its members than a bank ever would.

5) Credit Unions

What reforms do ABCUL want to see with regards to the banking industry?

Credit Unions have been stung by banks with the introduction of the basic bank account but generally ABCUL cannot pass comment on this issue. But I would like to see more research on how credit unions can work more closely with banks to help combat financial exclusion.

What do you think the future holds for the financial industry?

My answer is not for the financial industry generally but for credit unions. The future for credit unions is rather bright as I think they may take off in a spectacular way. There may be difficulties in the short term but the bad stories will be overcome and credit unions will become a beacon for financial inclusion.

Interview Concluded

Peter Kelly – Barclays' Bank

Telephone Interview

Social and Financial Exclusion.

1. According to Professor Elaine Kempson 7% of the United Kingdom's population experience a degree of social and financial exclusion. What is Barclays' stance with regard to this social and financial exclusion?

Elaine Kempson is saying that around 7% of the population is social excluded, and what is the particular question posed at us?

What is Barclays' stance with regard to this social and financial exclusion?

OK, Barclays, if you think more generally at the social exclusion issue first of all, in a sense, the definition is extremely wide, from poverty, crime, homelessness etc. So if you look at social exclusion itself, it is a far bigger issue, I think more of a government issue than a banking issue. But at a higher level with Barclays at a community level, I will come onto financial exclusion in a minute, but you may have picked up from our report (Social Inclusion Report) that part of our being a good corporate citizen 1% of Barclays pre tax profits goes to good causes. So last year, year 2001, the first £33 million went to good causes. But rather than going through all the good causes you can obviously pick up that from the Report itself. That's from the social exclusion perspective. I think from a financial inclusion perspective I mean we do appreciate that we have a role to play and we can make a difference. I think the important thing to understand with regards to financial inclusion strategy is to look at it in terms of 'how can we make some money out of it'. Because, the reasons I say that because it sounds very hard headed to say that, but of course if we can derive a return from our financial inclusion activities then we will naturally do more. Because otherwise if we keep it in the . . ., the best way to look at it is if you had a sort of ruler in front of you and on the left hand side of the ruler was a charitable philanthropy from the bank and on the right hand side of the ruler was the full commercial activity, I would sort of say to you that the financial inclusion policy of Barclays at the moment is somewhere say 2/3 away along to the right. Moving towards the commercial, we never get there, it may prove in

time that we never get full commercial activity, but if we always stayed on the left hand side, saying we are putting charitable money, there is obviously a limit on our charitable pot. And we have got many, many other good causes like supporting the Institute for the Blind, Help the Aged all these other big charitable organisations which we support and also when we are talking about financial inclusion I guess you come onto it later, When we talk about credit unions and other alternative organisations, I mean we have to get a balance between a charitable giving and where is the return for the bank so that I think it really is an important part of our activity. I mean from a financial inclusion perspective, we from the banking industry improve access to financial services from individual business and social exercises particularly in those in under invested communities.

2. Do you believe that banks have contributed towards social and financial exclusion within the United Kingdom and if so, how do you think this could be overcome?

A very good question. A very good question. First of all, I don't feel that banks are the cause of it, I am thinking of financial exclusion rather than social exclusion. I think social exclusion is such a wide issue that I think it really is an issue for the government. Talking about financial exclusion you are quite right that there are certain important issues. A move away from the cash economy if we go back fifteen to twenty years, probably a little bit further, many large businesses paid their staff in cash. But of course as the financial services industry become more sophisticated and one thing to bear in mind and I haven't got the stats here but I could probably find them if you wanted them, the number of transactions that go through ATM's.

I have actually got some information on those transactions from APACS.

It is those, Clare, that if ATM's had never been developed how would banks deal with the amount of cash needed in society. And of course if you look at students and the like, you are a person that is very comfortable using your cash machine card.

Yes, Yes I am.

And probably rarely go into a bank?

Yes, that it quite right.

I am making an assumption here and therefore, OK, we are not all comfortable with this. But by contrasting yourself with a more elderly person they rarely use ATM's. So I think, we have got a fundamental change in the market and in terms of how the industry has developed and how effectively we can support the transactions going on. And there are some people that haven't kept pace with that. So I think that, one, I am not going to sit here and say to you that banks have not contributed to it but I think there are a lot of factors that need to be taken into account, such as other regulations, such as money laundering regulations, and that banks and bank managers are liable if they are seen to be supporting money laundering or terrorist activities and such like. So there are various regulations for banks on one hand and on the other the banks are being asked to help those less fortunate. It is very very difficult if you put yourself as a person in a bank with those things taken into account and on the one hand you are being told that if you get it wrong you could go to jail and yet oh by the way we want to help people open accounts. It is quite a dilemma there. Although we fully understand the government's desire to help people with financial difficulties, it is quite hard to fulfil it.

3. There have been many branch closures made by the majority of high street banks over the past couple of years, what do you perceive to be the reasons behind these branch closures?

Well I think the thing about this is, the first thing I will say is that customers close branches and not banks. So in other words what I am trying to say is that along with a franchise that banks have if you have an outlet that is not profitable then you have got to seriously look at the economics behind keeping that branch open. And so yet this is the reality if the branch is significantly loosing money and not being used by people that is the reasons behind it. It is a business decision.

4. What is Barclays' policy with regard to branch closures?

I've just told you obviously that there is an economic importance how you look at branches but if you, in term of where we stand at the moment it is important for me to say that we are committed to an extensive branch network and that is an important part of the services we provide our customers and we have given the commitment not to

withdraw representation when we are the last branch of financial services within a town. So OK I have given you the economic reasons from the outset, but we have actually made a commitment that if we are the last bank in town we will not withdraw. That is our policy.

Barclays have also got an initiative with the Post Offices haven't you?

We have, yes, you are absolutely right, you are ahead of me now. We have had an initiative now for about two years with the post offices where our customers can pay in or draw out cash. We are also taking part in a social inclusion pilot you might have seen that in the social inclusion report.

Community Reinvestment Act 1977

Are you able to answer any questions with regards to the United States federal legislation of the Community Reinvestment Act 1977?

1. America's financial industry is regulated by the CRA 1977; do you see a role for this kind of regulation within the United Kingdom?

I was in America last year for a series of talks on the CRA with a number of big banks. A very good bank that is a social bank is the Union Bank of California, also JP Morgan Chase, the person to contact there is Mark Wilks (???) and also the Shaw Bank in Chicago. They have a community reinvestment scheme. They have all got Websites.

No I don't. I think what you have to do is to look back to 1977 and why was the CRA passed. The CRA was passed due to social and consumer pressure. At the time in America the conditions I would say are entirely different to what is in the U.K. at the moment. First of all there were quite serious civil rights problems there was also very limited financial services available for social housing. In the U.K. there is absolutely immense support for social housing. There has been much work done by the Housing Association and so again Barclays as it states in the Report supports this. Barclays give over a £1 billion of lending. I am not sure what all the bank's figure is but if you had the BBA Report on Financial Inclusion it will give you the figures and the third aspect I would say is that when you talk to banks such as JP Morgan Chase particularly the large banks, talk to them about small business lending they will say to you that they

don't do any lending under a \$100,000. Now if you go into a Barclays or a Lloyds or a HSBC, you can get a £1000 overdraft. Now yet they are saying in America anything under a \$100,000 they are not interested in. So you can see that there were significant differences. Also in term of the situation, I mean also going back to the CRA it is something like three pages of legislation with about a three-hundred page rule book. So the lawyers are making millions. And the cost to the banking industry is quite significant. So I am not a believer in an over regulated environment. I don't think is a very healthy environment because it actually inhibits competition. So that's where we are there.

As far as the U.K. is concerned the conditions are quite different from the States in 1977. But also across the six largest U.K. banks there is currently over £2 billion of lending to small businesses in the 5 % of the...in the UK, so I think the debate in the UK.. Have you come across the Social Investment Taskforce.

Yes, I have.

Good, so you will know that they have made five key recommendations one of which was that banks should voluntarily disclose their lending activities in under-deprived areas and if not the government should consider a legislative procedure. What is in effect what you are talking about. Now I guess you will know, being a Barclays customer, having read the social report that we are currently the only bank in the UK. apart from the Co-op which followed our lead, we are the only bank in the U.K. to disclose lending and you will see that on page 6/7 of the Report. And we have actually gone one step forward on the recommendation by actually including our personal lending. So those tables you have seen in the Report they look at the five most deprived postcodes in the U.K. And it states what Barclays is doing in those areas. And you will see on the business pages we are lending about £270 million. One of the arguments for the CRA in the States is that the banks were unhappy to lend to people in these deprived areas. However they were willing to take deposits from these people but not to lend to them and that is why it is called reinvestment. What my argument is and what Barclays is trying to prove is that, by being the only that has done it so far, we are saying hey, we have got nothing to hide, here's our data. Because I think one of the other suspicions within policy circles is that there is a big black hole that banks are not lending due to postcodes. Well I can say quite categorically that with regards to

Barclays when we look at business lending to small business the one thing we don't look at is location. What we do take into account is the business plan, has the entrepreneur got experience, is the business viable? And if it is necessary, whether there is any security, all those issues and what is their take record like before but the one thing we do not do is say where is the location as we do not lend to that particular postcode. That doesn't come into it.

Now obviously at a public policy level there are those hats that have yet to fully accept that fact. And that is why in some areas there is a poor lending in that area. In a way at the moment from my perspective it is a way that Barclays compete with the other banks on a social responsible basis. We are looking at other ways to use this data as well. From a selfish point of view since we have published this report it is important to head up the financial inclusion policy of Barclays, can we start to understand how valuable those customers are to Barclays? Are these customers more valuable, less valuable but the average...across the UK? As you start to understand this more then we can develop polices that target our consumers better and inform them better. Obviously whether there is any commercial benefit from these people.

2. The United Kingdom's banking industry is currently regulated by voluntary industry regulatory codes; do you consider these voluntary codes to provide adequate regulation and could anything further be obtained from the implementation of legislative regulation?

Well I am not in favour of legislation. I think as far as the banking code is concerned it is being re-written at the moment and is on the third draft at the moment and even though it is a voluntary code all the banks subscribe to it. Organisations such as the banking standards association (something like that as I can't remember the correct name) what I am trying to say is that we are working with, work closely with consumer bodies and with government to develop the banking code further and organisation like the Citizens Advice Bureau, for social responsible lending. I think the codes are doing enough.

3. How does Barclays perceive these voluntary codes and how does Barclays' ensure that it complies with the Banking Code in particular?

We have to be fully aware of the code and make sure we implement it at every level of the organisation and of course we are politically shopped by the Banking Standards Association but they actually come in and shop in the bank and things like that. And of course we also have our own auditors, who will make a record of what we are doing. All I would say is that we take it extremely seriously.

Government Policy

1. What do you perceive to be the Government policy with regards to the regulation of the banking industry?

You are really going a little bit further than I can actually help you there. Just generally over- regulation stifles competition.

Interview concluded

Andy Williams

Bournemouth Credit Union

Interview

1. Financial exclusion is an ever-increasing problem. As you are most likely aware financial exclusion can constitute anything from being the refusal of a financial product to total non-participation within the financial market. What do you think makes people financially excluded?

I think there are different things for different people. There's still a general fear or mistrust of financial institutions – maybe the older generation still want their pensions in cash or don't trust the banks and don't want to put it anywhere else. But also, there are a growing number of people it seems that the banks really don't want because at the end of the day they are not profitable. So I think it's a number of things for different people which are dealt with in a bad way. People find it difficult to get financial services. And then there are people who are on benefits or people banks' don't want much to do with and then there is the older generation who exclude themselves.

2. Do you think there is a process of exclusion and if so what do you think that process is? (i.e. how does a person become financially excluded?)

I don't think you could call it a process. Certainly when people do get into financial difficulties most of the major financial institutions they are not very sympathetic to a person's story. They are only interested in getting their money back so it's, I know it is all mechanized now. You fall behind, letters are generated automatically. If you don't respond to them its court summons and generally you find yourself with a county court judgment. That excludes you from a lot of things. You are left with high interest from those that advertise on the TV that give credit to those with CCJ's. So it's not exclusion but people get pushed into it – expensive financial services.

3. What do you think is needed to help combat financial exclusion? (i.e. what solution or recommendation would you like to see in place, even if they are just hypothetical?)

I think credit unions can be one of the solutions. I think we treat people as people rather than customers or someone to make money out of. I think there's got to be a range of different services in place. I think a lot of people can play a lot of different roles in organisations who can help/serve exclusion generally, whether it be local authorities, looking at things like insurance, tenants, Housing Association as well. I think there needs to be a range of products people have access to.

4. Do you believe that UK society in general is financially educated to an appropriate degree for a modern western society?

I don't think people are at all. I think people generally listen to what we are told by our banks. I don't think people feel they need independent advice.

5. Do you think that financial education could play a role in financial inclusion?

I think it could do, yeah. If people were taught at school about banks and things like that. Yeah, I think it could help financial exclusion.

6. What role do you believe credit unions could play in combating financial exclusion and any lack of financial education?

I think firstly I want to say is that we try to put people first whilst we need to generate income to pay our expenses. The reason we set up the CU here in Dorset is not just to set up a financial institution. Primarily, we see it as serving members of the community. Firstly we allow people access to basic savings, basic banking facilities, low cost loans, people who can't get those services elsewhere. Particularly now, with the money laundering regulations, which the banks are really cracking down on. If you haven't got your passport, driving license or birth certificate you can't get the account. CU has a dispensation from the FSA that we are allowed to accept letters from a Doctor or Housing or evidence that the people are who they say they are. That gives people access to basic banking facilities and also the loan facilities. People are generally amazed when we show them how little they have to pay back in interest

compared to, certainly to the high interest loans. So that sort of thing. But also we promote other services as well, so we work alongside an insurance company to promote insurance products. A lot of people still don't have things like home insurance. So we give them access to those things as well. And hopefully a lot of people who have got involved with the CU know how it works, have gone from being a member to being a volunteer to then serving on the board of directors. So people are running our financial institutions. And that give people confidence.

Q. Do you find it unhelpful that the majority of people, youngsters included, do not know what a credit union is?

In this area certainly it is not just younger people. Credit unions are not well known in the South of England at all. We get a lot of people, because we are based at Boscombe, Bournemouth, who live in the area anyway, we get people coming in who are Irish or moved down from Scotland. Who walk straight in and say "wow a CU that's credit, I'm so glad we've got a credit union in Bournemouth because I used to be a member in Dublin or Glasgow". If you think about down here, you're right, younger people are unaware of such a thing as a CU let alone what it does, so one of our major tasks is to promote what we do and what we are. The name doesn't help. People don't like credit and they don't like unions. But I think when people find out about what it is some people are a bit weary – "because its run by volunteers, do they know what they are doing, will they run off with our money", or things like that, but I think and hope we provide a good service.

7. Do you think that financial exclusion will ever be totally eradicated or is this an impossibility. Why?

I would say that it is most likely an impossibility. Tony Benn years ago talked about nationalising the banks. I think whilst most of the financial institutions are out to make profits then there will always be a default that fall by the way-side. Financial exclusion will never be eradicated.

8. Do you believe that the main high street banks are doing enough to reduce financial exclusion and to improve financial education?

No, I mean personally I think (and this isn't the view of the CU but my personal view), I think the main high street banks have only got involved with the basic bank

account that they offer basically because they've been forced to. I think left to their own devices I don't think they would have opened the accounts and I don't think they are interested in financial exclusion. They are interested or seemingly so; most of the adverts now, the majority of sales from the banks are for people earning more than £1000 per month. That's who they want as customers because that's where they are going to make the sales of other products. I think they pay lip service to financial exclusion.

9. What do you think that the banks should be doing to improve both financial exclusion and financial education?

I think they could. They make enough money and should be able to offer basic services to people. I think the problem is the accessibility of credit. And that it is fairly easy to get into large amounts of debt. I'm someone who does earn a reasonable wage and I get letters every day asking me if I want to get into even more debt that I already am. Because I've got a mortgage and credit cards you get offered all this on top. I think that's – its sort of irresponsible because these financial institutions don't take notice of people's circumstances, can they pay it back? I'm not trying, whilst we as an institutions give loans to generate income to pay for our costs, we are not out there to sell loans to people who can't pay them off which the banks are.

10. Do you think banks are part of the problem when it comes to financial exclusion?
Do they play a part in creating financial exclusion?

Question 10 to 14 did not answer did not know enough to comment upon.

11. Are you aware of the Banking Code? If so what do you think of it, do you believe that it is effective in helping those experiencing financial exclusion?

12. Do you think that the majority of bank customers are aware of the banking code?

13. Do you think that banks are fulfilling their social obligations in relation to financial exclusion?

14. Do you consider that the banking industry is regulated effectively in relation to financially excluded customer or customers who experience financial difficulties?

15. Do you think that the Banking Industry would be better regulated by legislation rather than voluntary codes of conduct?

Probably yes I think voluntary codes of conduct are sometimes, when you are dealing with such big organisations – closer to multi nationals – it's very easy to put the voluntary code aside when they get in the way of business.

16. What is your opinion of the present day banking industry?

I do think it's become far too impersonal; everything now is done by contacting you or by Internet banking. Personally as I earn a good salary I have a personal customer adviser and I get a letter every two months to say that your customer adviser is now such and such a person because the other person has left. So now you don't get any continuity, no personal contact. You don't get to know what we try to do here which is to try to get to know our members so that we can learn something from them. If a customer takes out the last bit of money from their account we see if there is anything wrong. We offer services, whereas banks these days are not interested in that, they're interested in getting you out the door as quick as possible. They don't like you coming in the door! They much rather you phone them or e-mailed them on the Internet. And I think it is because it is a multi-national company, interested in profits, banks try to poach each other's customers. They're not that interested in the people. I think it's changed a lot. I don't think it will ever go back to the old way of bank managers knowing customers. In a lot of circumstances, a lot of banks used to have in Bournemouth about ten branches in the town, now they have two. So it's become less personal more just about numbers.

Interview Concluded

John Bromfield

Interview Questions & Answers

1. The banking industry has changed over the past couple of decades with the advances in technology. What do you consider to be the role of the banking industry in today's modern society?

Key aspects of the industry's role include:

- Maintenance of confidence in the UK's banking sector;
- Facilitation of quality/ethical business;
- Provision of liquidity for the economy.

2. What do you consider to be the main business objectives of the high street banks?

There seem to be two key perspectives here. First, looking at it from a shareholder perspective, the business objectives revolve around return on capital, profitability, market share etc. Second, from a wider stakeholder perspective, objectives include access by target customers to competitive and innovative products.

3. What do you think are the main ethical objectives of the banking industry?

Compliance with necessary financial services regulatory requirements, including

- Anti-money laundering;
- Capital adequacy;
- Customer treatment – 'fairness';
- Conduct of business requirements.

Proper disclosure/accounting for stakeholders; and

Ethical investment opportunities and employee care.

4. In recent years there has been an increase in the importance of corporate social responsibility within all business and the banking industry is no exception. What do you believe are the corporate social responsibilities the banking industry should be concerned with?

As above

5. What role do you believe corporate social responsibility currently takes within the banking industry?

Top tier – significant and increasing

Smaller banks – lower profile; smaller opportunities but growing

6. The notion of corporate social responsibility is now a governmental issue with the introduction of a Corporate Social Responsibility minister but how seriously do you think the government is taking Corporate Social Responsibility in relation to the banking industry?

UK – based on principles & influence; US – framed around rules & regulations.

Growing importance from an international perspective; potentially a competitive disadvantage and a reputational issue

7. March 2003 brought with it the revised Banking Code, what do you think of its new structure and format? Has it gone far enough to regulate the industry?

The new Banking Code (2003) structure and format is not dissimilar to its previous structure and format in that it still comprises of a set of key commitments, a set of standards for subscribing banks and building societies etc., culminating in how a customer can obtain help and a Glossary of terms.

The Banking Code now reflects a reduction in the key commitments from 10 to 4 whilst not actually omitting any area covered by the previous 10 commitments, and adopts more customer focused headings as an introduction to each area of standards.

The Banking Code is monitored by the Banking Code Standards Board whose role is to ensure subscribers maintain the minimum standards outlined in the Code.

The BCSB have come a long way in regulating the industry over the last 3 years but there is always room to further improve standards for customers. More recently we have seen the launch of the Business Banking Code, also regulated by BCSB.

8. What do you understand to be the purpose and aims of the Banking Code and generally speaking how effective do you believe it to be at achieving these aims?

The purpose and aim of the Banking Code is to set out good standards of banking practice, which should be followed as a minimum by Banks and Building Societies subscribing to it, whilst allowing competition and market process to operate to encourage innovation and higher standards of banking processes for the benefit of customers.

How effective the Code has been in achieving these aims can only be measured in terms of the level of improvement in standards and market practices, which are directly as a result of the Code, and the customers'/subscribers' perception of this. I would conclude BCSB is well on its way to achieving its aims.

9. Section 15-17 of the Banking Code deal with 'financial problems', do you consider that these sections are sufficient given that it is reported by Kempson et al (1998) that 7% of the UK population do not have any financial products?

Section 15-17 of the Banking Code outlines standards that should be followed by banks as a minimum whilst dealing with their customers who are experiencing financial difficulties (e.g. in respect of repaying loans). They do not apply to people who do not have financial products.

10. What do you consider to be the main causes of financial exclusion?

There are a number of reasons for financial exclusion in the UK. These include:

1. Mistrust of banks, insurance and credit companies and a corresponding level of disengagement from financial services.
2. Self-employed people having encountered difficulties in dealing with certain banks.
3. The lack of availability of mortgages that accommodate muslims in buying homes without breaking the prohibition against paying interest (although new products are being designed to address this issue).

11. My research thus far has indicated that many bank customers are unaware of the Banking Code. Do you think this is acceptable and what do you think the banks should do to promote the Banking Code?

I agree that many banking customers are unaware of the Banking Code but those numbers have decreased over the last 3 years. BCSB have gone to considerable lengths in promoting the existence of the code, through the availability of the code on request from subscribers and more recently the issuance of a Banking Code flyer to all new account holders, highlighting the Code's existence and what it means for the consumer. This is the line with the similar requirement within the mortgage sector for industry participants to provide customers with a leaflet at the outset of the relationship.

12. Do you believe that the Financial Services Authority should help promote financial education in relation to the Banking Code and financial exclusion?

The FSA's main aims are maintaining confidence in the UK financial system, promoting public understanding of the financial system, securing the right degree of protection for consumers, as well as reducing financial crime – with this in mind the FSA are promoting financial education which would cover (at least implicitly) Banking Code and financial exclusion.

13. The Banking Code does not cover 'financial exclusion' and as such the banking industry is not regulated in relation to this. Do you think that the banking industry should be regulated to help combat financial exclusion?

Although the Banking Code does not cover financial exclusion specifically, the launch of the Basic Account addresses the need for customers, who might have otherwise been excluded from obtaining a current account, to obtain an account which enables employers to pay income directly into the account and pay direct debits, withdraw cash at cash machines and withdraw the last penny without closing the account.

14. Do you think the Banking Code is an effective regulatory mechanism given its voluntary basis? Would a mandatory system of regulation be more effective particularly in relation to financial exclusion?

The Banking Code has proved to be an effective regulatory mechanism despite its voluntary basis; non-subscribers are relatively few – the BCSB's most recent annual report lists 11 non-subscribing organisations (vs approx 140 subscribers,

ignoring subscriber's subsidiary companies). However key regulatory developments in Europe, for example the Distance Marketing Directive may result in Treasury considering statutory regulation (by the FSA) in respect of the distant selling of retail banking products, giving rise to some level of overlap with BCSB.

Appendix 2 Financially Excluded Interviews

Rachel Interview

9/06/03

1. At the moment you are unemployed and have basic bank account, and a store card. Can I ask you how you manage your finances daily? Perhaps by giving me an example of an ordinary day where you use money and in what form (i.e. cash).

I have a current account, a store card and a loan.

Can I ask you how you manage your finances daily?

Not very well, ha ha.

So say if you went to the shops would you normally use cash or do you have a switch card?

I have a solo card but Umm I use cash if I have it on me. But generally I would use the solo card if I was doing my week's shop which is not very often. I will use my solo for bigger purchases of over £20 or something.

Do you find it useful having that card?

Yes.

Do you prefer using cash or your card?

I suppose cash because I lose track I forget what I have paid for. But yes I prefer generally to use cash, so I don't lose track of what I have bought.

2. How do you manage to pay bills? Can you talk me through it? Do you use cash or cheque?

Bills generally come out in cash or direct debit.

Is that a facility that you generally use on your solo account?

Yes, but I don't have any going out at the moment.

But if you did have bills to pay you would like that opportunity to pay by direct debit?

Yes.

Have you ever used a cash checking facility other than the banks?

No.

3. You stated that you are not aware of the Banking Code and so are not aware that banks should behave in a proper manner when they deal with you especially if you are experiencing financial problems. Do you feel in light of this that your bank has behaved correctly?

I know that it exists and I have read it once.

OK did you find it informative to your needs, did it meet your needs?

I really can't remember.

4. Have you ever visited your bank for any advice? Can you describe the meetings you have had with the bank for example did they arrange for you to go in; did you just drop in to them; did they take you to a private room to discuss your matters; who was the person you were talking to, what were they like to you?

I started off on the telephone but I found that they weren't very helpful.

Why weren't they helpful?

I don't know they didn't really tend to do anything. Like I had basically gone over drawn by about £30 and I get paid weekly and I was asking if I could scatter the

payments and I have done that before and they said no way no how. I went into the branch and tried to sort it all out and now I pay £30 a month or something like that. In the branch generally I found the staff OK and sort of helpful compared to the call centre.

So you found the branch staff pleasant and they treated you well?

Yeah I don't know. Sometimes I get the impression that its because I am young. So they don't treat you differently than they would someone older and with more experience. But at the branch I feel that they treat me like any other customer.

When you spoke to this lady at the branch did you go to a private room or was it over the counter advice?

It was over the counter but I know that if I wanted a private room I could have had one.

5. What do you feel has cause or created the financial exclusion that you said you have experienced?

My spending as soon as I hit eighteen I got an overdraft, a contract phone and a store card. I didn't really see them as loans. The availability of credit, a lot of the time it is too easy to get it. Given that I have all this debt I know that there is one particular group that would still give me a store card if I asked for one.

How do you feel about that? Do you think that is right or wrong?

Umm If I hadn't learnt my lesson as it were already then definitely I would see it was a good thing as I could go and get my clothes. But because I have been through it all and because I am now not living at home I've got to manage my own finances and I have to pay my bills or anything like that because if I don't no-one will, so I don't think credit should be available to me.

6. When did you first get an account – was it easy?

When I started working at sixteen.

And Store Cards?

As soon as I could at eighteen.

7. When you asked to rate your past and current relationship and experiences with banks you rated them on a 1-5 scale with one being very good and 5 being very bad, as 3 OK. Can you tell me why?

Its nothing they've done. I think it's because I have got myself into this situation where I have not been able to manage my money. I think It's because when I go overdrawn by 3p I am charged £25 and I speak to them over the phone, and I do that a lot they say they can't stop the charges.

When you speak to them over the phone they are not helpful at all?

They don't give you, the problem is, is that they are sticking to the rules they have been told, they haven't got flexibility at all. I think they should be given the same rules as it were as the ones in the branch. The branch gives you more flexibility.

So face to face contact is better for you?

Yes face to face contact is a lot more helpful. So yes it is when I have gone overdrawn and I am on a solo card and you are not meant to be able to go over drawn on that account.

But you still go overdrawn with a solo account?

Yes which is frustrating.

So the bank has told you that you can't go overdrawn on a solo account, yet you have found in practice that you can.

Yes.

And then they charge you?

Yes.

8. You stated that you have been refused some financial service products and that you felt “frustrated”, would you be able to go into more detail about how you felt when you were refused these products especially the current account and in what manner did the bank tell you that you had been refused?

They were very matter of fact about it they couldn't do anything about it because it is your own fault as well. It's hard to say.... It's hard to see people better off than you and they are obviously allowed the credit but you aren't. So I know I can't get that.

9. You rated you present financial situation as “OK” and I was hoping that you would tell me what you think about your situation and what do you want your bank to do about helping you make your situation better?

Yes it manageable at the moment.

OK if it's manageable has that been achieve on your own initiative or has the bank helped you in any way?

They haven't now. They have scattered the overdraft payments.

Could they have done more for you?

I don't know.

What about more products designed to meet your needs? Perhaps lower interest rates on your overdraft?

Umm no I think there are probably more products that could make it easier.

You wouldn't want them?

I think anything that is designed to help you, help you manage your money better is good, I would want it.

Why do you think you didn't manage your finances in such a way that you wouldn't get into debt?

I always try... I've got a lot of friends who get paid an awful lot and I mean an awful lot about £20K, so they are out a lot. I think that I obviously want that too. That's the group that I socialise in. That's the group that I am in and that is how I want to live and I do generally live like that and that's getting me into debt. I'm not the sort of person who turns down a good night out.

Did you get financial education at school such as money management and budgets?

No I didn't get anything at school. I did a business course at college and that didn't cover it.

Nothing at primary or secondary?

No I just learnt when I started working. I was required to have a bank account.

Was that to pay your wages into?

Yes?

Would you think that financial education is a good idea for young people in primary and secondary to learn how to manage their financial affairs?

Yes definitely. The number of people in debt is ridiculous I think that if there was education in schools to show how much you can spend and how much you could save from your wages as a guideline would be a good thing. Ma be I am wrong but that is my general opinion.

10. As previously discussed banks are regulated by the Banking Code which is an industry regulated voluntary code – meaning that it is the banking industry which makes up the rules that govern the banks; it is not governmentally regulated and that not all banks have to abide by the code. How do you feel about this? Do you think that this is fair?

Umm I think that it would be probably better if it was regulated by some one outside as nearly everyone has bank account or use a bank in some shape or form. The idea that it is industry regulated is not necessarily a good thing.

Would you know which banks subscribe to the Banking Code?

No.

11. You stated that you believed the banking industry is not doing enough for help people who are financially excluded. Would you be able to go into some more detail here? What would you like to be done? What do you think would help?

Umm – I think things like I want to be able to manage my finances and consolidate all my debts and the bank will not let me. You can get a loan to only pay off one loan a month but I have already asked about that and because my credit is so bad I can't get that. If I had that I would be able to manage my finances a lot better if they gave that to me. I think they could offer that to people who aren't in a situation where they have so many debts going out that they can't manage or don't know which one to pay or at the end of the day they have no money left whatsoever. If they were to allow me to do this that would be a lot more helpful to me. But they don't.

12. Have you ever heard of a credit union? (Explain what a credit union is) If yes would you consider ever using a credit union? Why? Explain – may go off on a tangent here.

No. Yes. I would be interested in finding out more in them.

Kelly Interview

9/6/03

1. At the moment you are unemployed and have current account, a store card, a credit card, a personal loan and an overdraft can I ask you how you manage your finances daily? Perhaps by giving me an example of an ordinary day where you use money and in what from (i.e. cash or credit card).

I use cash because I get a giro every two weeks apart from when I pay things into the bank then I have a little paying in book.

So everything is done in a cash environment.

Yeah.

How do you feel about that?

Getting used to it, I'm used to having my card though where I was spending spending money I don't have. It's so much easier to give them a card and sign than it is to sort out your pennies and having to find where you put your money and when your money is coming in.

2. How do you manage to pay bills? Can you talk me through it (if using a cheque cashing service) Have you ever used a cheque cashing service? How do you feel about the charges you have to pay for this service? Are these charges reasonable and good value for money?

I use cash. No I have never used one.

3. You stated that your bank have sent you a copy of the Banking Code but that you did not find it informative to your needs can you say how it was not informative?

Yes they sent me a copy but it was complete babble to me.

You didn't understand it?

Not really. It was just one of them thing that you look at and think I will have a quick read of that and you don't pay much attention to it because it is just something that they shove in with the rest of the stuff that they send you. Like the loan things they send you, credit card things and all that. So it's in that pile and I don't read it.

4. You stated that you have gone to your bank for advice on several matters, how do you feel they treated you? Can you describe the meetings you have had with the bank for example did they arrange for you to go in; did you just drop in to them; did they take you to a private room to discuss your matters; who was the person you were talking to, what were they like to you?

They were completely stupid they were...I have a current account and they said that I owed them so much money and they wouldn't actually freeze my account to let me pay it off by a paying in book or anything like that because I still have a loan coming out. So I had to sort out my loan and until I sorted it out the bank wouldn't help me, until I got my insurance sorted out. They kept billing me and billing me until I sorted it out but that was something like an extra £100 that they put on it. I think they should have been able to freeze it as soon as I went down there.

So did you have to sort this all out yourself without any help from the bank?

Yes. They were ridiculous they hardly helped at all.

How do you feel they treated you?

I just think that they take you into an office sit you down and did nothing whatsoever. I've been on the phone to god knows how many people over the last couple of months but the banks said, "as we said we can't help you". She goes "we

can't stop your direct debits coming out and I phoned up the direct debits and they said "yes we can" So I know everything she told me was a lie. She was a bit rude as well.

Why was she rude?

She just didn't she didn't know what to say or I don't think she had an idea what she was supposed to be doing or she had no advice to give apart from "can't you find £30 from somewhere?"

How did you feel about that?

I am unemployed, I only get a certain amount of money which I also have other debts coming out I am also in my rent sort of quite a lot and she didn't understand whatsoever. She was a business woman in a suit, never had money problems, well she may have but not as bad as mine I wouldn't have said. And I didn't like her at all.

Was she an ordinary bank clerk behind the counter or was she a special debt adviser?

NO she was a lady from behind the window. I was actually supposed to be seeing the bank manager but he wasn't in, but I had already booked an appointment. So....

How did you feel about that?

I felt that I was passed onto someone who didn't know who they were talking about. It's pretty stupid really because at the end of the day it's as much their money sort of thing as mine, so I thought yeah they will want to help me sort it out rather than getting another bank account.

Did you complain?

No I haven't. I wanted to get it sorted out as quickly as possible and leave that bank.

Would you know how to complain?

No.

The Banking Code does deal with the procedures of complaints.

Oh.

5. What do you feel has cause or created the financial exclusion that you said you have experienced?

Not totally sure but that fact that if you have money they will give you more money. But if you are having financial difficulties they don't want to help you because they think that you won't be able to pay it back. But it takes money to make money and that's why I feel excluded. When I had a job and when I had money they gave me more money and I was only eighteen when I walked into that bank. I got a loan and they said that I needed a credit card. So I got a credit card with a £1000 overdraft and then had my loan as well. They don't check up on you. I said I was going to do this and that with my loan but I didn't do anything with it apart from drink a lot. I feel that maybe they should have, sort of set it out a wee bit for you. So if you say you are going to do stuff with it then they should check up on you. I know that they shouldn't have to. At eighteen I don't think you should be able to get a loan unless it is for education.

Did they give you any money advice at all when you went in at eighteen?

No – just that I needed a credit card first.

When you were at school, college did you get any financial education?

No, none whatsoever.

What do you think about young people receiving financial education whilst at school?

Yes definitely.

Do you think that would be better in primary or secondary or both?

Umm secondary is probably a bit late, no-one really pays attention at secondary these days.

6. When did you first notice you were experiencing financial exclusion?

Probably about two years ago.

So did the bank contact you between you opening the bank account at eighteen and this point?

Not really, because I had the loan and the credit cards. I used to get letters now and again telling me how much I owed. But they never phoned me. They phone me all the time now to check up that I am paying. But they never really...I never remember getting that much mail.

So do you feel that they didn't really take notice of you until it had got into this state?

Yes.

How do you feel about that?

Back then I didn't really care. I was young and wanted to go out all the time. Now I feel that it has put me in the position where my future finances and credit and all that are affected. I will never have good credit again so I feel that its messed up for the future for me.

Do you feel that bank is partly responsible or was it you?

Yeah, the bank to a certain extent.

7. When you asked to rate your past and current relationship and experiences with banks you rated them on a 1-5 scale with one being very good and 5 being very bad, as 5 very poor. Can you tell me why?

They are not very helpful and now I have money problems and they still gave me an overdraft.

8. When you were asked if the banks were helpful to your needs when you experienced financial exclusion you said that they were “not very helpful”, can you tell me why and what they didn’t do to help you?

She just didn’t understand at all. She didn’t have anything to say that was useful or informative whatsoever.

What do you think she thought of your situation?

She was just “I can’t help you”. “There’s nothing I can do, you have to help your self.”

Did you expect that when you went to the bank for advice?

No I thought that she would help me, that she would write something down, ring around for me, even to get someone else to talk to me or ask someone else if she didn’t know, you know someone from the B.L.S. debts which is apart of Lloyds bank. She wouldn’t even make a phone call to them so I had to do it when I got home.

So again the bank put the onus on your?

Yes.

9. You stated that you have been refused some financial service products and that you felt “angry, demoralised and victimised”, would you be able to expand on these feelings when you were refused these products and in what manner did the bank tell you that you had been refused?

I want to one day pay off my credit card, by loan and my current account and have one outgoing every month and they gave me no help whatsoever with this. I can't get this loan. This wouldn't just help me, it would help them. They wouldn't want to do it. They said they weren't allowed to do it. They said because I am in so much debt they are not allowed to do it, they can't help me at all. It's one of them things. You mess yourself up, you go and sort it out. Nothing to do with us.

10. You rated your present financial situation as “very bad” and I was hoping that you would tell me why you think your situation is so bad and what do you want you think your bank could do to help you?

Because I am unemployed. It has got better in the last couple of weeks. I have got my paying in books and my loan is getting done by the insurance, my loan and credit card and current account is all being done by my paying in book. Which is good but I know as soon as I get a job all them things go straight back up to quite a lot of money. My rent goes up when I get a job so it's a bit like that at the moment.

11. As you already know banks are regulated by an industry regulated voluntary code – meaning that it is the banking industry which makes up the rules that govern the banks and not the government. As such it is not governmentally regulated. Also not all banks have to abide by the code because it is voluntary. How do you feel about this? Do you think this is fair?

I think that's wrong. They are only out for themselves. At the end of the day they will do what they want to do. I think they need someone outside, an outside look really because....other people need a look in.

12. You stated that you believed the banking industry is not doing enough for help people who are financially excluded. Are you able to go into some more detail here?

More advice, to have someone in the bank to talk to people openly about their problems and for them to help you there and then instead of sending them away and for them to do it on their own.

13. You also stated that you thought banks should design more products suitable to your needs – what would suit your needs? What are your needs?

I am completely fed up with banks.

What if there were products designed to help you?

I would have to read it all through very very carefully. I don't really trust the bank no more.

14. Have you ever heard of a credit union? (Explain what a credit union is) If yes would you consider ever using a credit union? Why? Explain – may go off on a tangent here.

No I've never heard of a credit union before. Yes I would want to know more. It sounds like something I would want my bank to do.

Appendix 3 Questionnaires

Questionnaire Part One

<p>If you require any more space for your answers then please use the sheet provided.</p> <p>1. Age Under 20 years 21-30 31-40 41-50 51-60 61-70 70+</p> <p>2. Gender Male Female</p> <p>3. Ethnicity Please state </p> <p>4. Place of Domicile </p> <p>Please state first part of your postcode </p> <p>5. Occupation or previous occupation if unemployed or retired </p> <p>6. Please specify by ticking the box which category you fall into. Full Time Part Time Unemployed Voluntarily unemployed Student Retired Other please state </p>	<p>8. Please specify, by ticking the box or boxes, whether you have any of these financial service products. Current Account Basic Bank Account Savings and Deposit Account (including ISA) Post Office Account Home Insurance Personal Loans and Overdrafts Store Cards Credit Cards Life Insurance Other please specify </p> <p>9. Which of the following banks do you bank with (if more than one please specify). Barclays National Westminster Royal Bank of Scotland Lloyds TSB HSBC Halifax Abbey National Co-operative Credit Unions Building Society Other please specify </p> <p>10. Why did you choose that bank or banks? Reputation Special Offer Convenience Other Please specify </p> <p>11. Are you aware of the Banking Code of Conduct?</p>
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<p>7. How would you describe your parental family background?</p> <p>High Income</p> <p>Moderate Income</p> <p>Low Income</p>	<p>Yes</p> <p>No – please go to Q. 16</p>
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<p>12. Have you ever received a copy of this code from your bank? Yes No Don't know</p> <p>13. Why did you receive and or use the Banking Code? (tick all that apply) Bank just offered the leaflet to me Advice on choosing financial products Advice on financial difficulties Advice on Interest rates Advice on bank charges Advice on changing your bank Advice on the terms and conditions of your account Advice on running your account Advice on borrowing money Advice on protecting your account Other please specify </p> <p>14. Have you read the banking code? Yes No please go to Q. 16</p> <p>15. Did you find the information inside the code informative to your particular needs? Yes – please specify why No – please specify why </p>	<p>16. Have you ever gone to your bank for any of the following? (tick all that apply) Advice on choosing financial products Advice on financial difficulties Advice on Interest rates Advice on bank charges Advice on changing your bank Advice on the terms and conditions of your account Advice on running your account Advice on borrowing money Advice on protecting your account Any other reasons why? Please specify </p> <p>17. Have you ever experienced financial difficulties? Yes No</p> <p>18. Do you feel you have experienced financial exclusion? (been refused any financial services or products) Yes No</p> <p>19. How do you rate your past experiences with banks? Very Good Good OK Poor Very Poor -----1-----2-----3-----4-----5-----</p> <p>20. How do you rate your relationship with your bank presently? (please ring) Very Good Good OK Poor Very Poor -----1-----2-----3-----4-----5----- Please explain Why </p>
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<p>Q. 20 Continued </p> <p>21. How helpful did you find your bank when you experienced financial difficulties? Very Helpful Helpful Not very Helpful</p> <p>22. Which of the following do you have access to? Internet Telephone Television None of these</p> <p>23. Which of the following do you use for banking purposes? Internet Telephone Television None of these</p> <p>24. Have you ever been refused any of the following from a bank? (tick all that apply) Current Account Savings and Deposit Account Overdraft Facilities Loans Credit cards Store Credit Never been refused – please go to Q. 27 Others Why were you refused these products? </p>	<p>25. How did you overcome being refused one or more of these financial products? Please explain. Used a loan Company Used a credit union Went to a private cheque cashing company Other please specify </p> <p>26. How did you feel when you were refused any of the above financial products? Angry Demoralised Victimised Frustrated Unconcerned Other please state </p> <p>27. How do you feel about your financial situation? (please ring) Very satisfied Satisfied OK Bad Very bad -----1-----2-----3-----4-----5-----</p> <p>28. Do you believe your bank could have done more to help you? Yes No if no please go to Q. 30</p>
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If you wish to elaborate on any of the questions or wish to included any extra information then please do so on this page.

A large, empty rectangular box with a thin black border, occupying most of the page below the instruction. It is intended for the user to provide extra information or elaborate on questions.

Happy with your bank?

**Have they ever
refused you services?**



7% of people within
the UK do NOT have
any financial service products

Research into this
is being carried out by
Bournemouth University

**Your Help is Needed
Your could make the differnce!**

Appendix 5 Banking Code

<http://www.bankingcode.org.uk/pdfdocs/BANKING%20CODE.pdf>