Woodstock Institute

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# Full disclosure: why bank transparency matters

## A comparison of US and UK lending practices in disadvantaged communities

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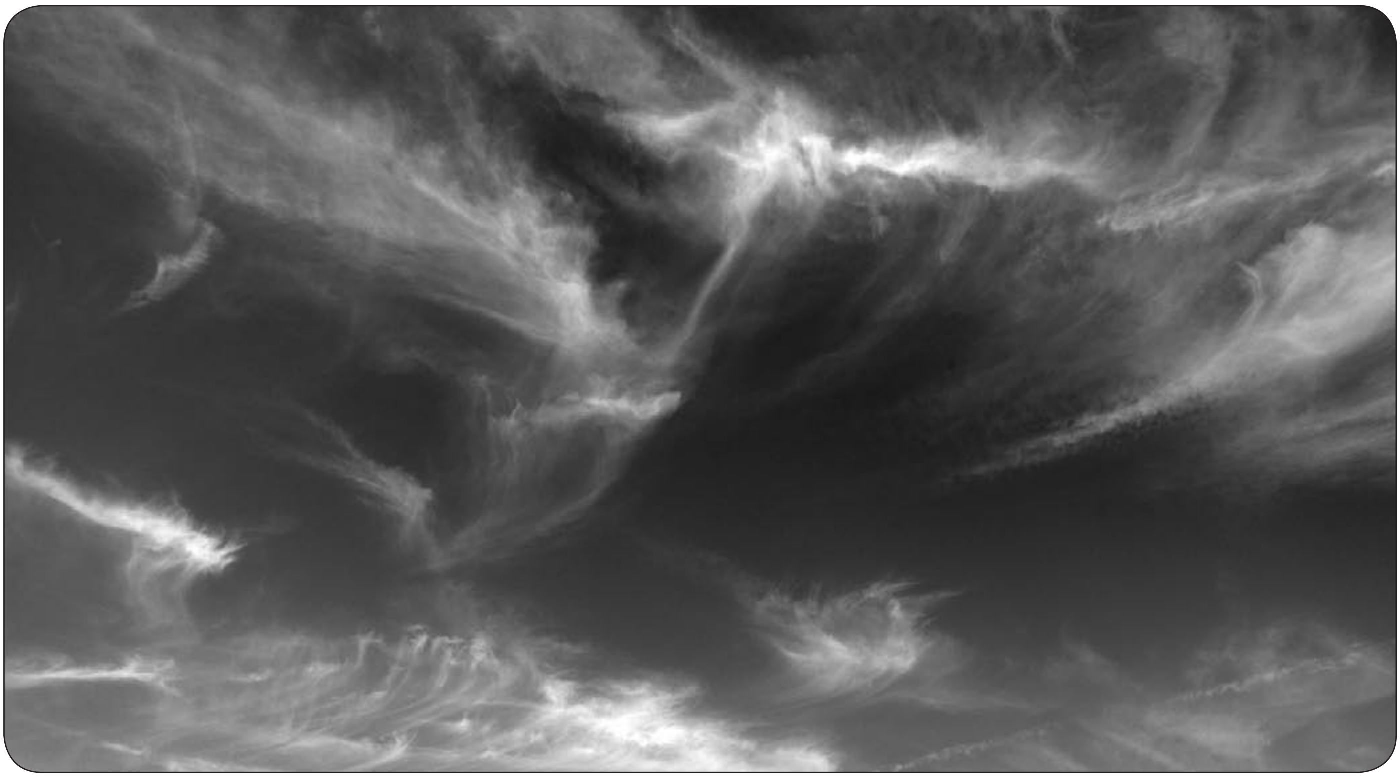
**economics**
real wealth
means well-being

**environment**
lifestyles must
become sustainable

**society**
communities need
power and influence

**nef** (the new economics foundation) is a registered charity founded in 1986 by the leaders of The Other Economic Summit (TOES), which forced issues such as international debt onto the agenda of the G7/G* summit meetings. It has taken a lead in helping establish new coalitions and organisations such as the Jubilee 2000 debt campaign; the Ethical Trading Initiative; the UK Social Investment Forum; and new ways to measure social and economic well-being.



This report seeks to reinvigorate the debate on bank disclosure in the UK and to create a better understanding of why it should be demanded of banks. It is evident from our analysis that, while some UK banks have taken strides to release selected information on their activities in disadvantaged areas, a significant gap in publicly available information remains. As this report shows, greater transparency of the part of UK banks is essential if we are to better understand and address financial exclusion in some of the most deprived communities in the UK.

# Contents

# Foreword

In April 2000, at the request of the UK Treasury, I agreed to establish and chair the Social Investment Task Force (SITF). Our remit was to carry out an urgent but considered assessment of the ways in which the UK could achieve a radical improvement in its capacity to create wealth, economic growth, employment and an improved social fabric in its poorest communities.

The Task Force made five recommendations, designed to create a system of social investment that could meet a very wide spectrum of social needs in a sustainable, self-reinforcing way. It would harness the forces of entrepreneurs and markets in order to reverse the existing spiral of under-investment.

One of the Task Force's recommendations was that UK banks should follow the US practice of publishing details of their lending in disadvantaged areas. The US recognised that banks were accepting deposits, but not making loans to deprived communities. In response, they passed the Community Reinvestment Act (CRA) requiring banks to disclose their lending and investing in under-invested areas. Implementation of the CRA resulted in more than $4.2 trillion of loans and credit committed to individuals and businesses and for housing development in low-income neighbourhoods. In doing so, it encouraged US banks to acknowledge the importance of community development finance institutions and other community-based organisations as they operate effectively in these niche markets.

Bank disclosure is seen to be an important tool in tackling financial exclusion. The lending patterns of individual banks make it possible to compare practice and to encourage a cumulative 'improvement in performance'. This report is a welcome and timely reminder of the benefits banking disclosure bring to financial inclusion.

The Social Investment Taskforce recommended that bank disclosure should be made on a voluntary basis. To date, only partial success has flowed from this approach. I believe that the time is right to re-examine what is required to bring about a robust commitment on the part of the banks to disclose their lending patterns in the UK.

This report, prepared by **nef** (the new economics foundation) and the Woodstock Institute, is a valuable contribution to the debate on bank disclosure in the UK. As this report very effectively demonstrates, bank disclosure is both a powerful and necessary tool to understand patterns of financial exclusion in the UK. I welcome the findings of this report, and hope it will serve to motivate the whole of the banking sector to meet disclosure requirements.

**Sir Ronald Cohen, Chairman of the Social Investment Taskforce, Commission on Unclaimed Assets, Bridges Community Ventures, and Hon. President of the Community Development Finance Association**

# Executive summary

## Bank disclosure by area is fundamental to understanding local patterns of financial exclusion in the UK. **nef** (the new economics foundation) and the Woodstock Institute believe that bank disclosure is an important and necessary tool in the fight against financial exclusion.

This report seeks to reinvigorate the debate on bank disclosure in the UK and to create a better understanding of why it should be demanded of banks.

It is evident from our analysis that, while some UK banks have taken strides to release selected information on their activities in disadvantaged areas, a significant gap in publicly available information remains.

This report illustrates the practical value of bank disclosure. This analysis is carried out through detailed case studies comparing Charter One Bank in Chicago in the US – where banks have disclosed local lending practices since the late 1970s, with its parent company Royal Bank of Scotland in Manchester – to review the level of information available and the impact that this has.

To do this we evaluate the available information on small-business lending, bank branch availability and basic bank account opening in deprived areas of Manchester. These three elements are critical components of UK policy relating to financial exclusion. Our analysis indicates that data on these factors is generally difficult to obtain, inconsistent, and in many cases incomplete.

Critics of the disclosure of bank data argue that it produces useless information at a high cost. But detailed and meaningful analysis can be carried out with the information that US banks disclose by area which can e used to combat financial exclusion.

By contrast, an assessment of bank disclosure in the UK reveals that there is virtually no area-based disclosure by UK banks. On this basis it is very difficult to understand and analyse UK banks progress on tackling financial exclusion.

Transparent and public information on the services that the banking sector provides to deprived communities means that:

- The availability of banking services in deprived communities can be clearly identified – a central part of tackling financial exclusion in deprived communities.
- Full disclosure means that it is possible to identify who the banks are actually reaching, and who remains outside of the banking system.
- Financial exclusion is often localised, meaning that banks need to disclose information on a local-area basis that is consistent with measures of deprivation.
- Bank transparency is a powerful tool that can ensure the effective targeting of scarce resources to deprived areas, and data which shows which banks positively invest in local areas can give local authorities the information that they need to attract the best performers to their community.

- Without area-based bank disclosure, communities are left in the dark on how their savings and resources are being invested.
- Transparency can also highlight the positive contribution banks make to deprived communities and can facilitate working partnerships between banks, third-sector lenders, and other community-based initiatives to build new products and operating models.

Banks are vital participants in efforts to tackle financial exclusion in the UK. Greater transparency of the part of UK banks is essential if we are to better understand and address financial exclusion in some of the most deprived communities in the UK.

# Introduction

This report shows how area-based information could be used to better understand geographical, localised, patterns of financial exclusion in the UK. We believe that bank disclosure is an important and necessary tool in the fight against financial exclusion. We believe that the time is right to reinvigorate the debate on bank disclosure in the UK and create a better understanding as to why it should be demanded of UK banks.

## Context of the report

Bank disclosure means providing information about a range of bank activities in defined geographical areas. This level of transparency provides information on the ways that banks invest the money the public deposits with them. Disclosure can also provide an opportunity to deepen understanding of market trends and to refine products and services to better serve local markets. It can also be used to compare the performance of different banks in a transparent and verifiable way to reward top performers and penalise those who fall short.

Bank disclosure has been used effectively in other countries to highlight areas of underinvestment and to encourage banks to address these areas, either themselves, or through working in partnership with the community finance sector. In the United States, for example, the data provided through the Home Mortgages Disclosure Act helps to highlight the difficulty that people living in certain low-income neighbourhoods have in obtaining a mortgage. Other US mandates require disclosure of certain small business lending data to help identify gaps in access to capital. Bank transparency is also a valuable tool that allows local authorities to identify and then form positive relationships with banks that reinvest in the community.

The potential of bank disclosure has been recognised in the UK. In its analysis of how to address underinvestment in deprived areas, the Social Investment Task Force (SITF) recommended in 2000 that banks disclose information on their lending and investing in deprived areas. The request was re-iterated in 2003 and 2005. In 2003, **nef** worked with Barclays to explore the usefulness of disclosing local bank data to stakeholders, including local partners and Government. The findings of this research were published by **nef** in August 2006, in *The Power of Information: opportunities for disclosure.*

While some progress has been made, the debate on bank disclosure has stalled in the last couple of years. A few banks have taken steps towards greater transparency and published aggregate data on their lending and deposit-taking activities in deprived areas of England. But to date no UK bank has disclosed this information by local area.

Several UK banks already have to provide this level of transparency as part of their operation in other markets, like the United States. Why then should they not disclose their activities in their home market? In many cases, the banks will find that they have nothing to hide and much to celebrate. Committing to greater levels of disclosure would be a real step towards achieving UK banks' stated commitment to tackling financial exclusion.

# Bank disclosure in the US: the Chicago example

Public disclosure of banking data for financial institutions in the US grew out of grassroots campaigning efforts in the 1960s and 1970s that brought national attention to the devastating impact of red-lining on inner city neighbourhoods. Red-lining occurs when banks refuse to lend to minority, inner city communities. This lack of investment, combined with substantial bank-branch closures, led in part to the rapid decline of many inner city neighbourhoods in the US.

## Introduction

### US context of bank disclosure

An effective campaign ultimately contributed to the passing of the Home Mortgage Disclosure Act (HMDA) in 1975 and the Community Reinvestment Act (CRA) in 1977. Both pieces of federal legislation are designed to end geographic discrimination in banking and lending. The HMDA requires financial institutions to disclose data on mortgage lending. This data is used by regulatory agencies and the public to monitor lender performance and to enforce fair lending laws. The CRA requires that deposit-taking financial institutions are regularly examined to ensure that they are adequately meeting the credit needs of lower-income neighbourhoods and households within the areas in which they are chartered to do business.

A CRA examination includes an institution's provision of loans, financial services, and investments and grants to low- and moderate-income markets. To conduct these examinations, regulatory agencies use publicly available HMDA and bank branching data. They also collect and make public data on small business lending for large institutions. Small business lending, bank branches, and mortgage-lending data are all made publicly available through the federal government.

Our analysis shows straight-forward ways that publicly available data can be used to illustrate local gaps in access to basic financial products and services and examines the performance of specific institutions in meeting the credit needs of their communities.

### The City of Chicago

This research uses data from the region surrounding Chicago, Illinois. Our analysis focuses on patterns found in Cook County, Illinois, the county in which Chicago resides, and the broader set of counties that makes up the region, the Chicago Six-County Area.[1] Chicago is the third-largest city and metropolitan area in the United States. In 2000, there were roughly 5.4 million people living in Cook County and 8.1 million people in the Six-County Area. Overall, Cook County is economically and racially diverse, but the county has high levels of local racial and economic segregation. The non-Hispanic white population makes up just over 47 per cent of the county's total population, with African-Americans comprising almost 26 per cent and Hispanics 20 per cent of the population.

The African-American population is largely concentrated in wide sections of the south and west sides of the City of Chicago and suburban Cook County. The Hispanic population is less concentrated, but high levels of Hispanic population are found in the southwest and northwest portions of the City and County.

Nearly 82 per cent of the region's minority population resides in Cook County with the other counties in the Six-County Area being predominantly white. Although there are a number of predominantly minority communities that are middle-income, the vast majority of lower-income communities also have large minority populations.

### Charter One Bank

In Chicago publicly available data is used to illustrate market-wide gaps in access to financial products and services. This data can be used to assess how well a particular lender is meeting the needs of underserved markets. Our analysis uses Charter One Bank as a sample institution. Charter One is a fairly large bank with $41 billion in assets and branch offices throughout much of the Midwest including over 100 in the Chicago Six-County Area. Charter One was recently acquired by Citizens Bank, whose parent company is Royal Bank of Scotland. We chose Charter One Bank because it allows us to compare difference between the data disclosure requirements of the US and UK on affiliates of the same holding company and in doing so, draws attention to the limits of data available in the UK.

#### Small-business data

The CRA requires banks and thrifts[2] with over $1 billion in assets to report data on their small business and small farm lending. A small business loan is defined as a loan of less than $1 million dollars to a business of any size. A small farm loan is a loan of less than $500,000 to a farm of any size. Banks and thrifts must also report data on the number of small business loans they make to businesses or farms with revenue below $1 million. The information disclosed to the regulators[3] must include the census tract location and dollar amount of each loan. Regulators use this data to evaluate the distribution of an institution's small business lending under the CRA. Some of this data is also made available to the public. The regulators make aggregate data on the number and dollar amount of small business loans and loans to very small firms at the census tract level publicly available.[4] Data from the banks on the census tract location of small business loans is not made public. However, for each financial institution, a county level aggregate of the bank's lending is published as well as a breakdown of that bank's lending to low and moderate income census tracts.[5]

#### Use of small-business data

CRA small business data can be used to monitor access to capital for businesses in distressed or traditionally underserved communities. As an example, Figure 1 charts small business lending per firm in the Chicago region by neighbourhood racial composition.[6] It shows that businesses in predominantly African-American neighbourhoods have substantially less access to small-business capital than firms in white neighbourhoods. Analysis like this can be used to identify gaps in access to small-business capital that enables banks to better target communities for special loan programmes or marketing campaigns.

CRA small-business data can also be used to examine specific lenders and their penetration of lower-income markets. Table 1 looks at Charter One Bank,[7] and its penetration of low- and moderate-income (LMI) markets compared to middle- and upper-income (MUI) markets in Cook County, Ilinois. In 2004, Charter One was a modest small-business lender in Cook County originating just over 300 small business loans. Comparing Charter One's share of the small-business-lending market in LMI tracts to its share of the lending market in MUI tracts shows that Charter One appears to have a strong record on lending to firms in lower-income areas.

The bank's market share ratio (MSR) is 1.45. This means that Charter One's small-business lending presence in LMI markets is 45 per cent greater than its presence in MUI markets. Charter One also appears to have a strong emphasis of lending to smaller firms in LMI census tracts. In 2004, 42 per cent of the bank's small business loans in LMI tracts were to small firms compared to just under 30 per cent for all lenders in Cook County. The bank's LMI to MUI market share ratio for loans to small firms was 2.23. This indicates that although Charter

**Figure 1. Small business loans per 100 businesses by racial composition of neighbourhood in the Chicago region, 2001**[8]

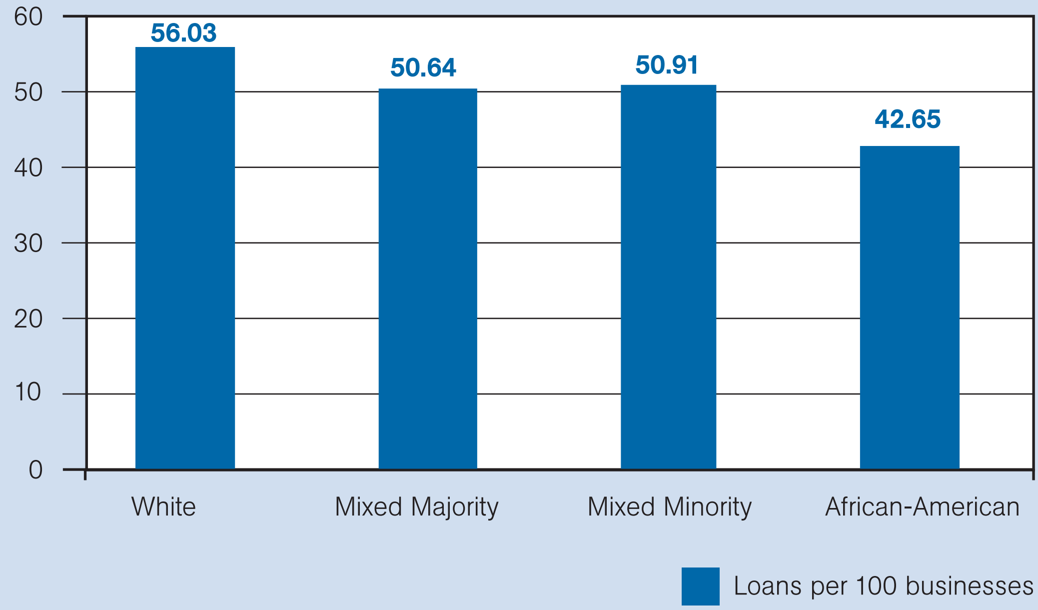



**Table 1: 2004 Charter One Small Business Lending, Cook County, IL**

| | Total Market Loans | | Charter One Loans | | Charter One Market Share | | Charter One LMI/MUI |
|---|---|---|---|---|---|---|---|
| | LMI | MUI | LMI | MUI | LMI | MUI | Ratio |
| All Small Businesses | 23,509 | 89,693 | 65 | 171 | 0.28% | 0.19% | 1.45 |
| Very Small Businesses | 6,912 | 26,871 | 27 | 47 | 0.39% | 0.17% | 2.23 |
| Percent to Very Small Businesses | 29.4% | 30.0% | 41.5% | 27.5% | NA | NA | NA |

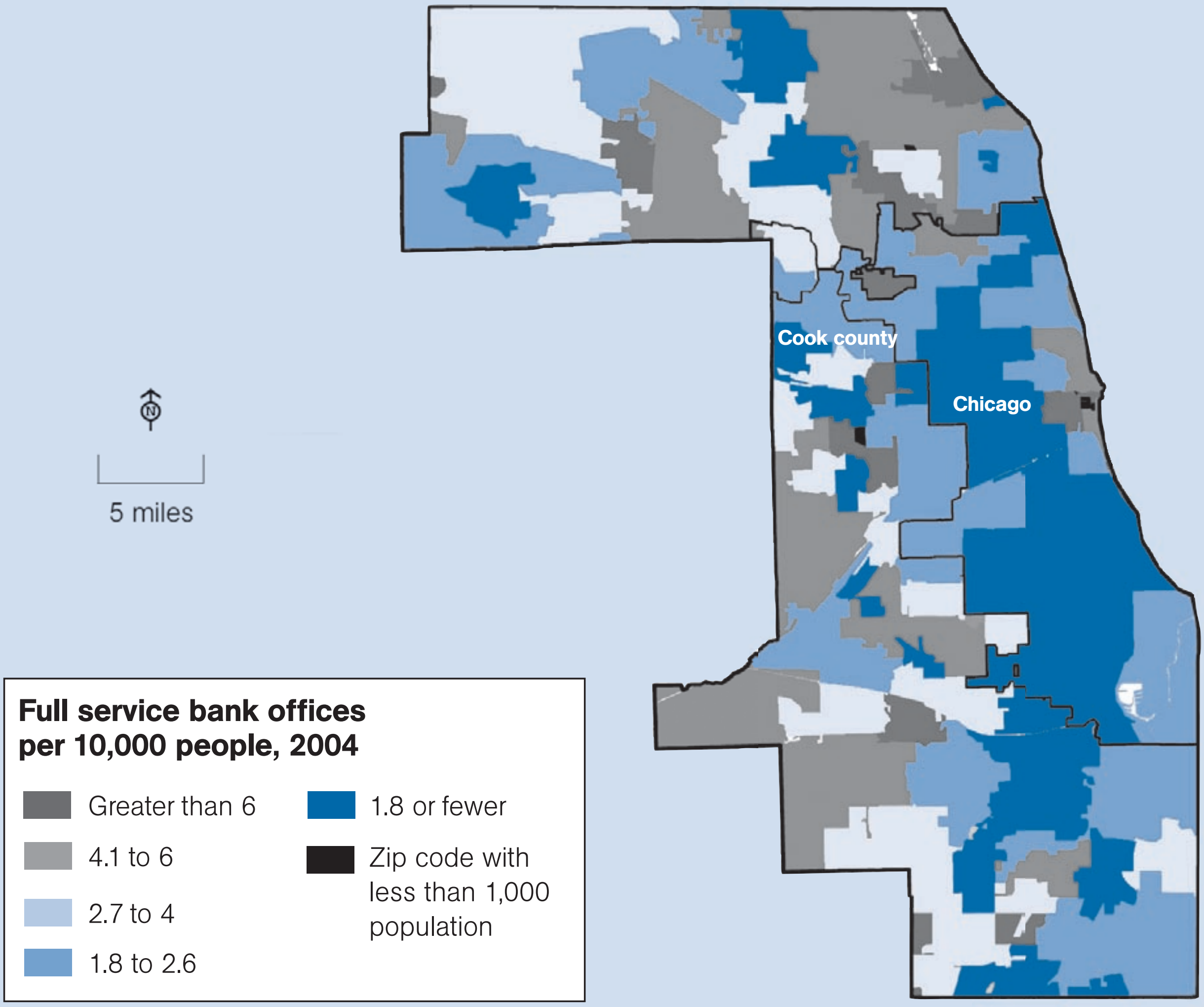
One had a minor small-business lending presence in Cook County in 2004, the bank appears to have effectively targeted businesses in lower-income neighbourhoods, particularly the smallest firms.

### Bank Branch Data

The Federal Deposit Insurance Corporation (FDIC) collects data annually on the location of the branch offices of federally insured depository institutions in its annual *Summary of Deposits* (SOD) survey. This data is used by the FDIC to measure and monitor deposit levels in local banking markets. Branch-level data that is collected in the *Summary of Deposits* survey includes information on the address of the branch, the level of service offered, the branch deposits held, and the year a branch opened. Under the Services Test of the Community Reinvestment Act, large and mid-sized depository institutions are monitored for their history of opening and closing branches in low- and moderate-income neighbourhoods and the percentage of their offices in these communities.

Analysis of *Summary of Deposits* data can show which parts of a metropolitan area may have limited access to mainstream financial services. Figure 2 maps full-service bank offices per 10,000 of population in Cook County, Ilinois. It shows that communities on the south and west sides of the City of Chicago and Cook County appear to have very limited access to full-service bank branches. These communities are predominantly minority and lower-income. Wealthier areas of central Chicago and northern Cook County have higher densities of bank branches per person. Data and analysis like this can be paired with other

**Figure 2: Full-service bank offices per 10,000 of population by zip code**




data sources and used by local organisations as part of a marketing plan to attract a bank branch to their community or by government officials to identify zip codes for programmes designed to encourage banks to locate branches in underserved neighbourhoods.

The data can also be used to examine an individual institution's distribution of full-service branches. Table 2 lists the top banks by deposit market share in the greater Chicago Six-County Area and examines their distribution of offices in low- and moderate-income and predominantly minority zip codes. It shows that, in 2004 in the greater Chicago area, 16.2 per cent of full-service bank offices were in LMI zip codes and 18.6 per cent were in predominantly minority zip codes. The aggregate of the largest banks in the Chicago area under-perform the regional average in terms of full-service offices in these traditionally underserved areas with 14.5 per cent and 16.8 per cent of offices in LMI and minority zip codes respectively. Charter One Bank closely tracks regional averages with 15 per cent of the bank's 127 full-service offices in low or moderate zip codes and 18.1 per cent of the bank's full-service offices in predominantly minority zip codes. Other large institutions substantially lag regional averages.

## High-cost home mortgages

### Background to the Home Mortgage Disclosure Act (HMDA)

The HMDA of 1975 requires covered mortgage lenders[9] to report data on their annual mortgage-lending activity. Lenders are required to report application-level data including the census tract location of the property and the income,

### Table 2: Full-service office distribution of top Chicago area institutions, 2004

| Institution Name | Deposit Market Share | Full Service Offices | LMI Offices | Minority Offices | LMI Share | Minority Share |
|---|---|---|---|---|---|---|
| Bank One, NA | 16.42% | 253 | 32 | 37 | 12.6% | 14.6% |
| Lasalle Bank NA | 12.83% | 134 | 20 | 19 | 14.9% | 14.2% |
| Harris Trust & Savings Bank | 5.47% | 63 | 15 | 18 | 23.8% | 28.6% |
| Northern Trust Company | 3.46% | 18 | 2 | 2 | 11.1% | 11.1% |
| Fifth Third Bank | 3.24% | 97 | 10 | 12 | 10.3% | 12.4% |
| Charter One Bank, NA | 2.88% | 127 | 19 | 23 | 15.0% | 18.1% |
| Citibank FSB | 2.40% | 51 | 11 | 11 | 21.6% | 21.6% |
| Mid America Bank FSB | 2.06% | 45 | 8 | 8 | 17.8% | 17.8% |
| First Midwest Bank | 1.98% | 60 | 5 | 7 | 8.3% | 11.7% |
| National City Bank of the Midwest | 1.86% | 43 | 2 | 2 | 4.7% | 4.7% |
| MB Financial Bank, NA | 1.44% | 39 | 6 | 10 | 15.4% | 25.6% |
| Bank of America, NA | 1.41% | 15 | 3 | 3 | 20.0% | 20.0% |
| Corus Bank, NA | 1.36% | 14 | 2 | 2 | 14.3% | 14.3% |
| TCF National Bank | 1.19% | 196 | 32 | 34 | 16.3% | 17.3% |
| US Bank NA | 1.12% | 57 | 6 | 8 | 10.5% | 14.0% |
| Washington Mutual | 0.19% | 113 | 19 | 27 | 16.8% | 23.9% |
| Top Banks | 59.31% | 1,325 | 192 | 223 | 14.5% | 16.8% |
| Greater Chicago Six County Area | 100% | 2,258 | 366 | 419 | 16.2% | 18.6% |

race, ethnicity, and gender of the applicant. They also must disclose the type (conventional or government insured) and purpose (purchase, refinance, home improvement) of the loan as well as the ultimate outcome of the application (originated loan, denied, etc). In 2004, regulators added additional reporting requirements. Most notably, for the first time, lenders were required to report the pricing of higher cost mortgage originations.[10]

HMDA was passed by the United States Congress in response to concerns that banks were refusing to make mortgage loans to qualified applicants in minority and lower-income central city neighbourhoods. The data reported under HMDA is used to ensure that lenders adequately serve the housing-finance needs of all communities. The data is also used in enforce fair lending laws and provide information on gaps in local housing markets and opportunities for investment. The 2004 changes were a response to the growing significance of risk-based pricing in the overall mortgage-lending market and continuing concerns around apparent disparities in mortgage pricing between white and minority borrowers. The full HMDA data set is exceptionally rich and can be used for a variety of purposes, including analysing home-buying patterns, examining marketing efforts of different lenders in specific product areas or geographic regions, and fair lending analysis.

### Use of HMDA data

Table 3 uses 2004 HMDA data for Cook County to examine the incidence of high-cost lending by borrower race/ethnicity and income-level. It shows that African-American borrowers have a much higher incidence of high-cost lending than any other borrower race or ethnic group. Over 41 per cent of mortgages to African-Americans in Cook County were high cost compared to 10 per cent for White borrowers and nine per cent for Asian borrowers. This disparity widens as borrower income-level increases.

**Figure 3: Incidence of high-cost home mortgage lending by census tract**

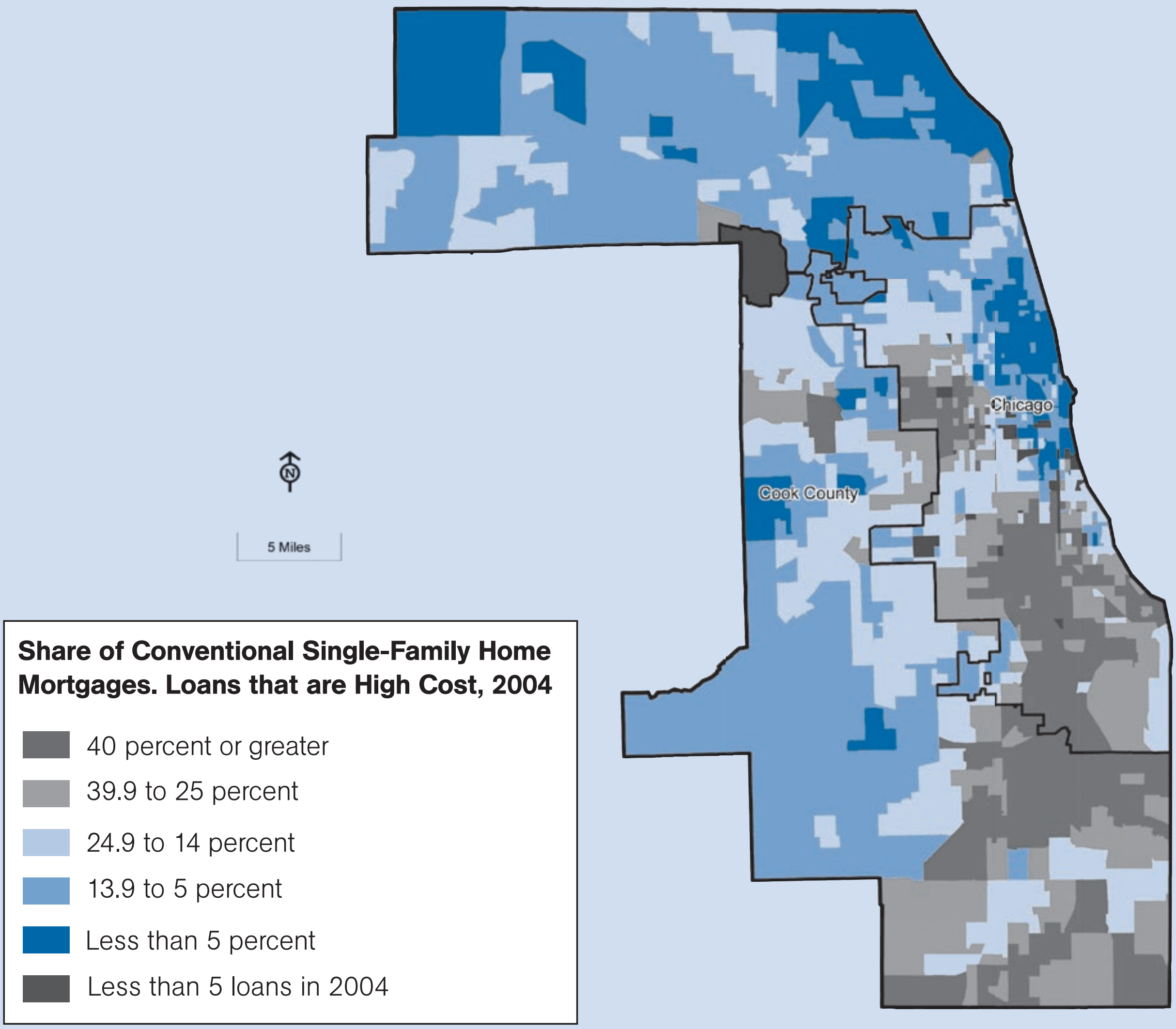


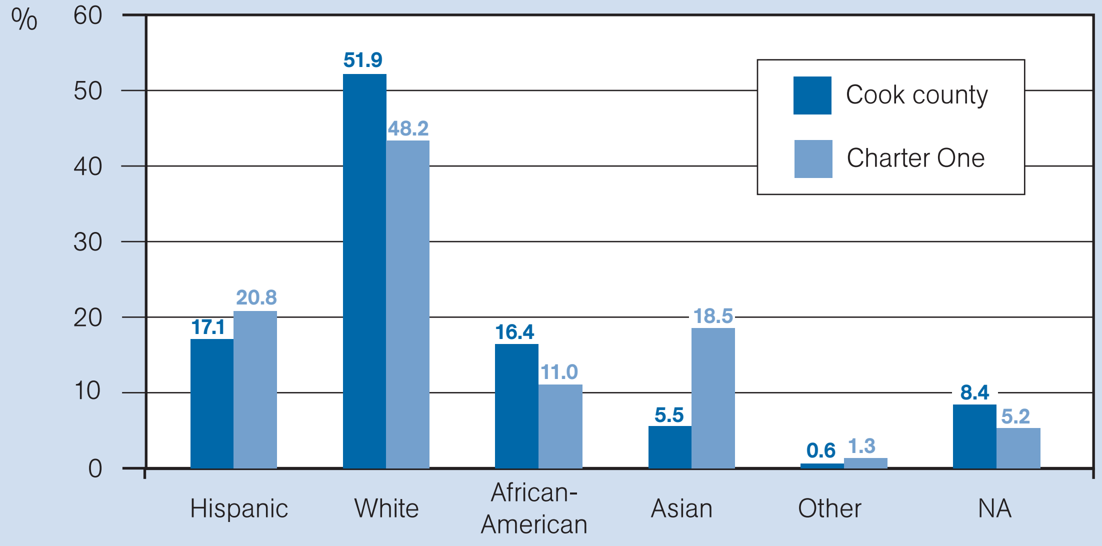

**Table 3: Incidence of high-cost mortgage lending by borrower race/ethnicity and income, Cook County, IL, 2004**

| | Hispanic | White | African American | Asian | Other | Total |
|---|---|---|---|---|---|---|
| Low-Income | 17.1% | 12.4% | 40.5% | 7.0% | 33.9% | 24.1% |
| Moderate-Income | 25.3% | 13.2% | 46.1% | 8.8% | 33.5% | 25.1% |
| Middle-Income | 28.7% | 12.8% | 43.5% | 11.6% | 28.0% | 22.2% |
| Upper-Income | 26.0% | 9.8% | 37.8% | 9.4% | 18.3% | 15.7% |
| High-Income | 18.3% | 5.3% | 28.7% | 6.9% | 12.7% | 7.8% |
| Total | 25.0% | 10.1% | 41.1% | 9.3% | 24.8% | 18.8% |

On average, in Cook County African-Americans are four times more likely than White borrowers to receive a high-cost mortgage. Low-income African-Americans are 3.3 times more likely than low-income White borrowers to receive a high-cost loan (40.5 per cent versus 12.4 per cent). However, high-income African-American borrowers are 5.4 times more likely to receive a high-cost loan than high-income White borrowers (28.7 per cent versus to 5.3 per cent).

Figure 3 maps the incidence of high-cost lending across Cook County. It shows that communities on the south and west sides of Cook County have the highest

**Figure 4: Charter One mortgage lending by borrower race/ethnicity, Cook County, IL, 2004**




incidence of high-cost mortgage lending. Such analysis can be used to identify borrower groups or neighbourhoods for home-purchase counselling or foreclosure-prevention efforts since high-cost loans are much more likely to contain abusive features or result in a default or foreclosure.

HMDA data can be used to analyse mortgage markets to show which neighbourhoods have high concentrations of high-cost lending, but the data can also be used to examine specific lenders and their penetration of lower income areas. As illustrated above, the African-American lending mortgage market is dominated by high-cost lending. There are concerns that lenders who specialise in this segment of the market target minority communities because there is a lack of other, lower-cost lending options available. Community development organisations often try to attract mainstream mortgage lenders, such as banks, who offer lower-cost products. HMDA data analysis informs these organisations of a lender's penetration of underserved markets. For example, Figure 4 looks at Charter One's lending distribution by borrower race/ethnicity and compares it to countywide lending patterns. It shows that the bank is quite strong in terms of lending to Hispanic and Asian borrowers, but that it substantially lags the market in terms of lending to African-Americans. Such analysis is used by banking regulators to monitor how well lenders serve low- and moderate-income markets on the CRA Lending Test.

## Conclusion

Critics of bank disclosure argue that it produces mountains of useless information at a high cost. But the evidence from Cook County shows that detailed and meaningful analysis can be carried out with the information that US banks disclose. The data can be used to analyse trends in deposit taking, lending, and banking-service provision. It can also be used to highlight the performance of one particular bank or of the banking sector as a whole. Financial exclusion is often localised, meaning that aggregated data can mask wide variations between levels of access to financial services.

The amount of data available for a city like Chicago contrasts sharply the amount of data available in the UK for any city. Using Manchester as an example, our analysis shows that area-based disclosure on an industry-wide scale is the only meaningful approach. Without it, very limited analysis can be done and no meaningful conclusions drawn.

# Bank disclosure in the UK: the Manchester example

This section considers the level of information available from UK banks in relation to lending and branch operations in Manchester. In particular, it considers the data that the Royal Bank of Scotland (RBS), parent company of Charter One Bank in the US, discloses about its lending and activities in Manchester.

### Introduction

RBS was chosen to allow for direct comparison of the level of information available on its operations in Chicago in contrast to Manchester because it has operations in both cities, rather than to highlight specific features of its operational performance.

The previous section reviewed available data on small business lending, deposits, bank branches and high-cost mortgage lending. In the US, a significant amount of information is available, particularly on mortgages. The availability of affordable mortgages for low-income consumers is a prime concern in the context of the US. The focus on mortgages is less of a priority in the UK, where consumers have relatively comprehensive access to such products. More pertinent to financial exclusion in the UK is access to bank accounts, small business or enterprise lending, and availability of bank branches.

### The City of Manchester

Manchester was chosen to represent a relevant UK comparison to the city of Chicago in the US. Manchester is the ninth-largest city in Britain with an estimated population of approximately 422,000 in mid 2003. The Metropolitan County of Greater Manchester is much larger with a resident population of around 2.5 million in 2000. The city of Manchester is economically deprived with high levels of unemployment and low income. It is ranked as the third most-deprived district in England according to the 2004 *Index of Multiple Deprivation.*[11] As Figure 5 demonstrates, Manchester also has a significant core of inner city deprivation that mirrors the concentration of low-income communities in Chicago.

Given the high levels of deprivation throughout Manchester, and particularly in the city centre where businesses are located, a high level of banking activity would be expected in deprived wards. As the data below indicates, however, there appear to be significant gaps in banking provision in the most-deprived inner city area of Manchester.

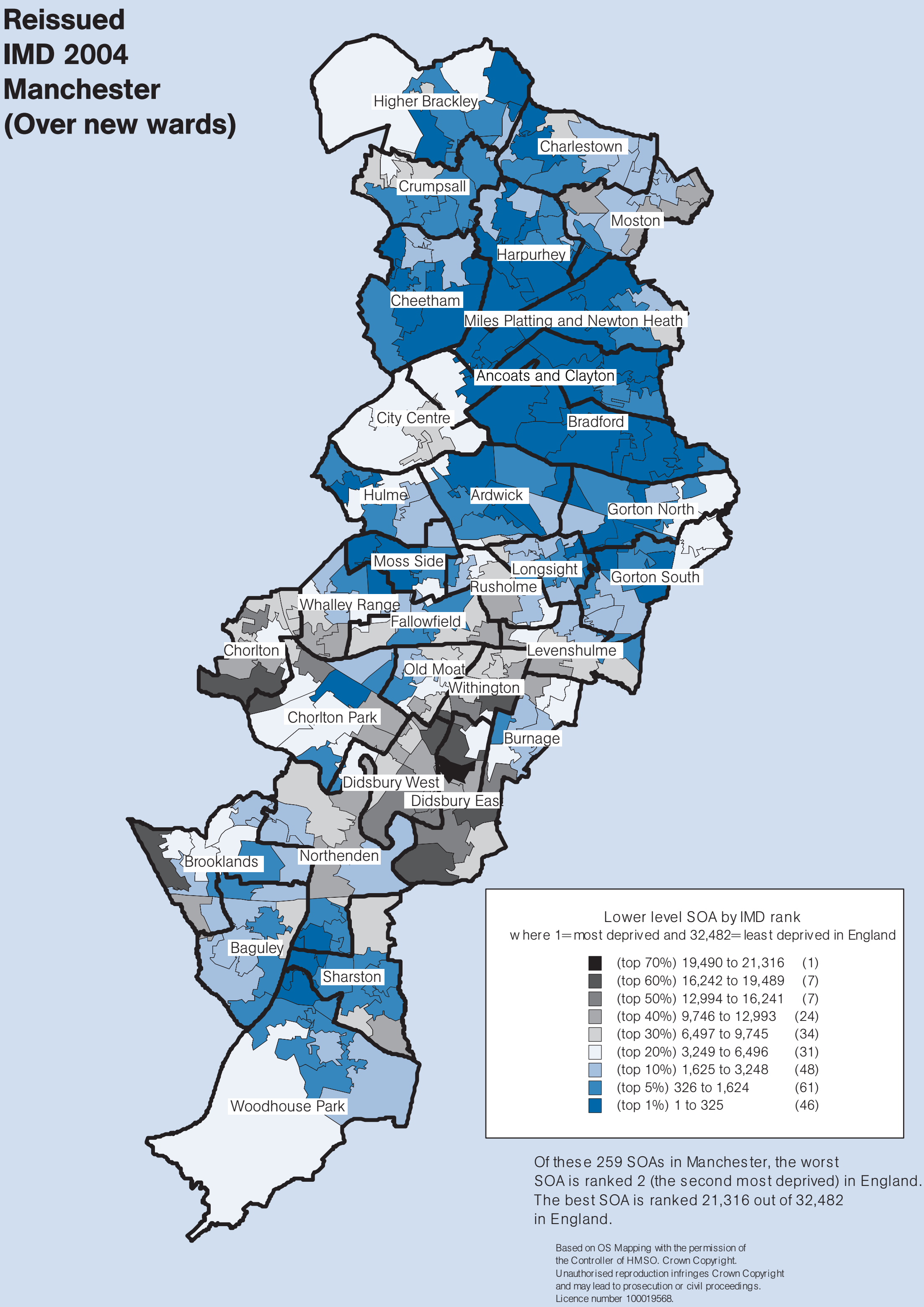
The inner city district of Manchester is a multicultural centre with a significant ethnic minority presence that makes up 12.6 per cent of the district population. The largest minority group is represented by Pakistani individuals (3.8 per cent). Sizeable Pakistani populations are also to be found in the neighbouring districts of Oldham (4.1 per cent) and Rochdale (5.5 per cent). A large Indian population (5.2 per cent) lives in neighbouring Bolton.[12]

### Small-business data

#### Inconsistent data

Data on small business lending in the UK is available from several sources. However, this information is not disclosed in a consistent manner to allow for meaningful analysis of patterns of lending to deprived areas. From 2000 to 2004, the Bank of England collected and published data on small business lending in deprived areas in its yearly *Finance for Small Firms* report. This report is no longer published by the Bank. The British Bankers Association (BBA) historically provided data on aggregate small business lending to the Bank of England report. In August

**Figure 5: Manchester *Index of Multiple Deprivation***




***Source:*** IMD 2004, ODPM
Planning Studies, Chief Executive's Department. June 2004

2006, the BBA published data on lending in deprived areas from the previous year. Small firms, as defined by the BBA, include all commercial businesses with an annual account turnover of £1 million or less. This data is not broken down to indicate data relevant to micro firms or on the basis of the number of employees.

The most recent BBA data on lending to deprived areas is from mid-year June 2005, and is not comparable to year-end data on overall lending to small businesses regularly released by the BBA. Without this comparable data, it is

**Table 4: 2005 Small business lending in Manchester**

| | Total market loans | | RBS Group | | | |
|---|---|---|---|---|---|---|
| | | | Loans | | Market share | |
| | Deprived areas | Other | Deprived areas | Other | Deprived areas | Other |
| **Number of term loans** | 1,672 | ? | ? | ? | ? | ? |
| **Number of. overdrafts** | 2,135 | ? | ? | ? | ? | ? |

***Source:*** http://www.bba.org.uk/bba/jsp/polopoly.jsp?d=467&a=5663

not possible to determine how deprived-area lending relates to small business lending patterns overall. Furthermore, data on small business lending in deprived areas has only been presented in aggregate form which does not allow for analysis of individual bank performance.

### Gaps in available information

Table 4 underscores the gaps in available information on bank lending in deprived areas. It shows the data collected by the BBA relating to Manchester City area. The BBA spreadsheet has been narrowed down to include only the postcodes and data that relate to Manchester City area. The information is presented according to the template of information available in the US, as described above.

As RBS does not disclose data on an area basis, Table 4 clearly represents the gaps in information available in the UK. In addition, the BBA only gives information on small business activity in deprived areas of Manchester and not in Manchester as a whole. It is not possible to compare market shares in deprived areas to less deprived areas. This makes it impossible to analyse bank activity patterns in Manchester and how they might differ between deprived areas and less deprived areas.

The BBA small-business data is presented by postcode sectors (for example, M1 1). It was not possible to obtain information on lending to small businesses broken down similarly by postcode. The only breakdown of businesses available was on the basis of ward location with no reference to level of deprivation. This lack of information clearly limits any comparative analysis.

## Bank-branch data

### Availability of bank branches

The damaging effect of bank-branch closures on UK communities has been a factor contributing to financial exclusion, particularly for inner city and deprived areas. Research published in February 2006 by the University of Nottingham found that Britain's least affluent inner cities and traditional manufacturing areas have lost more local high street branches than any other area since 1995. Lack of availability of bank branches has clear negative consequences for low-income customers and local businesses; a point that has been consistently raised by the Campaign for Community Banking Services. Given the importance of bank branch availability to sustaining thriving local communities, information on bank branches should be clear, consistent, and readily available.

Unlike the US, however, the UK does not mandate the disclosure of information on bank branches in a unified way. In fact, the process for obtaining data on bank branch availability is complicated and arduous, requiring data to be pieced together from several sources. Bank-branch data is not systematically collected by any one organisation.

## Bank branches in Manchester

The process of bank closures has been citywide and widespread among all banking groups in Manchester. Table 5 shows information on bank branch availability in Manchester over time, and is the result of an extensive search through archives, described in further detail below. It shows the rationalisation of the bank branch network in Manchester since 1989.

In 1989, RBS had an average presence in Manchester. Although cut back substantially, this presence has been bolstered by the acquisition of National Westminster Bank in 2000. The combined RBS Group has a strong presence in Manchester today.

While 27 per cent of its bank branches in Manchester have been shut since 1989, its closure rate is only slightly higher than the average national rate for bank-branch closure. The University of Nottingham found that between1995 to 2003 the average national rate of bank-branch closures was 20 per cent, rising to 24 per cent in multicultural metropolitan areas.

In comparison to all major banks in Manchester – which have an average decline in branches of 41 per cent – RBS has been more conservative in closing its branches. The other major banks have dramatically cut back their bank branch presence in Manchester since 1989, with overall rates of decline ranging from Lloyds TSB at 42 per cent to Barclays at 58 per cent. Relative to the other banks, RBS appears to have made a stronger commitment to maintain a greater number of bank branches overall. Nevertheless, the picture in Manchester remains one of significant reduction in access to bank branches.

## Bank-branch closure in deprived areas

We carried out a preliminary comparison to determine the relative rate of bank-branch closure in deprived areas. For this purpose, postcodes were matched with the 2004 *Index of Multiple Deprivation* to assess the number of branches located in the five most-deprived wards.

While the data is mixed, there is evidence that in the case of some banks, branch closures in Manchester were more pronounced in deprived wards. Given the incomplete and patchy nature of available data, however, it is difficult to make a conclusive statement.

The challenge of gathering this information, particularly on a historical basis from 1989, is described in further detail below. This assessment is indicative of the type of analysis that could be more systematically carried out were information on bank branches consistently reported on a local-area basis.

Despite a general downward trend in branch availability, RBS has retained a consistent 24 per cent of its branches in deprived areas relative to its overall branch presence. This signifies that RBS has equally reduced the proportion of bank branches in both deprived and non-deprived areas by 27 per cent.

Comparatively, Lloyds TSB and Barclays each closed a greater proportion of bank branches in deprived areas than in non-deprived areas. Bank branches in deprived areas represent a reduced component of these banks' overall bank presence; declining from 35 to 20 per cent for the merged Lloyds TSB and 32 to 13 per cent for Barclays. Given its low branch presence overall, HSBC represents a slightly different picture. HSBC reduced its branches in deprived areas by 50 per cent between 1989 and 2006, from two branches to one.

## Mapping bank branch locations

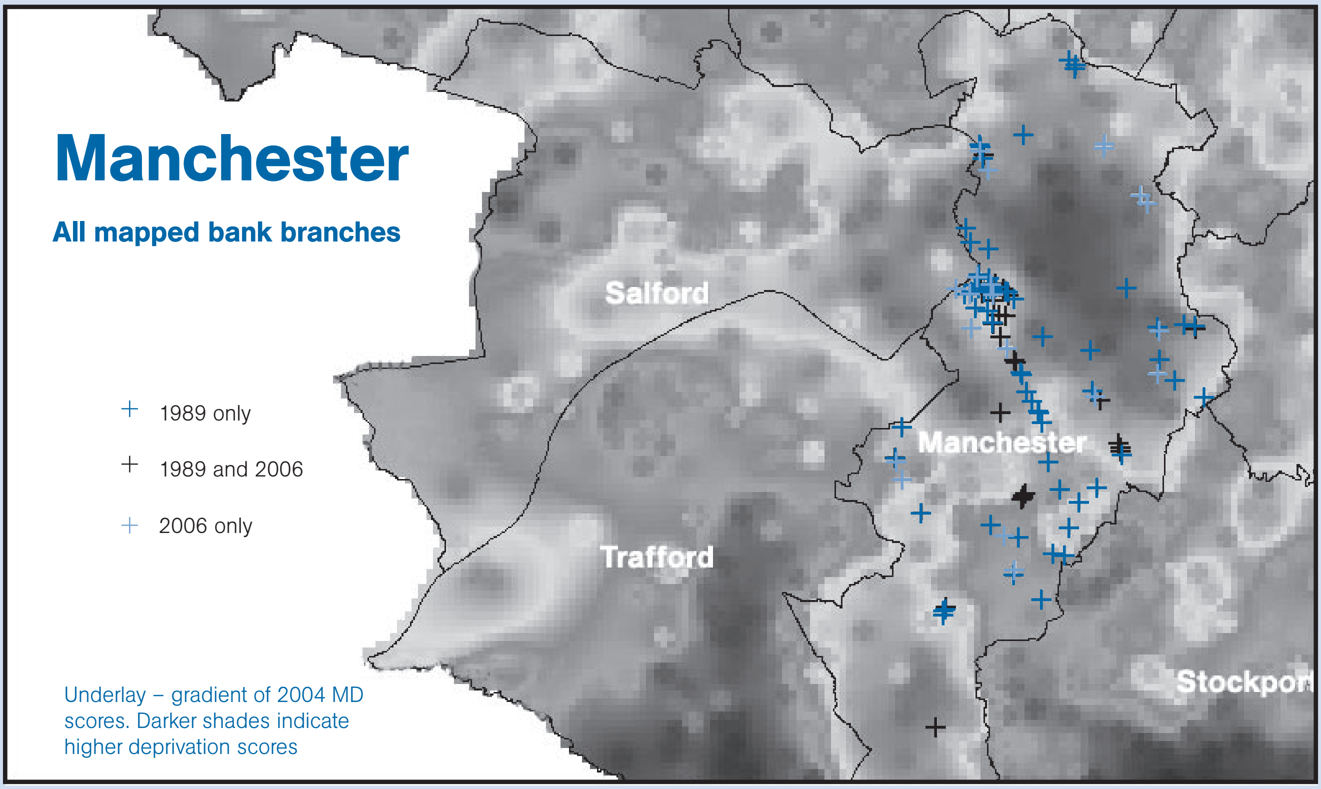
On the basis of available bank branch data, a GIS mapping exercise was carried out. The resulting map provides further detail on the patterns of bank-branch closure in Manchester between 1989 and 2006.

Of particular interest is the pattern of closures mapped against the 2004 *Index of Multiple Deprivation*. This suggests that there have been a number of closures – represented by dark blue crosses in Figure 6 – in the darker, deprived areas, with bank branches moving further out into the lighter and more well-off areas.

**Table 5: Bank branch distribution in Manchester 1989 and 2006**[13]

| Banks | 1989 Total branches | 1989 In bottom 5% of wards | 1989 As a % of all branches | 2006 Total branches | 2006 In bottom 5% of wards | 2006 As a % of all branches | % change 1989–2006 |
|---|---|---|---|---|---|---|---|
| Royal Bank of Scotland | 19 | 3 | 16% | 16 | 4 | 25% | -16% |
| NatWest | 26 | 8 | 31% | 17 | 4 | 24% | -35% |
| Combined RBS Group | 45 | 11 | 24% | 33 | 8 | 24% | -27% |
| Lloyds | 9 | 1 | 11% | | | | |
| TSB | 17 | 8 | 47% | | | | |
| Merged Lloyds TSB | 26 | 9 | 35% | 15 | 3 | 20% | -42% |
| Barclays | 19 | 6 | 32% | 8 | 1 | 13% | -58% |
| Midland/HSBC | 16 | 2 | 13% | 7 | 1 | 14% | -56% |
| Total banks | 106 | 28 | 26% | 63 | 21 | 33% | -41% |

**Figure 6: Mapped bank branches in Manchester.**
**Prepared by Dr Jim Lindsay of London Metropolitan University**



Interestingly there seems never to have been a core set of branches present in the most-deprived inner city region.

With more robust data, patterns of branch closure could be examined in greater detail, and would allow for a more complex and nuanced analysis. Disclosure by the banks would facilitate longitudinal assessment of branch location, and could be mapped against other features, such as customer account usage, profitability, traffic flows, and post offices or credit union location. This would result in a more informed perspective on factors affecting financial exclusion.

**Table 6: Bank branch distribution by household and business**

| Ward | SOA rank | % | No. H/H | No. banks | H/H per bank | No. bus | Bus. per bank |
|---|---|---|---|---|---|---|---|
| Didsbury | 14851 | 46% | 6,231 | 2 | 3,116 | 560 | 280 |
| Withington | 10774 | 33% | 5,626 | 4 | 1,407 | 290 | 73 |
| Chorlton | 10517 | 32% | 6,580 | 4 | 1,645 | 540 | 135 |
| Old Moat | 6776 | 21% | 6,246 | 1 | 6,246 | 340 | 340 |
| Barlow Moor | 6083 | 19% | 5,867 | 0 | | 370 | |
| Whalley Range | 5718 | 18% | 5,016 | 0 | | 230 | |
| Rusholme | 5436 | 17% | 4,405 | 2 | 2,203 | 290 | 145 |
| Moston | 5401 | 17% | 5,109 | 1 | 5,109 | 200 | 200 |
| Northenden | 5399 | 17% | 5,612 | 1 | 5,612 | 390 | 390 |
| Levenshulme | 5313 | 16% | 5,273 | 4 | 1,318 | 310 | 78 |
| Brooklands | 5192 | 16% | 5,056 | 0 | | 170 | |
| Burnage | 5069 | 16% | 5,505 | 0 | | 230 | |
| Fallowfield | 4672 | 14% | 4,730 | 0 | | 190 | |
| Shartson | 4530 | 14% | 4,464 | 1 | 4,464 | 390 | 390 |
| Crumpsall | 3893 | 12% | 4,992 | 2 | 2,496 | 370 | 185 |
| Baguley | 3748 | 12% | 4,985 | 0 | | 280 | |
| Central | 3280 | 10% | 6,188 | 21 | 295 | 6,550 | 312 |
| Hulme | 2684 | 8% | 4,132 | 5 | 826 | 420 | 84 |
| Lightbowne | 2632 | 8% | 4,663 | 2 | 2,332 | 180 | 90 |
| Blackley | 2299 | 7% | 4,632 | 0 | | 110 | |
| Gorton North | 2236 | 7% | 5,708 | 0 | | 220 | |
| Charlestown | 2062 | 6% | 5,016 | 0 | | 150 | |
| Longsight | 2010 | 6% | 5,806 | 2 | 2,903 | 370 | 185 |
| Woodhouse Park | 1998 | 6% | 4,772 | 0 | | 540 | |
| Newton Heath | 1706 | 5% | 4,892 | 3 | 1,631 | 340 | 113 |
| Ardwick | 1182 | 4% | 4,238 | 2 | 2,119 | 650 | 325 |
| Cheetham | 1039 | 3% | 4,848 | 2 | 2,424 | 880 | 440 |
| Moss Side | 855 | 3% | 4,997 | 1 | 4,997 | 170 | 170 |
| Gorton South | 750 | 2% | 5,180 | 1 | 5,180 | 190 | 190 |
| Harpurhey | 747 | 2% | 4,229 | 0 | | 190 | |
| Benchill | 359 | 1% | 4,367 | 0 | | 120 | |
| Beswick and Clayton | 356 | 1% | 4,292 | 0 | | 300 | |
| Bradford | 159 | 1% | 3,815 | 2 | 1,908 | 350 | 175 |
| Total | | | 167,472 | 63 | 2,658 | 16,880 | 268 |

***Sources:*** http://www.manchester.gov.uk/planning/studies/census/2004wards/2004keyfacts/adulthouse.htm and Office of National Statistics and the Annual Business Inquiry 2004.

Figure 6 also indicates that some new branches, marked in light blue, have opened since 1989, but these are largely at the margins of deprived communities. Only a small number of bank branches have survived from 1989 to the present day; those marked in black.

### Difficulty of obtaining data

Data on bank-branch closure in Manchester was obtained with much difficulty from a variety of sources. We describe this research process in detail in order to underline the challenge of accessing this information. Using diverse and varied sources of public information, it is very difficult to ensure that data is consistent and comparable to allow for robust analysis. The complexity of the current process points to the need for a more regular and centralised disclosure mechanism. This point is particularly valid for information that is of critical relevance to understanding patterns of financial exclusion in the UK.

We derived data on 2006 Manchester branch locations from each bank's website, using their branch locator facility. This involved individually inputting the postcode of each branch's address into the Neighbourhood Statistics website (http://neighbourhood.statistics.gov.uk) to determine the super output area (SOA) and ward of each branch along with the corresponding deprivation ranking. As deprivation is no longer calculated at ward level, we determined an aggregate estimate of deprivation by averaging each of the rankings of each SOA.

We obtained historical branch information by researching the 1989 archives of the *Yellow Pages* for Manchester. This provided only partial postcode information. We then used the addresses to obtain the full postcodes from the Royal Mail website by manually entering each branch address. We used the full postcodes to obtain ward location and used the 2004 *Index of Multiple Deprivation* to classify the bank branches by deprivation, as there was no IMD available for 1989. We also used the full postcodes to map the branches using GIS software.

### Incomplete analysis

To explore further means of interpreting this data, we compared the number of bank branches, households and businesses in each ward. In this way we sought to determine the degree of relationship between deprived wards, business and household concentration and the corresponding number of bank branches. This data is presented in Table 6.

We gathered bank branch data using each bank's website to determine the number and location of its branches in Manchester and using the postcode to determine the ward through the Neighbourhood Renewal Statistics website. We downloaded household information by ward from Manchester City Council's website, which is based on the latest census data. An information officer at Manchester City Council provided the number of businesses in each ward.

Based on the information we were able to gather, there does not appear to be any relationship between the level of deprivation, the number of households or number of businesses, and bank branches. We are not able to complete a full analysis of this hypothesis because of key missing data, namely the level of bank lending to households and businesses on a ward basis.

A key point of this analysis is the difficulty of formulating conclusions with the scant information that can be pieced together. Incomplete analysis, such as the analysis we were able to complete for Manchester, is a result of the fact that banks do not make available any of their lending activity on an area basis.

## Basic bank accounts

Access to bank accounts is a well-documented component of financial exclusion, particularly for individuals in deprived communities similar to many areas in Manchester. Approximately 1.5 million households in the UK lack access to any financial products, and a further 4.4 million, or 20 per cent of households, are on the margins of the financial system with little more than an under-utilised bank account. These financially excluded individuals pay more for basic services, such as cheque cashing or bill payment, and can be pushed to take on exorbitant loans. Not having a bank account can also be an impediment to entering the job market. For this reason, UK banks committed to halve the number of un-banked individuals by 2006.

The commitment by UK banks and building societies to begin to address issues of financial exclusion represents a significant step forward. This initiative called for the development of basic bank accounts, to allow for the introduction of direct payment of benefits in April 2003. As part of the voluntary banking code, UK banks agreed to offer simple transactional bank accounts to any individual, regardless of credit history.

The effectiveness of the basic bank account, and the banks' delivery of them, is of critical relevance to the financial exclusion debate. UK banks and building societies currently report simple data on the numbers of basic bank accounts opened on a quarterly basis to the BBA. This data is aggregated by the BBA and made public as part of a regular press release.

However, data on basic bank account provision is not provided on an area basis. As such, it is not possible to assess whether there are any potential issues regarding access to bank accounts in Manchester. In line with the other banks, RBS does not disclose any information on provision of basic bank accounts on an area basis, so an assessment cannot be made on the performance of the bank in Manchester. RBS Group did indicate in its annual report that it had provided 800,000 basic bank accounts at the end of 2005.

### Conclusion

The data presented in this section demonstrates that there is virtually no area-based disclosure on the part of UK banks. On this basis it is very difficult to understand and analyse the progress of UK banks on issues of financial exclusion in a given city like Manchester. This report has considered the available information on small business lending, bank branch availability, and basic bank account opening in deprived areas of Manchester. These three elements are critical components of UK policy relating to financial exclusion. Yet our analysis has shown that data on these factors is generally difficult to obtain, inconsistent and, in many cases, incomplete.

The data that is available is patchy and full of discrepancies. The only data collected and disclosed on a postcode basis relates to small business current accounts, overdrafts and loans in the two per cent most-deprived wards, which is released by the BBA. Since no data is shared on a consistent basis for the other 98 per cent of areas, however, it is not possible to draw meaningful conclusions.

There is very limited information available to support a robust study of the performance of UK banks in deprived areas. This contrasts directly with the comprehensive and detailed data available in the US for a city such as Chicago. Lack of disclosure presents a significant impediment to substantive analysis and to understanding each bank's investment in deprived areas. Full disclosure need not be negative, but could be used as positive evidence of a banks' commitment to deprived communities.

# Bank disclosure in the UK: an overview of all available data

The previous section reviewed the data that UK banks make public on an area basis. This section considers other information at the national level disclosed by UK banks regarding small business lending and the provision of basic bank accounts.

## Small-business data

### Selective disclosure

Of the big four UK banks, only a select few have disclosed lending and deposit levels in deprived areas on an individual basis. Barclays provides by far the most information, as it compares its small-business activity in all areas with its operations in deprived areas. Barclays also provides information on business start-ups and personal lending in deprived areas. It has been very proactive in this respect, as it is also the only UK bank to have released this information on a consistent basis for the past three years.

On a more limited basis, HSBC provided data on small business activity from 31 December 2003 but has not released any new figures since then. The RBS Group (including NatWest Bank) has only released a headline figure on the amount of loans it has made to small businesses located in deprived areas. Lloyds TSB has released information on lending to small businesses and deposit taking in deprived areas.

As for the other banks, HBOS has not released any information on an individual basis. The Co-operative Bank released figures on its small-business activity in deprived areas, but only as a percentage of its overall small-business activity.

### Difficulty of obtaining data

The process of finding information on banks' small business activities in deprived areas is complex, as data is disclosed in a variety of different sources. Available information is not presented systematically to allow for ease of comparison. Many of the banks include this information in their corporate social responsibility (CSR) report, while others include it as part of their annual accounts. Some only make it available on their website, like HSBC which released data online for 2003. As a result, finding this data is an arduous exercise that limits its availability and accessibility.

### Limited conclusions

The patchy information provided by banks makes it challenging to draw any overall conclusions, but a few comments can be made about the data presented in Table 7:

- In aggregate, Barclays lends slightly less to small businesses in deprived areas than it does to small businesses located elsewhere, while deposits are broadly comparable. The savings to lending ratio is 1.44 in deprived areas, versus 1.09 in all areas.
- It appears that the value of loans to small businesses in deprived areas as a percentage of RBS Group's total small business portfolio is slightly more than Barclays. Because the data is not comparable – one figure is from 30 June, the other from 31 December – it is impossible to make any firm comparison.

### Table 7: Small-business data released by the major banks for 2005

| Small-business data | Barclays 31-Dec-05 | RBS Jun/Dec-05 | LloydsTSB 31-Dec-05 | HSBC | Co-op 31-Dec-05 |
|---|---|---|---|---|---|
| **Business current and deposit accounts** | 672,533 | ? | ? | Nothing | ? |
| • In deprived areas | 34,392 | ? | ? | released | ? |
| • % in deprived areas | 5.1% | ? | ? | since 03 | 9.7% |
| **Accounts in overdraft** | 161,408 | ? | ? | | ? |
| • In deprived areas | 8,392 | ? | ? | | ? |
| • % in deprived areas | 5.2% | ? | ? | | 8.8% |
| **Term loans** | 107,394 | ? | ? | | ? |
| • In deprived areas | 4,567 | ? | ? | | ? |
| • % in deprived areas | 4.3% | ? | ? | | 7.6% |
| **Value of loans and overdrafts £m** | £9,021 | £16,568 | ? | | ? |
| • In deprived areas | £356 | £659 | £206 | | ? |
| • % in deprived areas | 3.9% | [4.0%][14] | ? | | 9.0% |
| **Deposit and current account balances £m** | £9,793 | ? | ? | | ? |
| • In deprived areas | £512 | ? | £339 | | ? |
| • % in deprived areas | 5.2% | ? | ? | | 9.1% |
| **Ratio of savings to lending** | 1.09 | ? | ? | | ? |
| **In deprived areas** | 1.44 | ? | 1.65 | | ? |

***Sources:*** Barclays CSR report 2005, LloydsTSB CSR report 2005, RBS Group Annual Report 2005, RBS CSR report 2005, and the Co-op CSR report 2005.

- LloydsTSB has a higher ratio of savings to lending to small businesses in deprived areas than Barclays does.
- It is not possible to comment on HSBC's performance because it has not released any data since 2003.
- It is not possible to comment on HBOS's performance because it has not released any data on small business lending or deposit taking.
- The Co-operative Bank appears to have a higher proportion of its small business activity located in deprived areas. As the bank points out in its CSR report, however, this can be partially explained by the location of the majority of the Co-op Bank's corporate banking centres in metropolitan areas.

### Lack of comparability

To provide a further point of comparison, Table 8 presents the available information from banks with aggregated data released by the BBA. This comparison indicates that any form of meaningful analysis is challenging because most of the banks have released their data at the end of the year, whereas the BBA's consolidated information on small business activity in deprived areas is only available to 30 June 2005. It is not clear why the BBA does not release data for the end of the year; data was also issued at the half-year period in 2004.

**Table 8: Comparison of bank data with aggregated BBA information**

| Small business data | 31 Dec-05 | 30 Jun-05 | As a % of BBA figures | | | | |
|---|---|---|---|---|---|---|---|
| | BBA | BBA | Barclays | RBS | Lloyds TSB | HSBC | Co-op |
| Business current and deposit accounts | 4,585,000 | 4,504,000 | 14.7% | ? | ? | ? | ? |
| In deprived areas | ? | 213,815 | ? | ? | ? | ? | ? |
| Accounts in overdraft | ? | | ? | ? | ? | ? | ? |
| In deprived areas | ? | 31,995 | ? | ? | ? | ? | ? |
| Term loans | ? | | ? | ? | ? | ? | ? |
| In deprived areas | ? | 25,484 | ? | ? | ? | ? | ? |
| Value of loans and \|overdrafts £m | £42,100 | £40,600 | 21.4% | 39.4% | ? | ? | ? |
| In deprived areas | ? | £1,823 | [19.5%] | 36.1% | [11.3%] | ? | ? |
| Deposit and current account balances £m | £41,300 | £39,900 | 23.7% | ? | ? | ? | ? |
| In deprived areas | ? | £2,290 | [22.7%] | ? | [14.8%] | ? | ? |

***Sources:*** Same as previous plus press releases from BBA website www.bba.org.uk

The bracketed figures Table 8 denote those figures derived from data taken at different date-end points. Because of this discrepancy in reporting periods, it is challenging to draw any conclusions from the limited information available:

- RBS Group is the leading lender to small businesses in deprived areas with a market share of 36.1 per cent, outperforming Barclays at 19.5 per cent and Lloyds TSB at 11.3 per cent. Barclays and LloydsTSB figures are only estimates, as they result from a comparison of year-end figures to mid-year ones.
- Barclays has a greater market share of deposit and current account balances from small businesses in deprived areas than it does of loans. The same is true of LloydsTSB. This is consistent with the savings-to-loans ratios presented in Table 7.

## Bank branch data

### Lack of information

It was not possible to review data on bank-branch closure at a national level. There was insufficient public information available to build an analysis of individual bank branches in deprived areas. As shown in the previous section, the only data readily accessible is that of current bank-branch location, which can be found on each of the bank's websites or through the Experian database.

Historical bank-branch information is very difficult to find and requires archive searches. The study of bank-branch closure completed by the Geography Department of the University of Nottingham represents a comprehensive analysis of

## Best practice:

Fair Finance is a community development finance institution (CDFI) located in London. It is not a bank and so does not accept deposits but makes affordable personal loans and small business and social enterprise loans. It has released two disclosure reports to date, one covering the period April to August 2005 and the other April to December 2005. They provide a breakdown of the number and value of the loans it has made, as well as the loan applicants they have turned down, by gender and location.

### Table 9: Disclosure of basic bank accounts

| As at 31 December 2005 | All banks | Barclays | RBS | Lloyds TSB | HSBC | HBOS | Co-op |
|---|---|---|---|---|---|---|---|
| Accounts w/basic banking features | 5,934,155 | 379,000 | 800,000 | 348,000 | ? | 3,633,810 | 47,628 |
| Accessible through the post office | 2,368,356 | ? | ? | ? | ? | ? | ? |
| Located in deprived areas | ? | 45,000 | ? | ? | ? | 293,810 | ? |
| Percentage | ? | 11.9% | ? | ? | ? | 8.1% | ? |

***Sources:*** BBA press release, Barclays CSR report 2005, LloydsTSB CSR report 2005, HBOS CSR report 2005, The Co-op CSR report 2005 and RBS CSR Report 2005.

the effect of branch closure on deprived communities nationwide. The data made available in this report does not assess the performance of individual banks, as this was outside of the scope of the report.

## Basic bank accounts

The importance of the provision of basic bank accounts as part of UK banks' strategy to address financial exclusion has been discussed above. Basic bank accounts were introduced in 2001 as part of a drive by the Government to achieve universal banking services to prepare for direct payment of benefits. On the basis of the relevance of this issue to financial inclusion policy, this section considers data available on basic bank accounts at a national level.

### Selected availability of data

National information on bank provision of basic bank accounts is available on a selected basis as shown in Table 9. The information is presented as of 31 December 2005 – the latest date for which the individual banks have released figures.

All banks and building societies that offer basic bank accounts release their data quarterly to the BBA, which presents these figures in an aggregated format. On the basis of this information, a rudimentary analysis is possible. Of the big four banks, Barclays, RBS Group and LloydsTSB independently provide individual information on their provision of accounts in their CSR reports. HSBC provides no information relating to basic bank accounts. HBOS and the Co-operative Bank also disclose information on the numbers of basic bank accounts offered in their respective CSR reports.

HBOS leads the provision of basic bank accounts with a 61 per cent market share. Halifax has been offering a Cardcash Account since 1983 and Bank of Scotland an Easycash Account since 1991. These accounts have been used by HBOS to meet their obligations to offer basic bank accounts, and are together labelled 'social bank accounts' by the bank. Only 8.1 per cent of HBOS's 3.6 million basic bank accounts are located in deprived areas, indicating a lower proportional presence than Barclays at 11.9 per cent. HBOS maintains an additional 159,444 current accounts in deprived areas, which represents 3.5 per cent of its total current accounts. In total, 5.5 per cent of HBOS's total bank accounts – both basic bank accounts and current accounts – are located in deprived areas.

Among the banks, HBOS is unique in providing a socio-economic profile of their basic bank account customer base in its 2005 CSR report. Twenty-five per cent of customers with an HBOS basic bank account have of income of less than £4,500 a year, whilst 31 per cent have incomes of between £5,000 and £9,499, roughly the minimum wage. This information is helpful to determine the extent to which basic bank accounts are used by disadvantaged individuals, and will ideally be presented on a systematic basis in the future.

**Table 10: Latest figures on basic bank accounts**

| As at 30 June 2006 | Accounts | % of total |
|---|---|---|
| With basic banking features | 6,514,992 | |
| Accessible through the post office | 2,544,254 | 39% |
| Opened since April 2003 | 1,939,973 | 30% |
| Located in deprived areas | N/A | N/A |

***Source:*** British Bankers Association press release dated 05/10/2006

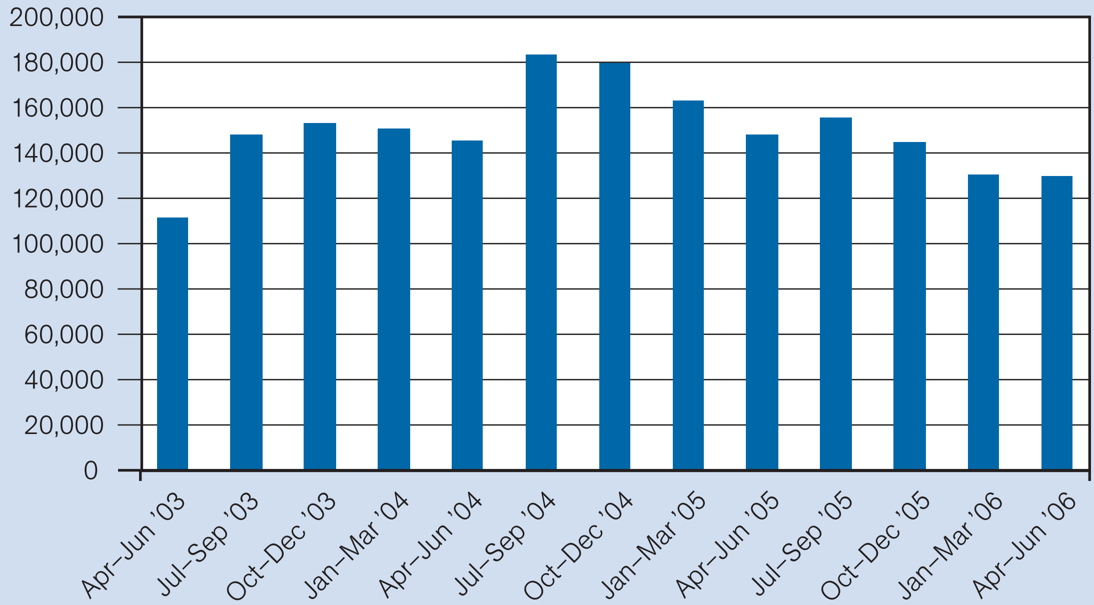
### BBA information: restricted in scope

The BBA provides regular information on basic bank accounts. This is positive in that it allows for a degree of simple analysis, particularly in comparing the number of basic bank accounts opened over time. The BBA data remains limited, however, and is restricted to a short summary of figures that does not permit breakdown by bank or local area.

The latest available figures from the BBA press release on provision of basic bank accounts are presented in Table 10. Since December 2005, the BBA has changed its representation of all 5.9 million accounts as basic bank accounts, and instead refers in the press release to 'accounts with basic banking features'. This change likely reflects the observation that accounts not specifically aimed at the financially excluded were previously included in the total count.

The BBA also provides further information that only 39 per cent of the "accounts with basic banking features" are accessible through the post office, and only 30 per cent of all such accounts have been opened since April 2003, the launch of universal banking initiative by HM Treasury.

**Figure 7: Opening of basic bank accounts quarter by quarter**




***Source:*** British Bankers Association press release dated 05/10/2006

Based on the series of BBA press releases, Figure 7 illustrates the quarterly number of basic bank accounts opened since the launch of the universal banking. This figure shows that the opening of basic bank accounts has slowed since its peak in the quarter from July to September 2004.

The difficulty in tracking progress on issues of financial exclusion and the number of unbanked is a recognised challenge. This has been highlighted by the Financial Inclusion Task Force (FITF) in its release of an interim progress report detailing the difficulty in comparing figures and finding data.[15] Given the importance of data on financial exclusion, and the difficulty in obtaining other baseline measures of progress, there is an urgency for banks to report more comprehensive data on basic bank accounts.

### Ineffective review of basic bank account provision

It is not possible to review the individual UK bank's performance on delivery of basic bank accounts from data provided by the BBA and the banks themselves. The reports of several independent organisations suggest that there is still uneven service provided to the financially excluded, particularly with respect to marketing, staff awareness, and training at the branch level. Problems relating to proof-of-identity requirements and unnecessary credit checks persist across intermittent branches in most of the banks. Issues relating to basic bank account opening have been raised in *Banking the Unbanked,* a report produced by the Services Against Financial Exclusion (SAFE) project at Toynbee Hall.

There is some information on the UK bank performance on the provision of basic bank accounts through the Banking Code Standards Board (BCSB), which monitors the banks' compliance against the voluntary Banking Code. The BCSB carries out mystery shopping exercises to assess the performance of the banks, and has carried out four full reviews into the provision and availability of basic accounts. The most recent report in November 2005 reveals significant additional information about basic bank accounts; however all reference to individual banks has been removed.

The BCSB report provides more insight into general patterns of bank account opening. For example, it reveals that as at the end of June 2005, basic bank accounts represented four per cent of all current accounts provided by the banks. As the BCSB notes, however, there is significant divergence between the banks on the number of basic accounts opened as a proportion of ordinary current accounts, with figures ranging from two per cent to 54 per cent. This emphasises the importance of UK banks disclosing basic bank account information and performance on an individual basis. This information would all the more powerful if it were then correlated to postcodes to enable the tracking of account take-up among deprived areas.

Additional information from the banks on the effectiveness of basic bank accounts, including customer-usage patterns, degree of account dormancy, profitability, and point of access would help to shed a broader light on issues of financial exclusion. Promoting banking inclusion is not just about meeting targets through the numbers of bank accounts opened – it is about helping people to use their accounts in an effective manner.

### Conclusion

Our research has shown that individual banks provide more information at a national level than that on an area basis. However, there is still precious little information. The gaps in the data are evident, and preclude effective analysis of patterns in financial exclusion. A variety of initiatives have been introduced by the Government in partnership with the UK banks to address both enterprise and personal financial exclusion. Yet there is still only fragmented data available from the banks to review progress on this commitment to address financial exclusion.

In fact, many of the banks have taken significant strides to implement new initiatives. Yet, the general lack of information means that it is not possible to measure and reward these positive gains.

Barclays has led the way in moving towards more comprehensive and systematic disclosure of its small-business activities. But it is difficult to draw conclusions from the data as its peers are not disclosing along the same lines or in the same amount of detail. To add to the challenge, the BBA releases small-business activity data as of mid-year and the banks at the end of year, which makes judging the performance of individual banks impossible. These problems of comparability highlight a more general trend of opaqueness and inconsistency across the data released by UK banks.

# Conclusion and recommendations

This report has demonstrated the practical benefits of area-based bank disclosure by reviewing the level of disclosure in the US as compared to the UK. The US example demonstrates that disclosure can contribute positively to local economic development.

Banks are required to release comprehensive information on investment in low-income communities in the US, yet they are not yet doing so in the UK. It is evident from our analysis that, while some UK banks have taken strides to release selected information on their activities in disadvantaged areas, a significant gap in publicly available information remains.

Financial exclusion is a complex and multi-faceted problem, of which access to banking services is only one component, albeit a critical one. Banks recognise the important role they play in building financial inclusion in deprived communities. This is part of their commitment to provide basic bank accounts, which is enshrined in the voluntary banking code. Through their local bank-branch presence and small business lending, banks can also make a significant impact on deprived communities.

**Banking services are a central part of tackling financial exclusion in deprived communities.** Alternative institutions, such as credit unions and CDFIs, can help to bridge access to financial services for those excluded from banks, but they also rely strongly on the mainstream financial services system. For this reason, it is important to have transparent and public information on the services that the banking sector provides. **Full disclosure will allow for assessment of who the banks are reaching, and who remains outside of the banking system.**

Government recognises that poverty is a localised issue and therefore requires localised data. For this reason, the *Index of Multiple Deprivation* is now calculated on a precise local basis – the super output area.[16] The same is true of financial exclusion. **Financial exclusion has a geographical component that is often localised, and therefore requires bank disclosure on a local-area basis that is consistent with measures of deprivation.**

Better information is needed from the banks, as well as other providers of financial services, as to their activities in order to paint an accurate picture of financial exclusion in an area. Area-based disclosure is the key.

**Bank transparency is a powerful tool that can help to monitor progress on the objectives of financial exclusion and to ensure effective targeting of resources.** With consistent and comprehensive information on banks' activities by local area, communities can map the patterns of exclusion and underinvestment. This provides information on which to base future investment programmes, as well as to support positive engagement and partnerships with local banks. Data on the banks that positively invest in local areas can spur local authorities to attract best performers to their community. **Without area-based bank disclosure, communities are in the dark as to how their savings and resources are being invested.**

**Transparency can be a means to highlight the positive contribution banks make to deprived communities in difficult circumstances.** Disclosure can begin to map out many of the complex issues that banks grapple with in seeking to serve financially excluded communities. Robust data from the banks could shed light on more complex aspects of financial exclusion, including patterns of customer demand, bank usage, and the profitability of serving the financially excluded.

**Transparency is the basis of greater openness and shared information that can facilitate working partnerships between banks, alternative lenders, and other community-based initiatives.** Enhanced bank disclosure can deepen understanding of market trends and patterns of service to deprived communities. Operating models or new products may be tailored to address issues that area-based disclosure brings to light.

Disclosure makes critical data on financial patterns available to academics and policy-makers. Without this information, key policies affecting disadvantaged individuals, including significant government-spending programmes, are based on partial studies and incomplete analyses.

**Banks already providing this information in other international contexts, why should they not do so in their own home country?**

The importance of bank disclosure was first presented in the Policy Action Team 3 report on *Enterprise and Social Exclusion* in 1999. This point was further underlined by the recommendation of the SITF in 2000 that banks disclose information on their lending in under-invested areas. Citing the example of the US, the SITF suggested that if banks do not release comprehensive information on an area-basis, there might be a need to implement mandatory disclosure along the lines of the CRA in the US.

We welcome the steps that some banks have made towards providing greater transparency in their activities. However, the inconsistent nature of the data combined with the lack of comparability and the fact that it is not disclosed on a local-area basis undermines its usefulness.

Bank disclosure on an area basis in the UK remains elusive, and little progress has been made since 2000. The existing practice of voluntary disclosure on the part UK banks has not been effective.

To achieve effective bank disclosure in the UK, we recommend:

- Government should consider mandatory bank disclosure along the lines of the CRA in the US.
- The BCSB should critically review the effectiveness of voluntary-based bank disclosure to ensure that standards of good banking practice, namely transparency for consumers, is enforced.
- Banks should expand data disclosed on a consistent basis to the BBA.
  - Data should include small business deposit taking and lending, basic bank accounts, and branch locations on a local-area basis comparable with the *Index of Multiple Deprivation.*
  - Disclosure should include data on personal lending on an area basis, including aggregate information on ethnicity and gender.
  - Disclosure on basic bank accounts should be expanded to include declined applications, pattern of usage, account dormancy, post office accessibility, local area of account holder, and cost of servicing the accounts.
  - Data should be comprehensive and include both deprived and non-deprived local areas.
  - Data should be reported consistently on a year-end basis.
  - Bank disclosure data should be aggregated in one location and reported with clarity to allow accessibility by the public.

These recommendations are intended to advance the issue of bank disclosure, which has been neglected in the UK of late. Our analysis demonstrates the practical value of bank disclosure, and the analytical power of such information. Data on UK bank activities is of critical relevance to ongoing debates about financial exclusion. Banks are vital participants in efforts to tackle financial exclusion. It is only with enhanced levels of transparency on UK banks' activities that we will be able to more fully understand and address financial exclusion in deprived communities in the UK.

# Further reading

*A Global Survey of Community Reinvestment Laws: The Obligation of the Private Sector to Serve the Underserved*, Woodstock Institute, August 2004.

*Banking the Unbanked: A Snapshot*. SAFE Toynbee Hall, November 2005.

*Basic Bank Account Survey*, Banking Code Standards Board, November 2005.

*Basic Bank Account Survey*, Banking Code Standards Board, July 2003.

*The Changing Geography of British Bank and Building Society Branch Networks, 1995–2003*, Andrew Leyshon, *et al.*, University of Nottingham, February 2006.

*Fair Finance Disclosure Report*, Fair Finance, March 2006.

*Fair Finance Disclosure Report*, Fair Finance, November 2005.

*Financial Inclusion Task Force: Report on Progress Towards the Shared Goal*, FITF, March 2006

*Guide to Basic Bank Accounts*, Financial Services Authority, October 2005.

*The Power of Information: Opportunities for Disclosure*. **nef** with Barclays plc, August 2003.

*Small Business Lending for Economic Development: Strategic Responses for Urban Communities*, Woodstock Institute, October 1995.

*Update on the Social Investment Task Force*, July 2003.

*Update on the Social Investment Task Force*, July 2005.

# Endnotes

1 The Chicago Six-County Area includes Cook, DuPage, Kane, Lake, McHenry, and Will Counties.

2 A thrift is a financial institution that specialises in taking deposits and making mortgage loans. Thrifts are also commonly referred to as savings and loans.

3 There are four federal regulatory agencies that implement the Community Reinvestment Act. The Office of the Comptroller of the Currency (OCC) is the primary regulator of nationally chartered commercial banks. The Office of Thrift Supervision (OTS) regulates both state and federally chartered thrift, or savings and loan, institutions. The Federal Reserve Bank regulates state banks that are Federal Reserve members and also regulates bank holding companies. The Federal Deposit Insurance Corporation (FDIC) regulates state banks that are not members of the Federal Reserve.

4 A census tract is a small geographic unit used to when collecting data during the decennial US Census. Census tracts typically range in population from 2,500 to 8,000. Their geographic size varies based on density of settlement.

5 A low-income census tract is one where the median income is less than 50 per cent of the area median income. A moderate-income tract is one where the median income between 50 and 80 per cent of the area median.

6 For this chart, the Chicago Region includes Cook, DuPage, Kane, Lake, McHenry, and Will Counties.

7 Charter One Bank is a subsidiary of Citizens Financial Group which is owned by the Royal Bank of Scotland.

8 African-American neighbourhoods are census tracts where the population is greater than 75 per cent African-American; Mixed-Minority neighbourhoods are census tracts that are greater than 50 per cent minority, but less than 75 per cent African American; Mixed-Majority neighbourhoods are tracts that are 50 per cent to 10 per cent minority; White neighbourhoods are those that are less than 10 per cent minority.

9 In 2004, depository financial institutions, which include banks, savings and loan institutions and credit unions, with more than $33 million in assets that were located in a metropolitan area and originated at least one home purchase or refinance loan were required to report data under HMDA. Non-depository lenders, such as mortgage and consumer finance companies, that were active in metropolitan areas and met certain criteria for mortgage lending activity were also required to report data. The data reported under HMDA covered the vast majority of mortgage lending activity, particularly in urban areas.

10 For originated loans on single-family properties, a high-cost loan is one where the difference, or spread, between a loan's annual percentage rate (APR) and the rate of US Treasury securities of comparable maturity if that spread exceeds three percentage points for first liens or five percentage points for junior liens.

11 The *Index of Multiple Deprivation* is based on seven domains: income deprivation; employment deprivation; health deprivation and disability; education, skills and training deprivation; barriers to housing and services; living environment deprivation; and crime.

12 From http://www.manchester2002-uk.com/whatsnew.html [access date]

13 The total number of 106 bank branches is based on available postcodes from Royal Mail. A number of 1989 bank branch locations had postcodes that were reported as no longer valid in 2006. These data points were excluded from the analysis.

14 The lending in deprived areas figure is for 30 June 2005, while the total small business lending figure is for 31 December 2005 so this percentage calculation is not comparing like with like.

15 Financial Inclusion Task Force interim progress report, March 2006.

16 Super Output Areas (SOAs) are geographical areas designed for the collection and publication of small area statistics. SOAs will give an improved basis for comparison across the UK because the units are more similar in size than, for example, electoral wards. They are intended to be highly stable, enabling the improved comparison and monitoring of policy over time.

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Photo: Marcelo Alves

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