Institution: University of Nottingham

Unit of Assessment: UoA17 - Geography

Title of case study: Influencing the provision of affordable credit in local authority areas under-served by banks and building societies

1. Summary of the impact

Leyshon and French's research on the geography of UK bank and building society branch closures influenced the decision by the Financial Inclusion Taskforce to target 25 under-served local authority areas for additional support from the government's £42m Growth Fund between 2008 and 2011. The Growth Fund, which is targeted at Credit Unions, Community Development Financial Institutions and other, not-for-profit 'third sector' lenders, enables financially excluded households to access credit on more affordable terms.

2. Underpinning research

Research by Leyshon (Professor of Economic Geography) and French (Associate Professor in Economic Geography) on the geography of bank and building society closures between 1995 and 2003, subsequently extended to 2012, revived academic and political interest in the importance of geographical variation for the wider problem of financial exclusion. The original research, carried out with the assistance of Signoretta (Research Associate), involved the construction and analysis of a Geographical Information Science (GIS) database on branch openings and closures in 1989, 1995 and 2003, as well as interviews with senior managers responsible for administering branch networks.

The key findings were: the total number of bank and building society branches declined by a third between 1989 and 2003; firms adjusted their branch networks to spatial variations in markets so that the highest rates of closure (c. 24%) were in what the Office for National Statistics (ONS) categorise as 'multicultural metropolitan areas' and the lowest rates in more affluent areas; academic and policy debates about financial exclusion need to pay more attention to the changing geography of the UK's financial infrastructure (1, 2, 3). These findings, and recent updates, have been disseminated widely to government, industry regulators and the financial policy community (4, 5, 6).

3. References to the research

1. **Leyshon, A., Signoretta P.** and **French S.** (2005) The changing geography of British bank and building society branch networks: 1995-2003 (ESRC End of Grant Report, RES-000-22-0686). Available at: http://www.esrc.ac.uk/my-esrc/grants/RES-000-22-0686/outputs/Read/bc267328-bc6a-424d-85fe-453fb42d2c9b
2. **Leyshon, A., French, S.** and **Signoretta, P.** (2008) Financial exclusion and the geography of bank and building society branch closure in Britain, *Transactions of the Institute of British Geographers* 33: 447-465. DOI: 10.1111/j.1475-5661.2008.00323.x
3. **French, S., Leyshon, A.** and **Signoretta, P.** (2008) 'All gone now': the material, discursive and political erasure of bank and building society branches in Britain, *Antipode* 40: 79-101. DOI: 10.1111/j.1467-8330.2008.00566.x

4. **Leyshon, A., Signoretta, P. and French, S.** (2006) The changing geography of British bank and building society branch networks, 1995-2003, in House of Commons Treasury Committee, *Financial Inclusion: Credit, Savings, Advice and Insurance*, Volume II (London: TSO), pp. 487-496. Available at: http://www.publications.parliament.uk/pa/cm200506/cmselect/cmtreasy/848/848ii.pdf
5. **French, S., Leyshon, A. and Meek, S.** (2013) *The Changing Geography of British Bank and Building Society Branch Networks, 2003-2012* (unpublished working paper). Available at: http://www.nottingham.ac.uk/geography/documents/events0910/the-changing-geography-of-british-bank-and-building-society-branch-networks.pdf
6. **Leyshon, A.** (2012) Branching out, *GovToday* 20 July 2012. Available at: www.govtoday.co.uk/local-government/19-economic-growth/11966-branching-out?feature=1

Copies of all of the above are also available from HEI on request.

Grants

- ESRC (£45,000) to Leyshon (P-I), Signoretta and French (Co-Is) in 2004 for ‘The Changing Geography of British Bank and Building Society Branch Networks, 1995-2003’. RES-000-22-0686.
- School of Geography Seed Corn Funding (£4,960) to Signoretta, Leyshon, and French in 2005 for ‘The Changing Geography of British Bank and Building Society Branch Networks, 1995-2003’.
- University of Nottingham Financial Services Research Forum (FRSF) (£2,278) to French, Leyshon and Meek in 2012 for ‘Changing Geographies of Bank and Building Society Branch Networks in the UK, 2003-2012’.

4. Details of the impact

Leyshon and French’s original research was published in the 2006 Treasury Committee report *Financial Inclusion: Credit, Savings, Advice and Insurance* and provided the evidence used by the Committee to recommend that the Financial Inclusion Taskforce (FIT) “***undertake a mapping exercise to determine the problem of lack of access to branches***” (a, pp. 46-7). The FIT commissioned Experian to conduct a wide-ranging analysis of the provision of financial services in the UK (b). In view of Leyshon and French’s research, Experian were specifically requested to consider the geographies of financial exclusion. The Experian reports analysed and mapped the supply of, and demand for, affordable credit delivered by Credit Unions, Community Development Financial Institutions and other, not-for-profit ‘third sector’ providers (c), as well as the supply of mainstream financial services (bank and building society branches, ATMs, the Post Office), in relation to the geography of financial exclusion (d).

Confirming Leyshon and French’s conclusions, these reports identified important geographical gaps in access to financial services and the supply of affordable credit. From a total of *c*. 450 local authority areas, “***25 ‘red alert’ areas and a further 56 ‘amber’ areas with very high or high levels of under-served demand***” for affordable credit were specified (e, p. 19). The 25 ‘red alert’ areas were Stoke-on-Trent, Corby, Lincoln, Wansbeck, Manchester, North Ayrshire, Dundee City, Halton, Easington, Gateshead, Newcastle upon Tyne, Chesterfield, Peterborough, Hartlepool, Blyth Valley, Inverclyde, Chester-le-Street, Southampton, Ellesmere Port and Neston, Torfaen, Carlisle, Derwentside, Wirral, Bolsover and South Tyneside (c, p. 19).

Acknowledging that banks and other mainstream financial institutions had already withdrawn from low income communities in their pursuit of more profitable customers, the Treasury published another report outlining how affordable credit could be extended into the 25 ‘red alert’ local authority areas between 2008 and 2011 (e). This recommended a more geographically targeted provision of credit through the Growth Fund, established by the Department of Work and Pensions (DWP) in 2004 to increase the availability of affordable personal loans via ‘third sector’ lenders, to support "***the revenue and capital funding requirements of existing high-performing Growth Fund lenders, as well as providing capital to new lenders in [the 25] priority areas***" (e, p. 28). A commitment was also secured from the major banks and the Post Office to work with the Growth Fund team to support affordable, not-for-profit credit and "***to develop new provision in [the] 25 high priority areas identified by the Financial Inclusion Taskforce***" (e, p. 28), delivered in part by free use of back-office premises and enhanced access to banking platforms.

The changed arrangements involved the establishment of new contracts with 'third sector' lenders to provide Growth Fund service in 16 of the 25 high priority areas in the first half of 2008 and an open competition for other not-for-profit agencies to extend this provision in 2009. By March 2010, 56 of the 81 priority areas (25 red and 56 amber) had Growth Fund coverage and a further 12 had plans to ensure some coverage (f, pp. 24-25). It is estimated that these targeted Growth Fund loans saved borrowers an average of between £377 and £425 in interest payments (g). As Jones (h, p. 2150) recognises: "***The material impact of this shift in policy was to make Growth Fund loans accessible to the previously financially excluded. In Southwark, Leeds, South Tyneside, Newham and Hampshire and in many other areas around the country, credit unions are effectively utilising the Growth Fund to make a real difference in providing affordable credit and accessible savings products for low income consumers***."

As a result of these changes, the mechanism through which the Growth Fund was distributed to low income households by 'third sector' providers became better attuned to the geographical variations in credit supply highlighted by Leyshon and French, significantly enhancing its efficacy. In their assessment of the Growth Fund's role, commissioned by the Treasury, Collard *et al*. argue that it provides a "***level of service to financially excluded communities [that] did not exist prior to 2006***" (g, p. 5). By March 2011, 405,134 Growth Fund loans had been distributed nationwide by 150 'third sector' lenders serving 400 communities across the country. Many of these loans were to individuals who had never previously used the services of 'third sector' providers. As Collard *et al*. (g, p. 6) make clear: "***Growth fund lenders were… primarily serving a completely new market***." Borrowers were principally from poor and deprived communities. Of those surveyed by Collard *et al*., 79% were in the two lowest income quintiles and 90% rented their homes, mainly from local authorities or housing associations. The majority of borrowers were women. Phase Two of the Growth Fund (2008-2011) has "***expanded the loan book of participating credit unions significantly and has enabled these credit unions to reach out to many more people on low incomes***" (i, p. 28). There is also a growing recognition, that low cost credit that is generated locally has the additional impact of keeping money in the community where it is spent and recycled in local businesses.

By challenging prevailing assumptions that bank and building society branch closures were inevitable consequences of technological change, Leyshon and French's research stimulated widespread interest. Their evidence was used by the Campaign for Community Banking Services (CCBS) to support its message that branch closures were increasing financial exclusion (j) and by the Building Societies Association to demonstrate that building societies were providing better service than banks in certain areas of the country. By highlighting the growing geographical discrepancies in access to financial services, Leyshon and French's research influenced government policy and helped ensure that existing schemes to increase access to affordable credit among low-income communities could more effectively target locations of greatest need. Poor and financially excluded individuals and households, so often the victims of loan sharks and exploitative 'grey market' providers that focus on areas abandoned by banks and building societies, now have better access to affordable credit.

In 2012, French and Leyshon, assisted by Meek (PhD student and Research Assistant), updated the project to explore changes in branch provision between 2003 and 2012. This reveals that the continuing reduction in bank and building society branch networks is concentrated to an even greater extent in areas of economic and social deprivation, increasing the geographical variability. Political parties have taken notice, reassessing their policies to address the processes of financial exclusion. The latest research findings were disseminated to policy makers and financial services practitioners through a press release in August 2013 that stimulated widespread media interest with national coverage by the BBC (e.g. http://www.bbc.co.uk/news/business-23759025) and the *Financial Times*. The research was formally endorsed by the Community Investment Coalition.

The key beneficiaries of the research are UK policy-makers who are better able to target resources geographically; Credit Unions, Community Development Financial Institutions and other 'third sector' providers that have greater access to targeted monies from the 'Growth Fund' and have therefore expanded their delivery of affordable credit; and those low-income individuals, families and communities that have received this enhanced provision.

5. Sources to corroborate the impact

Reports or Documents

a) HM Treasury (2006) *Select Committee on Treasury Thirteenth Report*. Available at: http://www.publications.parliament.uk/pa/cm200506/cmselect/cmtreasy/1717/171711.htm This corroborates the claim that Leyshon and French's research initiated a change in government policy relating to the geographical targeting of support for financial inclusion from 2008.
b) Financial Inclusion Taskforce (2011) *A Summary of Taskforce Research, 2005-2011*. Available at: http://transact.org.uk/library.aspx?sitesectionid=50&sitesectiontitle=Library&typecode=0001300000040002. This corroborates the claim that FIT responded to the Treasury's recommendation to complete a mapping exercise.
c) Experian and Financial Inclusion Taskforce (2007) *Mapping the Demand for, and Supply of, Third Sector Affordable Credit*. Available at: http://webarchive.nationalarchives.gov.uk/+/http:/www.hm-treasury.gov.uk/d/research.pdf. This corroborates the claim that FIT responded to the Treasury's recommendation to complete a mapping exercise.
d) Experian and Financial Inclusion Taskforce (2009) *Mapping the demand for, and supply of, a wider range of financial services providers* Available at: http://transact.org.uk/library.aspx?sitesectionid=50&sitesectiontitle=Library&typecode=0001300000040002&page=2. This corroborates the claim that FIT responded to the Treasury's recommendation to complete a mapping exercise.
e) HM Treasury (2007) *Financial Inclusion: An Action Plan for 2008-2011*. Available at: http://www.dwp.gov.uk/docs/financial-inclusion-actionplan061207.pdf. This corroborates the claim that Leyshon and French's research influenced government policy relating to financial inclusion and that this influence continued after 2008.
f) Edmonds, T. (2011) *Credit Unions* House of Commons Standard Note. Available at: http://www.parliament.uk/briefing-papers/SN01034. This corroborates the claim about Credit Union expansion.
g) Collard, S., Hale, C., and Day, L. (2010) *Evaluation of the DWP Growth Fund*. Available at: http://www.bris.ac.uk/geography/research/pfrc/themes/finexc/pfrc1101.pdf. This corroborates the claim about the impact on access to credit for members of poor and financially excluded households.
h) Jones, P.A. (2008) From tackling poverty to achieving financial inclusion: the changing role of British credit unions in low income communities, *The Journal of Socio-Economics*, 37: 2141-54 http://dx.doi.org/10.1016/j.socec.2007.12.001. This corroborates the claim about the expansion of affordable credit into priority areas.
i) Jones, P.A. (2012) *Strategies for Growth: A Research Study into the Progress and Development of Credit Unions in the North East of England and Cumbria* Northern Rock Foundation. Available at: http://www.nr-foundation.org.uk/wp-content/uploads/2013/01/GDA-STRATEGIES-FOR-GROWTH-SEPTEMBER-2012-FINAL-2-2-jan-9-corrections.pdf. This corroborates the claim about credit union expansion.

Copies of all of the above are also available from HEI on request.

Individual Beneficiaries

j) Statement from the Director, Campaign for Community Banking Services (details provided on submission system), 11 September 2013. This corroborates the claim about the importance of the research in lobbying for political action on financial exclusion. Beneficiary can be contacted by the panel if further testimony is required.