

Financial Exclusion in the UK: Evidence on Ethnicity

Roberta Adami 

Westminster Business School, London, UK

E-mail: r.adami@westminster.ac.uk

Promoting access to suitable and affordable financial products and tackling financial exclusion has become a prominent feature of the political agenda in the UK, as the second annual ‘Financial Inclusion Report’ was published in November 2020 by the Department for Work and Pensions. This study provides an empirical analysis on financial exclusion and its association with ethnicity, using data from the UK’s Family Resources Survey. The analysis offers important new evidence on the significance of ethnicity, and it further identifies gender, family type and income as other key factors associated with access to financial products. The findings provide a valuable, new empirical dimension to our current understanding of financial exclusion and its links to ethnicity, inform the relevant political debate, and offer key evidence in support of policy initiatives targeted at enhancing financial security and well-being.

Keywords: Financial exclusion, ethnicity, empirical analysis.

Introduction

A broad definition of financial inclusion denotes availability, access and use of financial products and services and has been associated with the concept of social exclusion (Khan, 2008; Warburton *et al.*, 2013) whereby personal financial management is identified as key for social participation. Kempson and Collard (2012) define a financially inclusive society as one where individuals can manage financial transactions through access to bank accounts, meet one-off expenses through sufficient savings and insurance products, manage loss of earnings through saving for retirement and avoid problem debt.

The history of the public debate on financial inclusion in the UK is comparatively recent. It was recognised as a policy priority by the New Labour government in 1997, with the view that tackling financial exclusion was key to reducing social exclusion. Policy initiatives led to the publication of ‘Promoting Financial Inclusion’ by HM Treasury in 2004 (HM Treasury, 2004) and the constitution of a Financial Inclusion Taskforce in 2005. However, subsequent governments did not show the same interest and commitment. The Coalition Government abandoned many initiatives on tackling financial exclusion (Ryder and Thomas, 2011). In a shift towards welfare cuts, the Financial Inclusion Taskforce – that helped reduce the number of unbanked – was disbanded and never replaced; the Financial Inclusion Fund which provided face-to-face advice was withdrawn. Political attention resurfaced in 2015 with the publication of the Financial Inclusion Commission Report (FIC, 2015), and the Report from the House of Lords Select Committee on financial exclusion and access to financial services (House of Lords Select Committee on Financial Exclusion, 2017).

The Report from the Select Committee published in 2017, describes the current levels of financial exclusion as unacceptable, too many citizens lack access to financial services despite the prevalence and levels of innovation of the UK's financial sector. Widespread reliance on expensive, unsuitable financial products means that many are subject to significant poverty premiums, exacerbating the negative effects of financial exclusion amongst the poorest. The Report suggests that those most at risk of paying a poverty premium live in single adult households and are from ethnic minorities. One of the Committee's recommendations was a strong government lead to promote financial inclusion as a key policy objective.

Social policy research on financial exclusion is scarce, despite the wealth of evidence on the links between ethnicity and financial disadvantage (Ginn and Arber, 2001; Barnes and Taylor, 2006; Gough and Hick, 2009; Sefton *et al.*, 2011; Gough and Adami, 2013; Vlachantoni *et al.*, 2017). This study addresses and confirms the difficulties experienced by some ethnic groups within different dimensions of financial exclusion and provides key insights for the implementation of policies aimed at increasing levels of financial wellbeing. The multi-faceted nature of financial exclusion is acknowledged by using a definition that refers to daily management of financial transactions through bank accounts; sustainability of debt; retirement planning and access to home content insurance, as used by Kempson and Collard's (2012) and in Rowlingson and McKay's Report (2017). The findings of this study substantiate the association between ethnicity and financial exclusion, contribute to a better understanding of participation with financial services and can assist policy makers in enhancing inclusion.

The next section discusses the concept of financial exclusion and the relevance of ethnicity, the Data and Methodology section describes how the empirical study was performed, the Results section presents the findings; the final sections provide a comprehensive discussion of the findings, conclusion and policy considerations.

Financial exclusion

The debate on financial exclusion has typically taken place between financial industry participants, regulators, government agencies and consumers, whilst limited empirical academic research has been carried out within the remit of consumer policy, money management or in cross-national studies (Collard *et al.*, 2001; Devlin, 2005; Collard, 2007; Rowlingson and McKay, 2017; Grohmann *et al.*, 2018). Prabhakar (2019) notes that applied research on this subject rarely refers to theoretical social policy literature, while scholarly work has developed in isolation from the practical implications of the different facets of financial exclusion.

While a broad definition of financial exclusion refers to the lack of citizens' participation with the financial system, empirical analyses need to recognise its different practical dimensions, linked to one another but undeniably distinctive – specifically, managing daily financial needs, using sustainable borrowing, smoothing income over time through savings and insurance. Short-term money management relates to accessing current and basic bank accounts to perform daily financial activities. Long-term planning refers to precautionary savings and access to insurance products to mitigate losses of income owing to retirement, ill-health or changes in employment and protect against negative unforeseen financial events. Sustainable borrowing refers to efficient debt management and avoiding problem debt (Rowlingson and McKay, 2017).

Undeniably, the definition above implies individuals' engagement with financial services; the government's drive towards greater financial inclusion has been the subject of criticism by some, notably Berry (2015, 2016) and Marron (2013, 2014), who perceive it to be a way of offsetting the effects of cuts to welfare systems by investing individuals with the responsibility for their own financial wellbeing. In the move towards 'financialization of everyday life' promoted by the shift towards neoliberal policies, individuals are encouraged to be active subjects in financial markets, often without adequate knowledge or information and so increasing their financial risk and vulnerability (Atkinson *et al.*, 2007; Sherraden, 2013; van der Zwan, 2014; Rowlingson *et al.*, 2016). Tackling financial exclusion may therefore be perceived to serve the purpose of increasing the influence of market logic on society with consequent proliferation of complex financial instruments unless effective regulation and independent financial advice are in place (Gloukoviezoff, 2011).

However, it can be maintained that addressing financial exclusion would enable vulnerable groups to reduce the costs and stigmas associated with it, which often contribute to a wider sense of social exclusion (Warburton *et al.*, 2013). An early UK study by Collard *et al.* (2001) highlights that those more likely to be excluded from financial services are often on low incomes, living alone and from ethnic minority groups. Poverty and deprivation are particularly relevant in preventing access to basic financial products (Bradshaw and Finch, 2003), precluding the most basic level of financial inclusion and social participation (Pantazis *et al.*, 2006).

Evidence on ethnicity

The importance of better understanding ethnic minorities' financial circumstances is twofold. Firstly, ethnic groups represent substantial sections of the UK population; Nomis (ONS) reported that Asian groups constitute 6.23 per cent of the population, Black groups represent 3 per cent, while Chinese and 'others' represent 0.7 and 0.9 per cent respectively¹. Secondly, the persistence of significant gaps in financial wellbeing between ethnic minorities and White British has been reported by many valuable studies (see Ginn and Arber, 2001; Khan, 2010a; Ginn and MacIntyre, 2013; Gough and Adami, 2013; Vlachantoni *et al.*, 2017). The disadvantages in terms of earnings, employment status and continuity experienced by some ethnicities are well documented – however, the considerable diversity within the ethnic population is worth noting. Pakistani, Bangladeshi and Black individuals are more likely to experience precarious employment conditions, hold lower levels of educational qualifications and have family values that may not prioritise paid work (Vlachantoni *et al.*, 2015). Heterogeneity between groups was confirmed by a recent report for the House of Commons (2020), showing persistent income inequality amongst ethnic minorities. Between 2016 and 2018, the median weekly household income for Indian respondents was above that of White British (£538 and £518 respectively), while for Pakistani, Bangladeshi, and Black groups it remained stubbornly low (£334, £365 and £408 respectively).

Concerns about the levels of financial exclusion experienced by some ethnicities were expressed by Khan in his notable studies published in 2008 and 2010. Khan's key findings show that financial exclusion amongst ethnic minorities is the result of disproportionate numbers of individuals below the poverty line (including in-work poverty) compared to the rest of the population and a persistent disadvantage in the labour market

even for qualified workforce. Interestingly, lack of trust in financial institutions and scepticism towards mainstream banking practices are also key in low financial engagement (Pensions Policy Institute, 2016; Salignac *et al.*, 2016). Khan highlights the importance of impartial money advice services and draws attention to the provision of complex financial products, often unsuitable for low-income households.

Crucially, there is little up-to date evidence on ethnicity and financial exclusion. This study uses the Family Resources Survey, a most comprehensive source of socio-economic data, to gather key financial and demographic information in a sample that reflects the composition of the UK's adult population. The article evaluates the extent of financial exclusion by using multiple logit regressions on its distinctive dimensions.

Data and methodology

The Family Resources Survey

Every year since 1992, on average, over 20,000 households take part in the Family Resources Survey (FRS). The survey is conducted by a consortium including the Office for National Statistics and the National Centre for Social Research on behalf of the Department for Work and Pensions (DWP) and it provides information about living standards of those aged sixteen and above, resident in the UK. The FRS is used to assess the effectiveness of social security reforms and monitor the impact of policy changes. Information is available on a range of topics related also, but not exclusively, to individuals and households' demographic traits and financial circumstances. The Survey provides an extensive, nationally representative dataset that uses a two-stage stratified random sample drawn from the small users' Postcode Address File (PAF). The sample size has varied over the years, with just over 19,000 households interviewed in 2018/19 (DWP, 2020²).

The FRS is the most suitable large-scale dataset available for this study, providing extensive, financial, socio-economic information and detailed demographic data. The empirical analysis refers to data collected on a total of 13,477 respondents in 2018-19, of which 88 per cent are of White British origins, 2.5 per cent are Asian-Indian, 1.8 per cent Asian-Pakistani, 0.7 per cent of Bangladeshi origins, 0.60 per cent are Chinese, 2.6 per cent are Black/African/Caribbean/Black British while 3.8 per cent belong to other ethnicities. These values are in line with those provided by the Office for National Statistics' Nomis (Office for National Statistics, 2014), which combines data collected in the censuses for England and Wales, Northern Ireland, and Scotland. The final sample includes over 1,600 individuals from ethnic minorities, beside the reference group of White British respondents. Those aged over State Pension Age of sixty-five and anyone in receipt of a pension were not included to enable a clearer assessment of retirement planning. The sample obtained can be considered adequately large when compared to similar studies (see Warren, 2015; Vlachantoni *et al.*, 2017) and with sufficient cell counts to allow for the empirical analysis. Table 1 shows the summary of data by ethnic group across the four variables used in the study.

Table 1 Summary of sample by ethnicity

Ethnicity	No bank accounts		Debt as a burden		Lack of pension participation		No home insurance	
	N	%	N	%	N	%	N	%
White British	577	69.30%	1316	77.78%	2253	87.34%	4935	87.36%
Indian	32	3.89%	74	4.37%	84	3.26%	146	2.59%
Pakistani	38	4.53%	58	3.43%	14	0.53%	103	1.82%
Bangladeshi	21	2.54%	30	1.76%	27	1.04%	44	0.79%
Chinese	23	2.71%	28	1.64%	24	0.95%	40	0.71%
Black/ African/ Caribbean/ Black British	70	8.41%	84	4.96%	70	2.71%	140	2.48%
Other EG	72	8.63%	103	6.06%	108	4.18%	241	4.27%
Total	833	100%	1692	100%	2580	100%	5650	100%

Empirical analysis

The empirical analysis is based on a preliminary scrutiny of the dimensions of financial exclusion by ethnicity, followed by a more detailed and comprehensive study using four binary logistic regressions. The logistic models allow to assess the significance of ethnicity in relation to four dichotomous variables representing the dimensions of financial exclusion. The dependent variables were recoded as dummy variables and four regressions were run independently on 'not holding a bank account', 'defining debt as a burden', 'lacking pension participation', and 'having no home insurance'. The explanatory variables used measure individual heterogeneity by means of key socio-economic and demographic characteristics such as ethnicity, gender, family type, income, housing tenure, employment status, age and education³. The control variables included have been selected according to evidence from the literature. The relevance of gender and age on financial planning is well established and has been widely reported (Foster, 2017; Price, 2007; Lusardi and Mitchell, 2008), while Collard *et al.* (2001) show that income and family arrangements are linked to financial exclusion.

Not holding a bank account (current or basic account) defines respondents unambiguously as financially excluded and is likely to affect financial resilience and wellbeing. The difficulties faced by some respondents in keeping up with debt repayments represent another indicator of financial fragility. Retirement planning was assessed as a key factor in relation to financial security and inclusion in later life and was assessed through pension scheme participation, identified as membership to any of the following: occupational pension, any employer-sponsored pension, group personal pension, group stakeholder pensions, personal pension, stakeholder pension. Although it is recognised that property investment can complement retirement planning, recent evidence from the Wealth and Assets Survey shows large variations among ethnic minorities, with Bangladeshi and Black groups holding extremely low property levels as well as financial wealth (Office for National Statistics, 2020). Pension scheme participation serves the purpose of examining

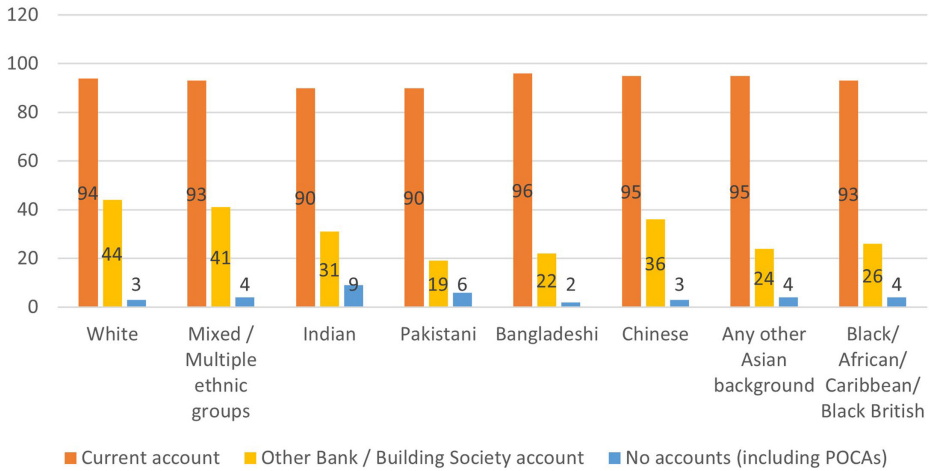


Figure 1. Bank accounts
 Source: Family Resources Survey 2018/19, Values as percentages.

exclusion from financial products and services, in line with Rowlingson and McKay’s report (2017). Lastly, the analysis evaluates access to home contents insurance, a less basic feature of financial inclusion but relevant in assessing the ability to protect possessions against damage and theft.

Results on ethnicity

A preliminary analysis is performed on ethnic groups to establish whether there are any observable differences within each area of financial exclusion. Figures 1 to 4 show percentages of those holding bank/building society accounts; those with problem debts; members of private pension schemes, holders of home contents insurance.

Figure 1 indicates that most respondents hold current accounts – however, 6 and 9 per cent of those of Pakistani and Indian origins respectively do not hold any account at all, compared to 3 per cent of White British respondents. The lack of access to basic financial products is likely to affect the efficient management of short-term financial transactions, making every-day money management more expensive, reducing the opportunities to gain regular, stable employment, and receive benefits. These initial findings are in line with Khan’s (2008) and can be attributed to factors including the reluctance to provide identity documents necessary to open bank accounts, language barriers and a general mistrust of financial institutions.

Figure 2 shows that other Asian, Chinese, and Bangladeshi respondents exhibit the highest percentages of finding debt repayments a heavy burden (44, 33 and 30 per cent respectively), while 47 and 46 per cent of Mixed Ethnic and Black respondents define debt as a slight burden. The numbers point to greater difficulties in debt management amongst some ethnic minorities. Financial knowledge and engagement but also, transparency, regulations and market structures can affect the costs of debt and the associated levels of financial vulnerability (Kus, 2015; Lusardi and Tufano, 2015; Ottaviani and Vandone, 2018). Crucially, individuals from ethnic backgrounds are more likely to be low-income

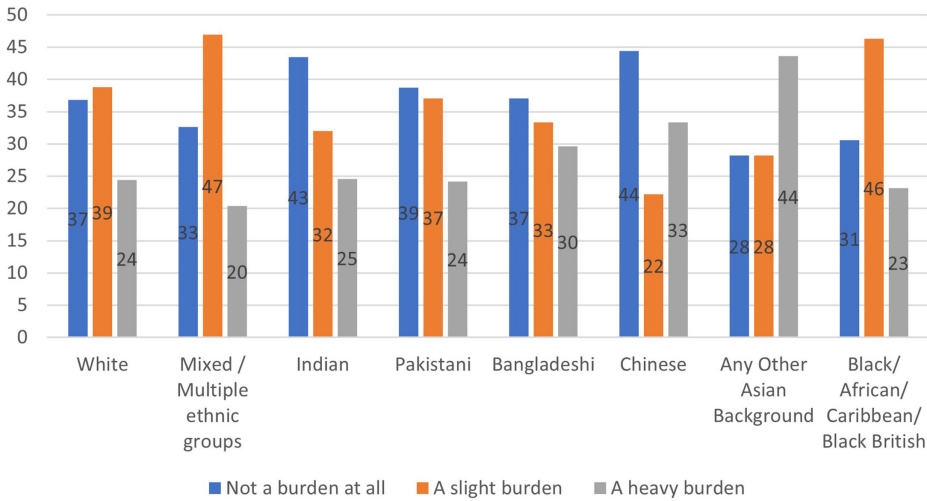


Figure 2. Loan repayments
 Source. Family Resources Survey 2018/19, Values as percentages.

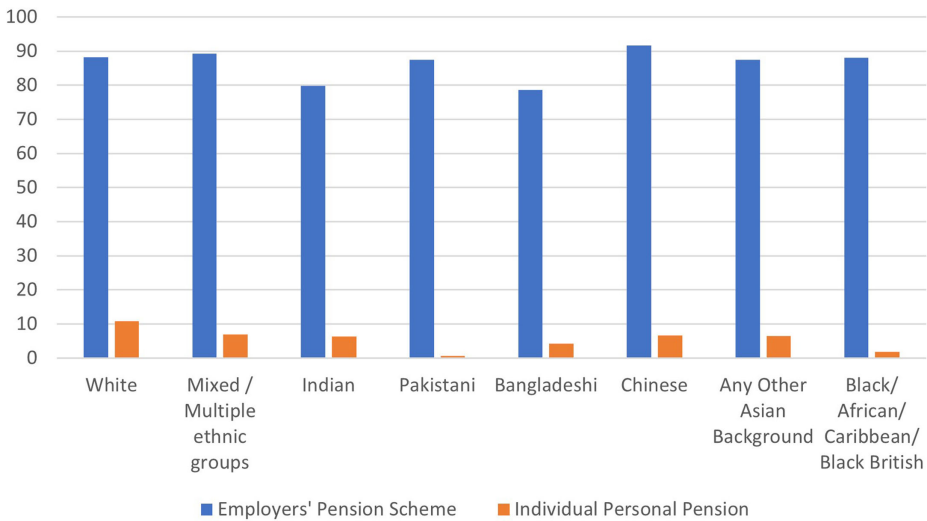


Figure 3. Pension scheme participation
 Source. Family Resources Survey 2018/19. Values as percentages. Notes. Employers' Pension Scheme participation is defined as membership to one or more of the following: 'Any employer-sponsored pension', 'Occupational pension'; while Individual Personal Pension participation is defined as holding one or more of the following: 'Group personal pension', 'Group stakeholder pension', 'Personal pension' or 'Stakeholder pension'

borrowers (Khan, 2008), which increases their exposure to poverty premiums such as higher loan fees and interest rates, due to restricted access to credit.

Figure 3 shows participation in employers' pension schemes and individual personal schemes. Participation to employers' schemes is high, due to a significant increase in

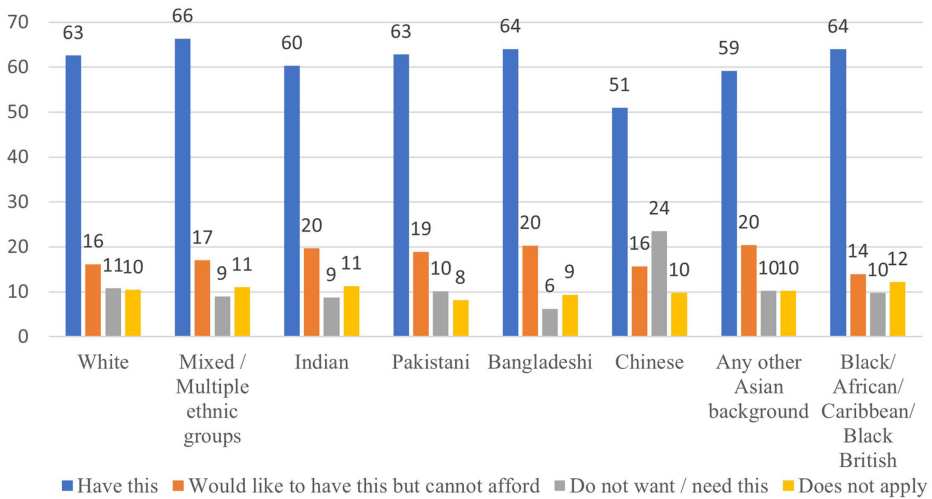


Figure 4. Home contents insurance
 Source. Family Resources Survey 2018/19. Values as percentages.

membership following the introduction of auto-enrolment and the implementation of the National Employment Savings Trust (NEST) – however, there is pronounced variation amongst ethnic groups, where participation varies between 79 and 92 per cent for Bangladeshi and Chinese respondents respectively. Membership to personal pensions is extremely low for Pakistani, Black, and Bangladeshi groups (with 1, 2 and 4 per cent respectively) compared to White British (11 per cent). The findings point to an ethnicity gap in traditional retirement planning and are in line with existing evidence on the persistence of financial disadvantage amongst some minorities, likely to originate in the workplace and exacerbating in retirement (Ginn and Arber, 2000, 2001; Vlachantoni *et al.*, 2017). Low levels of retirement savings amongst minority ethnic groups have often been attributed to persistently higher rates of part-time work, self-employment, and unemployment than the rest of the population – however, scepticism towards financial providers may be a contributing factor to the extremely low take-up of personal pensions (Khan, 2010b; Gough and Adami, 2013).

Figure 4 shows that the levels of those holding insurance amongst ethnic minorities are comparable to the White British population’s, with the only exception of Chinese respondents (only 51 per cent hold home insurance). Interestingly, 24 per cent of Chinese respondents stated that they did not want or need home insurance while 16 per cent declared not being able to afford it. The purchase of home insurance products is positively related to the levels of risk aversion and usually associated to the value of one’s possessions, so to those in low incomes it may seem an unnecessary expense (Rowlingson and McKay, 2017). It is noteworthy that one in five amongst Indian, Bangladeshi, and Pakistani respondents affirms ‘not to be able to afford insurance’.

Whilst the preliminary breakdown of the data is valuable to identify key traits amongst ethnic respondents, the analysis of the results from the logistic regressions presented in Tables 2 to 5 is essential to gain a deeper understanding of the factors associated with the probability of disadvantage within each area of financial exclusion. For this purpose, four

Table 2 Regression results on **Not holding a bank account**, based on a sample of 13,477 respondents

	%	OR	95% C.I.
Not Holding Bank Account (N=833)	6.18		
Holding Bank Account (N=12,644)	93.82		
Gender			
Male (Ref.)	47.38	1	
Female	52.62	1.047	0.953 - 1.151
Ethnic Group			
White British (Ref.)	89.04	1	
Indian	2.74	1.082	0.818 - 1.443
Pakistani	1.32	1.115*	1.005 - 1.383
Bangladeshi	0.59	1.75	0.974 - 3.143
Chinese	0.5	1.131	0.607 - 2.106
Black/African/ Caribbean/ Black British	2.71	1.126**	1.055 - 1.392
Other EG	3.11	1.077	0.829 - 1.398
Family Type			
Couple with children (Ref.)	26.1	1	
Couple with no children	22.41	1.462	1.2 - 1.778
Lone parent	9.93	1.560	1.192 - 1.903
Single no children	41.55	1.92**	1.690 - 2.650
Employment Status			
Employed FT (Ref.)	59.02	1	
Employed PT	2.97	1.642	1.483 - 1.859
Self employed	9.15	0.953	0.794 - 1.150
Unemployed	4.45	1.55**	1.365 - 1.882
Income			
Top Quartile (Ref.)	25	1	
Second Top Quartile	25.18	1.055	0.929 - 1.205
Second Lowest Quartile	24.85	0.970	0.849 - 1.112
Lowest Quartile	24.97	1.072	0.918 - 1.252
Housing Tenure			
Own outright (Ref.)	26.92	1	
Own with mortgage	32.46	0.922	0.764 - 1.012
Social renting	18.92	1.283	0.987 - 1.462
Private renting	21.45	0.87	0.69 - 1.322
Age Group			
25 to 34 (Ref.)	20.72	1	
35 to 54	47.52	1.002	0.796 - 1.100
55 to 64	21.74	1.006	0.787 - 1.118
Education			
No HE Qualification (Ref.)	71.71	1	
HE Qualification	28.29	0.071	0.881 - 1.075

Notes. Ref: Reference Category

Source. Family Resources Survey (2018/2019), author's calculations

Significance levels: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

variables were separately regressed against relevant socio-economic and demographic factors, with focus on ethnicity. The significance of the regression results provides valuable information on the financial difficulties experienced by sections of the population⁴.

Table 2 shows that those of Pakistani and Black origins are respectively 11.5 and 12.6 per cent more likely to be unbanked than White British. Importantly, employment and family type are also significantly associated with the probability of not holding a bank account. Unemployed are 55 per cent more likely to be unbanked than those in full time jobs, while single respondents (no children) are nearly twice more likely not to hold a bank account than couples with children. These are important findings as being unbanked is the most basic and fundamental dimension of financial exclusion, bank accounts allow for more efficient daily management of financial resources, are essential for gaining employment and can function as gateways to other financial services, with easier access to cheaper forms of credit, savings, insurance products. A social stigma is also often attached to being unbanked, as this can preclude access to social activities (Khan, 2008; Warburton *et al.*, 2013).

Table 3 presents the results on struggling with debt repayments and indicates that ethnicity is significant in holding unsustainable debt⁵. Those of Black origins are over 18 per cent more likely to struggle with debt than White British while respondents in the lowest income quartile are 86 per cent more likely to hold problem debt than those in the top quartile. The odds of struggling with debt are also significantly higher for respondents in social and private renting (68 and 54 per cent respectively) than for those who own their property. Lone parents are twice more likely to incur problem debt compared to couples with children, which confirms their financial vulnerability. This finding is in line with prior evidence on the difficulties experienced by single parents in keeping up with bills, as reported by Bridges and Disney (2005) and by Hurst (2011). As expected, income and age are negatively related to the odds of struggling with debt, this helps explain results on Black respondents, who tend to be over-represented amongst those in poorer and younger cohorts. The Report from the Select Committee on Financial Exclusion (2017) found that the propensity of poorer sections of the population to rely on expensive, unsuitable loans intensifies their financial hardship, but it can also be argued that the lack of availability of more suitable products means that there is little alternative to paying the 'poverty premium'.

Results on Table 4 suggest that ethnicity is significantly associated with the probability of not participating in an employer or personal pension scheme, as respondents from Black and Other Ethnic minorities are 5.6 and 4.5 times respectively more likely to fall in this category than White British. Although statistically not significant, it is worth noting that results on Bangladeshi and Chinese respondents show confidence intervals with very high upper values, indicating that they may also hold greater odds of lacking pension participation. This finding supports recent evidence on household wealth which shows that Bangladeshi, Black and 'other' groups feature extremely low levels of private pensions and property wealth (Office for National Statistics, 2020). Findings show that women are nearly 22 per cent more likely to lack retirement planning than men, providing further evidence that a gender gap still exists (Foster, 2013; Grady, 2015). For lone parents the probability of not participating into a private pension is 38 per cent higher than for couples with children, while self-employed respondents are over three times less likely to contribute to a private retirement scheme than those in full-time employment. There is

Table 3 Regression results on **Debt repayments are a heavy burden** based on a sample of 10,240 respondents

	%	OR	95% C.I.
Debt is a burden (N=1,692)	16.52		
Debt is not a burden (N=8,548)	83.47		
Gender			
Male (Ref.)	47.38	1	
Female	52.62	1.056	0.969 - 1.155
Ethnic Group			
White British (Ref.)	88.99	1	
Indian	2.82	0.937	0.723 - 1.205
Pakistani	1.38	1.076	0.750 - 1.544
Bangladeshi	0.59	1.302	0.746 - 2.281
Chinese	0.46	1.41	0.770 - 2.645
Black/African/ Caribbean/ Black British	2.63	1.183**	1.053 - 1.294
Other EG	3.12	1.012	0.795 - 1.286
Family Type			
Couple with children (Ref.)	26.1	1	
Couple no children	22.41	0.527**	0.475 - 0.589
Lone parent	9.93	2.04***	1.771 - 3.223
Single no children	41.55	1.162	1.048 - 1.29
Employment Status			
Employed FT (Ref.)	59.05	1	
Employed PT	3.08	1.054	0.816 - 1.357
Self employed	9.08	1.098	0.927 - 1.30
Unemployed	4.44	0.895	0.717 - 1.119
Income			
Top Quartile (Ref.)	25.17	1	
Second Top Quartile	25.37	1.053	0.928 - 1.186
Second Lowest Quartile	24.71	0.953	0.837 - 1.081
Lowest Quartile	24.76	1.86**	1.093 - 2.731
Housing Tenure			
Own outright (Ref.)	25.82	1	
Own with mortgage	32.89	1.092	0.768 - 1.337
Social renting	19.35	1.685*	1.279 - 1.989
Private renting	21.56	1.54*	1.484 - 2.065
Age Group			
25 to 34 (Ref.)	20.5	1	
35 to 54	47.8	1.032	0.966 - 1.167
55 to 64	21.67	0.743*	0.651 - 0.944
Education			
No HE Qualification (Ref.)	71.70	1	
HE Qualification	28.30	0.892	0.780 - 1.142

Notes. Ref: Reference Category.

Source. Family Resources Survey (2018/2019), author's calculations.

Significance levels. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 4 Regression results on **Lack of pension scheme participation**, based on a sample of 13,477 respondents

	%	OR	95% C.I.
Lack of participation (N=2,580)	19.14		
Pension scheme participation (N=10,897)	80.86		
Gender			
Male (Ref.)	47.38	1	
Female	52.62	1.217**	1.056 - 1.407
Ethnic Group			
White British (Ref.)	89.4	1	
Indian	2.74	1.542	0.955 - 2.496
Pakistani	n/a	n/a	n/a
Bangladeshi	0.62	2.567	0.614 - 10.703
Chinese	0.57	2.44	0.575 - 10.263
Black/African/ Caribbean/ Black British	2.87	5.578*	2.282 - 13.622
Other EG	3.52	4.492**	2.106 - 9.617
Family Type			
Couple with children (Ref.)	26.1	1	
Couple no children	22.41	1.003	0.830 - 1.227
Lone parent	9.93	1.382*	1.052 - 1.816
Single no children	41.55	1.023	0.863 - 1.212
Employment Status			
Employed FT (Ref.)	59.02	1	
Employed PT	2.97	1.614	1.022 - 1.938
Self employed	9.15	3.142**	2.60 - 3.665
Unemployed	4.45	2.572	1.555 - 3.792
Income			
Top Quartile (Ref.)	25	1	
Second Top Quartile	25.18	1.569	1.312 - 1.856
Second Lowest Quartile	24.85	2.032*	1.645 - 2.516
Lowest Quartile	24.97	1.7	1.330 - 2.174
Housing Tenure			
Own outright (Ref.)	26.92	1	
Own with mortgage	32.46	0.784	0.54 - 1.167
Social renting	18.92	1.87	1.121 - 2.68
Private renting	21.45	1.658	1.023 - 2.189
Age Group			
25 to 34 (Ref.)	20.72	1	
35 to 54	47.52	0.601**	0.284 - 0.807
55 to 64	21.74	0.593***	0.335 - 0.724
Education			
No HE Qualification (Ref.)	71.70	1	
HE Qualification	28.30	0.570	0.312 - 0.845

Notes. Ref: Reference Category.

Source. Family Resources Survey (2018/2019), author's calculations.

Significance levels. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Sufficient values were not available for Pakistani.

Table 5 Regression results on **Not holding home contents insurance**, based on a sample of 13,477 respondents

	%	OR	95% C.I.
No Insurance (N=5,650)	41.92		
Insurance (N=7,827)	58.07		
Gender			
Male (Ref.)	47.38	1	
Female	52.62	1.266**	1.115 - 1.436
Ethnic Group			
White British (Ref.)	89.05	1	
Indian	2.75	1.48	1.063 - 2.056
Pakistani	1.32	1.912*	1.544 - 2.670
Bangladeshi	0.59	2.44	0.746 - 6.972
Chinese	0.5	1.37**	1.023 - 1.561
Black/African/ Caribbean/ Black British	2.71	1.764	1.23 - 2.64
Other EG	3.11	1.628**	1.026 - 2.843
Family Type			
Couple with children (Ref.)	26.1	1	
Couple no children	22.41	0.92	0.793 - 1.13
Lone parent	9.93	0.945	0.740 - 1.16
Single no children	41.55	0.931	0.792 - 1.083
Employment Status			
Employed FT (Ref.)	59.02	1	
Employed PT	2.97	0.644	0.462 - 1.014
Self employed	9.15	0.823	0.654 - 1.041
Unemployed	4.45	1.462*	1.040 - 2.674
Income			
Top Quartile (Ref.)	25	1	
Second Top Quartile	25.18	1.501	1.284 - 1.756
Second Lowest Quartile	24.85	2.077*	1.80 - 2.252
Lowest Quartile	24.97	2.155*	1.941 - 2.375
Housing Tenure			
Own outright (Ref.)	26.92	1	
Own with mortgage	32.46	0.673	0.236 - 1.201
Social renting	18.92	1.812*	1.504 - 2.42
Private renting	21.45	1.985	1.562 - 2.443
Age Group			
25 to 34 (Ref.)	20.72	1	
35 to 54	47.52	0.603*	0.517 - 0.794
55 to 64	21.74	0.701**	0.648 - 0.902
Education			
No HE Qualification (Ref.)	71.70	1	
HE Qualification	28.30	0.72	0.581 - 0.96

Notes. Ref: Reference Category.

Source. Family Resources Survey (2018/2019), author's calculations.

Significance levels. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

a positive relationship between income and retirement planning, with those in the second lowest quartile over twice more likely to lack private pensions compared to those in the top quartile. Unsurprisingly, respondents aged thirty-five and above are significantly more likely to engage in retirement planning than their younger counterparts.

Table 5 shows that the odds of not holding home insurance are respectively 37 and 63 per cent higher for Chinese and Other groups than for White British, while Pakistani respondents are nearly twice as likely not to hold insurance than their White counterparts. The reluctance to pay into financial products that may be perceived costly and unnecessary helps explain these findings to some extent; this is also evidenced by the significance of housing tenure, whereby respondents in social renting are 81 per cent more likely not to have home insurance. Women are nearly 27 per cent less likely to hold home insurance than men, which, together with the lack of retirement preparedness can, to some degree, be explained by women's general reluctance to engage in financial planning (Fonseca *et al.*, 2012; Foster, 2012, 2013).

Unsurprisingly those unemployed are considerably more likely not to hold home insurance than full-time workers, while respondents in the two lowest income quartiles are over twice more likely to be uninsured than those in the top income quartile. Lastly, similarly to retirement planning, respondents in the middle and pre-retirement age cohorts are less likely to lack home insurance than younger respondents.

Discussion

This study offers new evidence that, despite the persistent wide heterogeneity within groups, ethnicity is significant in all four areas of financial exclusion. The empirical analysis identifies Black, Pakistani, and 'other' ethnic groups as being at greater risk of financial exclusion than the White British by revealing difficulties in at least two of the four areas examined. It is possible that some within these groups take the conscious decision of not engaging with traditional financial services, which would particularly affect the probability of being unbanked and not planning for retirement (Salignac *et al.*, 2016).

Lower incomes and higher proportions of unemployment may be contributing to higher levels of problem debts amongst Blacks and although these are also likely to affect other ethnic minorities, it is possible that respondents of Asian background are more reluctant to take on debt due to cultural and religious beliefs. Holding unsustainable debt can be devastating, affect mental health and represents an additional source of financial pressure (Blake and de Jong, 2008). Efforts to eradicate poverty, more stable employment conditions and a regulated credit market are necessary steps to reduce problem debt – however, they can be difficult to implement and require strong political resolve, whilst availability of impartial budgeting advice and credit management within ethnic communities could be more easily achieved and managed by independent parties.

Crucially, the analysis provides evidence on the relevance of other factors in understanding financial exclusion – for example, gender, family type, income, and age. Women are significantly less likely to plan for retirement and hold home insurance than men. The much-debated gender pay gap, discrimination at senior work positions (Vickerstaff, 2010) and part-time work reflect heavily on levels and continuity of income and financial planning (Noone *et al.*, 2010; Foster, 2012).

Family type is undeniably linked to financial exclusion: single respondents are significantly less likely to hold a bank account, while lone parents are more likely to

struggle with debt and lack adequate retirement planning, compared to couples with children. These results support Finney and Hayes (2015), who point to greater difficulties in making ends meet amongst single parents. It is plausible that the difficulties experienced by these groups are somewhat driven by today's financial challenges, including high rents and personal loan payments as poverty rates among single parents have been rising over the last decade (Joseph Rowntree Foundation, 2021). Notably, younger respondents are more likely to lack retirement planning and home insurance. Young individuals' reluctance to save for retirement is well-established (Foster, 2017) and while the government's efforts to boost retirement savings through auto-enrolment and the implementation of the National Employment Savings Trust have been successful in increasing membership to employers' schemes, there is no clear evidence on whether saving into NEST's Defined Contribution plans represents good value for money (Berry, 2021).

These findings provide new, key evidence on those most at risk of financial exclusion and, while some may make a conscious decision not to engage with financial services, it is often the case that lack of access to suitable products results in greater levels of financial hardship.

Conclusion and policy considerations

This study contributes to the current debate on financial exclusion in many ways: it distinguishes and separately examines its four dimensions: lack of access to bank accounts, struggling with debts, lack of retirement planning and home content insurance and identifies and examines the significance of demographic and socio-economic factors with focus on ethnicity. The key proposition of this study is the relevance of ethnicity in the analysis of financial exclusion, developed from established academic literature.

The unravelling of financial exclusion provides key information for the implementation of policies aimed at tackling disadvantage within each area, therefore the empirical evidence presented in this study adds a valuable new dimension to the current debate. The picture that emerges points to the significance of ethnicity, family types and income across most dimensions of financial exclusion. Black minorities and single individuals, especially lone parents, are more likely to be unbanked, struggling with debt and unengaged with retirement planning, while low income is associated with problem debt, lack of retirement planning and insurance protection.

The introduction of Post Office Card Accounts (POCAs) and basic bank accounts has increased access to limited financial services. However, according to data collected by the Financial Inclusion Taskforce in 2010 (Financial Inclusion Taskforce, 2010) about two thirds of basic accounts' holders used them only as tools to receive benefits or wages. Further reductions in the number of unbanked individuals can be achieved by promoting bank accounts more widely and widening accessibility to banking services. Policies encouraging long-term savings, like auto-enrolment to employers' pension schemes, may be effective for those in employment – however, they are inadequate for those in precarious working conditions, low wages or in self-employment (Henehan and Rose, 2018) for whom more public resources need to be made available. Removing the automatic enrolment qualifying earnings band would benefit low earners – however, tax-funded rises in state pension should also be considered to increase financial security in retirement.

Essential infrastructure and transparency are also key to enable greater inclusion within minority groups, as language and culture can constitute important barriers. High levels of mistrust towards financial institutions, commonly observed amongst ethnic minorities, can be overcome with the provision of local advice, access to more transparent financial products or through interventions supporting local community banking. Reversing the provision of complex financial products provoked by the financialisation of everyday life, and widening availability of impartial information, is key to enhance inclusion amongst those who are reluctant to engage with mainstream financial services.

Government-backed schemes, like the Breathing Space, which allows borrowers with problem debts to have legal protection from creditors' actions for a period of up to sixty days, are welcome initiatives; they provide temporary statutory relief from creditors and access to professional, impartial debt advice, as over-indebtedness has raised concerns amongst UK financial regulators. Results from the Money Advice Service's annual study on problem debt show that one in six people in the UK is over-indebted; however, less than 20 per cent of them seek debt advice (Morawiec *et al.*, 2016). Accessible and trustworthy advice is crucial in engaging individuals at an early stage of debt accumulation, to address financial hardship in a timely manner.

The analysis conducted in this study is of cross-sectional nature and is aimed at establishing early empirical evidence which, the author hopes, could set the groundwork for wider studies to include changes in financial exclusion over time, new control variables or extend the analysis to examine life-cycle changes. Further qualitative research is also needed on why some are less willing to engage with financial services to better understand the drivers behind such decisions and examine their relevance and dynamics within financial and social exclusion.

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Notes

1 The data was published by Nomis, Official Labour Market Statistics in 2014 and refers to the 2011 Censuses. Nomis is a service provided by the Office for National Statistics, where the England and Wales Census data on ethnic minorities is combined with data from the Northern Ireland and Scotland Censuses.

2 Family Resources Survey 2018/19.

3 The Chi-square between each of the dependent variables and ethnicity was significant at 0.01 significance level for 'lack of accounts' and 'lack of pension participation', and at 0.05 significance level for 'debt as a burden' and 'lack of home content insurance'. Further, expected cell count assumptions were met when computing the Chi-square.

4 The reliability of the logistic regressions results is assessed by using an overall model evaluation, goodness-of-fit statistics and statistical significance of individual predictors (Peng *et al.*, 2002). The Wald test was used to test whether the coefficients of the independent variables were statistically different from zero. The test provided results consistent with the odd ratio confidence intervals containing the value 1. Independent variables that consistently showed a Wald ratio with a p-value > 0.05 across all four regressions were excluded from the model. The model's goodness of fit was tested using the Hosmer-Lemeshow (H-L) Chi-square statistic, the Cox and Snell R square (Cox and Snell, 1989) and the Nagelkerke R Square (1991). All regressions yielded non-significant H-L values ($p > 0.05$), indicating that the model is a

good fit for the data, both the Cox and Snell and the Nagelkerke R square exhibit improvements in the goodness-of-fit when including the control variables with respect to the baseline model.

5 For the purpose of the regression analysis the dependent variable includes all respondents that are or have been struggling with debt repayments in the twelve months prior to the interview.

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