

Tackling Financial Exclusion: Data Disclosure and Area-Based Lending Data

Executive Summary

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Introduction: data disclosure as a tool in overcoming financial exclusion

Today it is recognised that fair access to financial goods and services is a basic requirement for full engagement in modern society.¹

The supply of financial goods and services is dominated by the actions of a small number of financial institutions, but substantial numbers of individuals, businesses and communities remain underserved and excluded from such market provision – or may pay a very high price to gain access to finance.

In the UK, around 1.4 million adults are without a basic bank account, 7 million are accessing sources of high cost credit, substantial numbers of SMEs continue to struggle to access bank finance, and a new round of bank branch closures have just been announced. In 2013, the unmet demand of individuals and businesses excluded from mainstream finance ('the finance gap') was estimated at around £6 billion per annum.²

But who, and where, are these underserved and excluded businesses and communities – and how can we intervene to support a diversity of providers to best meet their financial needs?

Data disclosure can support the ability to target financial exclusion, by providing the area-based lending data and information necessary to identify local lending markets and finance providers and, crucially, identify market gaps and the excluded.

As has been shown in the USA – using evidence from transparent, comprehensive and robust data disclosure – exclusion can be targeted through the actions of banks themselves, through new competition and financial partnerships with alternative and community-based providers, by the activism of empowered communities and through more effective policy interventions.

In December 2013, the British Bankers Association (BBA) and Council for Mortgage Lenders (CML) voluntarily published *net total lending* data by Postcode Sector for Great Britain drawn from participating lenders across three categories:³

- loans and overdrafts to SMEs;
- mortgages; and,
- unsecured personal loans (excluding credit cards).

This process of voluntary disclosure of bank lending data by the BBA and CML puts the UK at the forefront of international efforts for greater transparency to support financial inclusion.

This study:

- assessed the first three quarterly releases of this major new development in data disclosure and its contribution to mapping area-based patterns in personal

and SME lending markets in Great Britain (the study did not cover the mortgage lending data release).

The process included reviewing the construction and comprehensiveness of the lending data sets as well as conducting an initial analysis of the data made available;

- reviewed the ability to undertake comprehensive area-based lending analysis across providers other than banks in personal and SME markets. To draw a comprehensive picture of financial exclusion across the UK, its implications and how it is being addressed, we need to understand the lending conducted by all major sources of financial provider (bank and 'alternative') across the UK.

Overall, the study illustrates the considerable limits of the currently available area-based lending data released by the BBA and other stakeholders and recommends improvements to support the ability to assess (gaps in) local lending markets.

What does the BBA Personal Loans Lending Postcode Data tell us

The data made available places substantial limits on the possibilities for analysis, with a single variable for net lending only released.

Total net levels of personal lending vary significantly between Postcode Sector areas in Great Britain. In Quarter 4 2013 the range was from in excess of £12 million to just over £30,000 (for those Postcode Sectors with non-zero values).

Trend analysis (like-for-like comparisons over time) should be possible in time with greater numbers of quarterly data releases, although limited explanation of database construction and redaction activity introduces some uncertainties around direct comparison of reported lending totals at Postcode Sector level.

Through a process of matching of bank lending data with UK Census data for Postcode Sector, **lending per head of adult population** can be calculated.

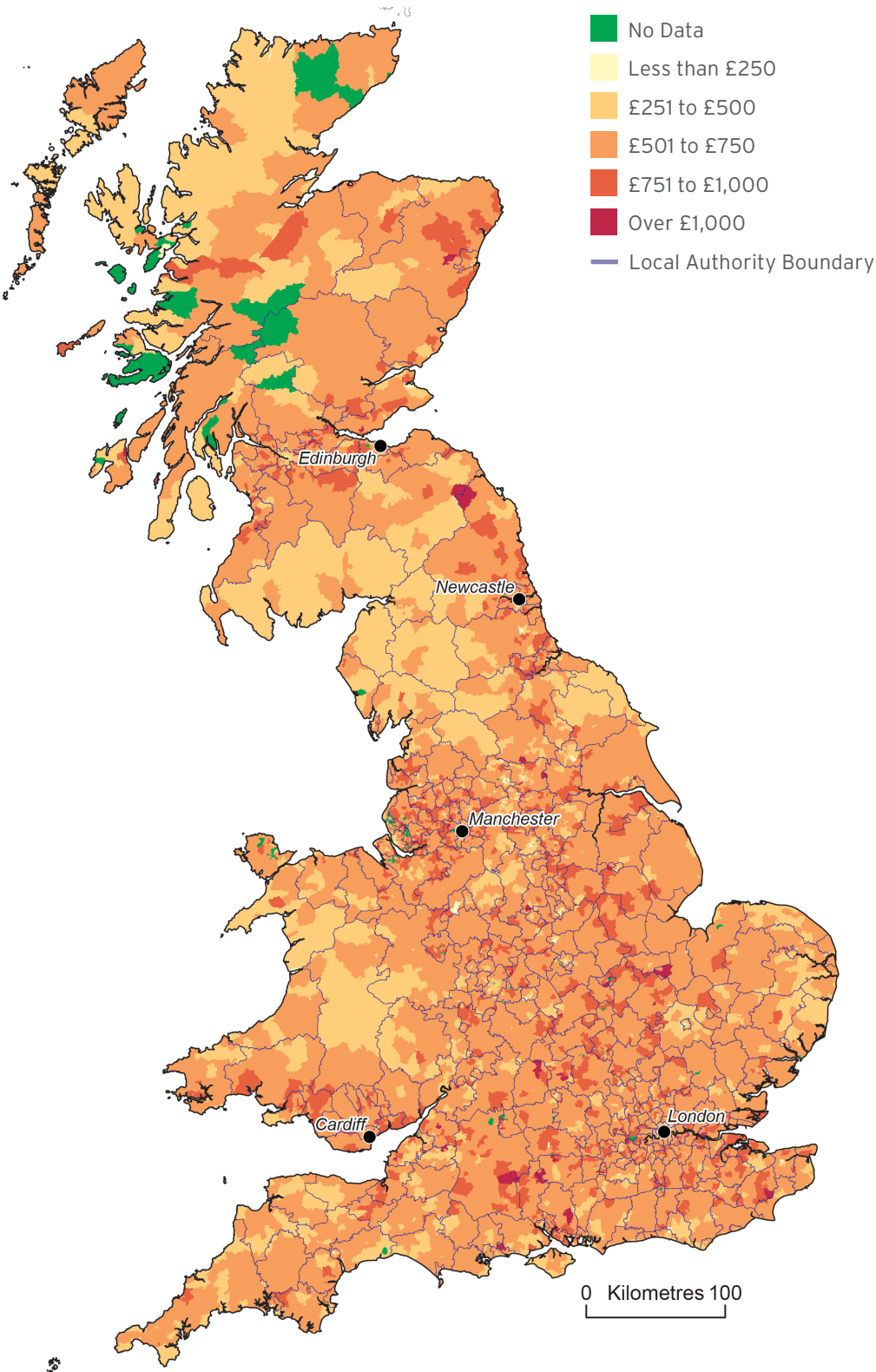
Figure ES1 overleaf provides a mapping of lending per head for Postcode Sectors against Local Authority boundaries. It can be seen that data exists for all Local Authorities but that patterns in lending are difficult to discern. One apparent pattern is of on average lower levels of personal lending in a large part of rural Great Britain (but rural Postcode Sectors tend to cover larger areas making their patterns more visible than urban areas in this map).

¹ See <http://www.communityinvestment.org.uk/>

² Henry, N. and Craig, P. (2013) Mind the Finance Gap: Evidencing demand for community finance, CDFA/RBS Group; <http://www.cdfa.org.uk/policy/publications/mindthefinancegap/>

³ See <https://www.bba.org.uk/news/statistics/postcode-lending/british-lenders-set-out-levels-of-borrowing-across-country-in-major-move-for-transparency/#.VBF9H2fQMai>

Figure ES1: Average Bank Personal Lending per Head of Adult Population by Local Authority (GB)



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Further maps of lending per head of adult population by Parliamentary Constituency and for Devolved Administrations are provided in the Annex to the main Report.

Patterns of lending, as we know, are driven by much more than levels of adult population ('being an adult who has the potential to borrow') and are related to a range of borrower characteristics (for example income, employment and credit history). Utilising UK Census data, bank lending levels by Postcode Sector were analysed against the 'deprivation characteristics' of area populations (see Conclusion 1 Box).

Overall, the BBA dataset provides a measure of the 'supply' of lending to individual Postcode Sectors. The data can be adjusted for population size (a crude proxy for potential 'area-based demand for lending') and assessed in relation to various population characteristics of the Postcode Sector. However, in the absence of any released bank lending data on numbers of lending transactions or borrower characteristics, we have no knowledge of actual (types of) bank borrowers except that they reside in a certain Postcode Sector.

Conclusion 1: The BBA Personal Lending Dataset shows that:

Median personal lending per head of the adult population across Postcode Sectors in Great Britain in 2013 was £602. Lending per adult in the lowest 10 per cent of Postcode Sectors was around two-thirds of this figure or less, whereas in the highest 10 per cent of Postcode Sectors lending per adult was around a third or more above the median.

Total personal lending tends to decline as the area's deprivation level increases (once adjusted for population size). The data confirms a previously identified lending pattern.

Publication of the data at Postcode Sector level increases the technical requirements and costs of meaningful data analysis. Given the detailed postcode base of the underlying data, there is scope to make additional data available for other more useful and commonly used units of analysis (such as Lower-layer Super Output Areas/Scottish Data Zones) through relatively straightforward processes.

Expanded data release on a range of indicators of lending activity is required to allow substantial and robust analysis of areas underserved by mainstream banks – these are needed to accurately assess how many and what types of borrowers in the local population are, and are not, receiving personal bank lending.

What does the BBA SME Lending Postcode Data tell us

Overall, the SME data made available and the lack of fit with other sources of published data places substantial limits on the possibilities for analysis.

A simple ranking using the Quarter 4 2013 data demonstrates an enormous range in the scale of total SME lending across Postcode Sectors, from £215 million pounds down to less than £40,000 in a number of localities (see Figure ES2 opposite).

Trend analysis (like-for-like comparisons over time) should be possible in time with greater numbers of quarterly data release. After three quarters of released data, there is considerable volatility evident in the SME lending data. Limited explanation of database construction and redaction activity reduces the ability to account for this volatility at Postcode Sector level, including concluding if it is a true reflection of overall lending activity.

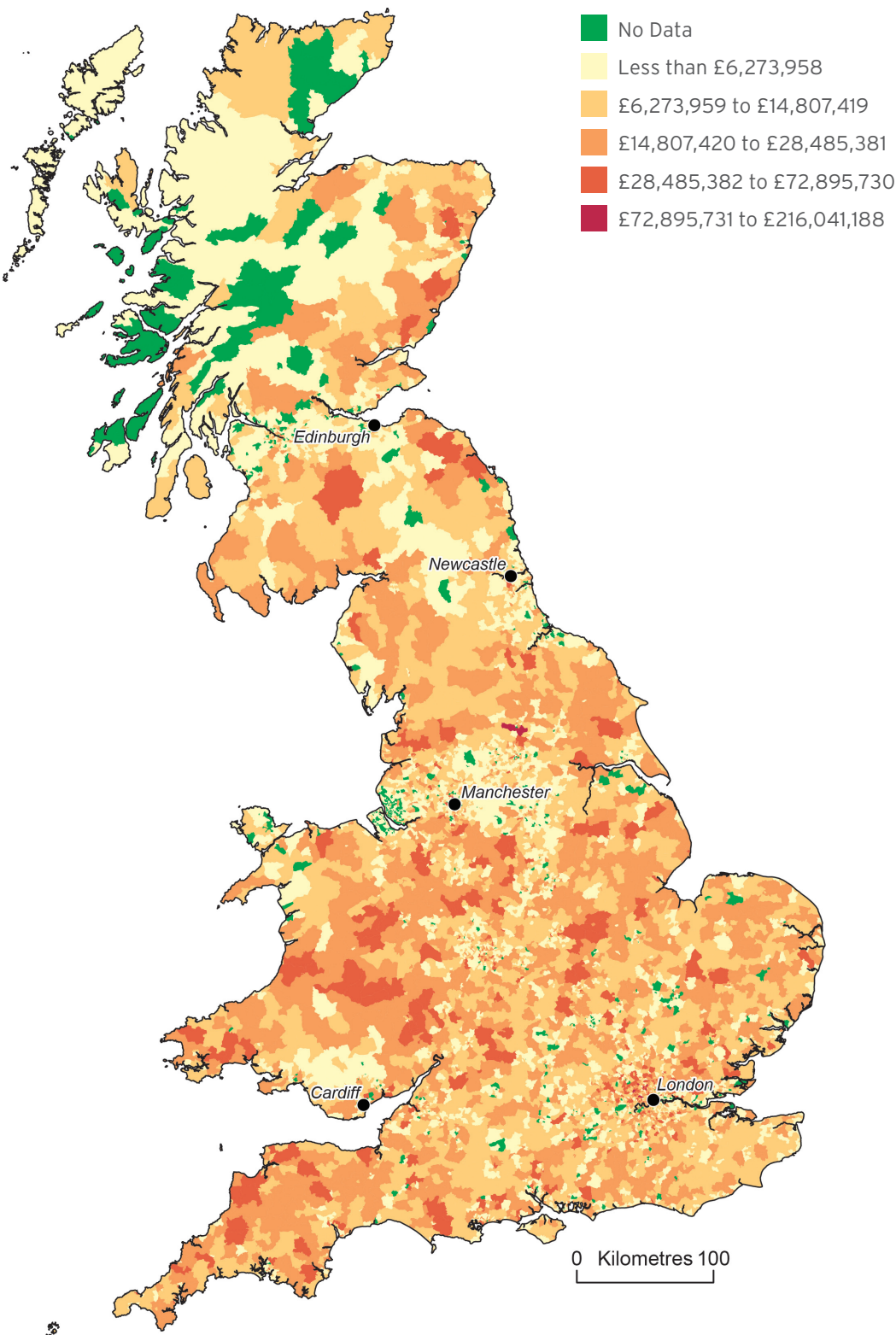
The BBA publishes a regional comparison of total SME lending figures against published data on regional share of turnover.⁴ In the most recent release, all regions and Devolved Administrations receive a share of lending within +/- 2 per cent of their regional share of SME turnover; the exceptions are London which receives 8 per cent less lending given its turnover share and the South West which receives a 4 per cent greater share of lending than its turnover share would suggest.

An alternative estimation for business population is made in the Report at the level of Postcode Area (a more detailed geography than region but considerably less detailed than Postcode Sector). This estimation involves the calculation of SME lending per business in each Postcode Area in Great Britain (see Conclusion 2 Box overleaf).

The analyses reported by BBA and ourselves seek to create plausible, if crude, proxies for potential 'area-based SME demand for lending' to be matched against the area-based SME lending figures ('supply') in the BBA dataset to provide further insight on lending patterns. It would be possible to refine the estimates presented here (using secure access microdata). However, in the absence of any released bank lending data on numbers of lending transactions or borrower characteristics (for example, micro-business or medium-sized enterprise), the potential value for understanding underserved markets and potential market gaps is considerably reduced.

⁴ <https://www.bba.org.uk/news/statistics/postcode-lending/lenders-set-out-levels-of-borrowing-from-across-the-country-2/#.VFe992c2blU>

Figure ES2: Total Bank SME lending by Postcode Sector (GB), Quarter 4 2013



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Conclusion 2: The BBA SME Lending Dataset shows that:

Average (median) SME lending per business in Great Britain in 2013 was £47,072. Lending per business in the lowest 10 per cent of Postcode Areas was below £35,000, and in the highest 10 per cent of Postcode Areas lending per business was over £68,000.

Expanded data release on a range of indicators of lending activity is required to allow substantial and robust analysis of areas underserved by mainstream banks – these are needed to accurately assess how many and what types of borrowers in the local business population are, and are not, receiving SME bank lending.

The BBA Postcode Lending Data: the need to know more

At the time of this study the BBA had released data on total lending at the Postcode Sector level for Quarters 2, 3 and 4 of 2013. While this new data disclosure is very welcome, the analytical power of the released data is **substantially constrained by the limited content of the data**. In addition, there are some ambiguities around the current process of **database construction** which place additional limits on data analysis.

Data content: a number of issues have been identified:

- *Market coverage:* the data released covers approximately 60 per cent of the total national SME lending market; and 30 per cent of the total national unsecured credit market (excluding credit cards) including only 60 per cent of bank lending within the unsecured credit market;
- *Lending totals only provide a partial picture of lending patterns:* additional data desired to allow substantial analysis would include:
 - number of transactions, including number of declines;
 - individual loan amounts;
 - markers of cost of loan release; and,
 - characteristics of the borrower (for example, gender, ethnicity) or business (for example, turnover, employment, legal form such as charity); and,
- *The use of Postcode Sector:* the scale of geographical release does not support detailed neighbourhood analysis of lending patterns; it also introduces a lack of fit with the geographical building blocks commonly used for major survey datasets on business and population characteristics (and with which lending patterns need to be linked to enable purposive analyses).

Database construction: Some data is not published due to filtering processes. There is limited accompanying guidance provided with the dataset and the process of dataset construction and quality assurance are not fully explained. Within the dataset a minority of postcodes are affected by significant levels of **volatility** across time. Without further clarity on data construction processes, it is unclear if the volatility observed is due to genuine changes in lending patterns, the use of filter processes which are applied, or some error in the data.

It would be helpful if BBA published an additional technical report detailing these issues as well as addressing expected and actual volatility in the data.

Conclusion 3: The UK BBA postcode lending data scheme is a valuable step toward bank data transparency and puts the UK at the forefront of international developments.

However, current limitations substantially constrain analysis of area-based lending patterns.

Data disclosure and area-based information for other lending market providers

The market coverage reported under the voluntary BBA scheme covers approximately 61 per cent of both the personal and SME lending markets.⁵ It does not include all bank lenders and, in addition, there exist a further set of ('alternative') lenders in personal and SME markets.

To draw a comprehensive picture of financial exclusion across the UK, its implications and how it is being addressed, we need to understand the lending conducted by all major sources of financial provider across the UK (bank and alternative). This is especially so given market developments such as crowdfunding, major regulatory developments such as is on-going in payday lending markets, and other policy initiatives such as the British Business Bank encouraging 'challenger banks' and Big Society Capital seeding social investment markets.

Table ES1 opposite provides a review of the current position on area-based lending data disclosure across the landscape of UK personal and business lending providers.

⁵ See <https://www.bba.org.uk/news/statistics/postcode-lending/british-lenders-set-out-levels-of-borrowing-across-country-in-major-move-for-transparency/#.VFUUpmc2bIV>, Point 7

Table ES1: Data Disclosure across the Lending Jigsaw

Lending Market	Provider	Disclosure of Area-Based Lending Information
Personal	'Mainstream Banks'	Recently introduced voluntary BBA Postcode Lending Data Scheme covers approximately 60 per cent of personal loans lending undertaken but data limitations substantially constrain usefulness for area-based analysis currently.
	'High cost lenders'	Currently, no annual lending data on the sector is collected which could form the basis for comprehensive disclosure, including at an area-based level. There are examples of individual lenders actively working on data disclosure and work by organisations such as the Competition Markets Authority has shown the power of area-based data provision in supporting effective regulation and consumer empowerment.
	Credit Unions	Annual lending returns are made by the sector to the financial regulator but no recent comprehensive detailed analysis of the geography of lending by credit unions exists or is regularly published.
	Community Development Finance Institutions	Recent developments in sector-wide annual reporting (Inside Community Finance) offer the possibility of area-based reporting at postcode level. Individual lender Fair Finance has pioneered data disclosure of lending.
	Crowdfunding (peer-to-peer)	Granular financial lending data is collected routinely and published (almost in real-time) by providers and, increasingly, in aggregate form as sector associations and organisations have developed. Area-based analysis is, however, lacking to date.
SME	'Mainstream Banks'	Recently introduced voluntary BBA Postcode Lending Data Scheme covers approximately 60 per cent of bank lending to SMEs undertaken but data limitations substantially constrain usefulness for area-based analysis currently.
	Community Development Finance Institutions	Recent developments in sector-wide annual reporting (Inside Community Finance) offer the possibility of area-based reporting at postcode level. Individual lender Fair Finance has pioneered data disclosure of lending.
	Asset Based Lenders	The Asset Based Finance Association release annual data on the level and type of asset based finance provided by its members but there is no area-based exploration of the data provided.
	Crowdfunding (debt and equity)	Granular financial lending data is collected routinely and published (almost in real-time) by providers and, increasingly, in aggregate form as sector associations and organisations have developed. Area-based analysis is, however, lacking to date.
	Business Angels	Recent report analysed lending at regional level. UK Business Angels Association currently undertaking major sector research project that offers the potential for detailed area-based analysis.
	Venture Capital	Comprehensive data collection and publication is undertaken voluntarily under the Walker Guidelines for Disclosure and Transparency for Private Equity – but area-based analysis is not undertaken or reported routinely.

Conclusion 4: There exists a paucity of comprehensive lending data available that is reported at an area-based level –

and which could provide the basis for detailed analysis and understanding of local lending patterns. Nevertheless:

- The voluntary BBA Postcode Lending Data Scheme places the UK at the frontline of international developments in data disclosure – but, as it currently stands, the data has substantial limitations for those seeking to understand, and respond to, local lending patterns;
- Developments in the USA based on the Home Mortgage Disclosure Act and the Community Reinvestment Act continue to provide the leading international exemplar of the power of data transparency and disclosure in lending markets;

- The Walker Guidelines for Disclosure and Transparency in Private Equity provide an example of a widely embraced – and independently monitored – voluntary industry disclosure scheme;
- In virtually all personal and SME lending markets, there exists processes of annual collection of lending data that provide the framework for area-based information disclosure. Indeed, crowdfunding platforms provide the potential model for (real-time) routine collection of granular financial data in a new era of 'open data'; and
- Individual UK pioneers committed to data disclosure – such as Fair Finance – are identifiable as lending institutions who have overcome issues of data availability, data protection and cost to use area-based information to both support their business activities and provide accountability through transparency.

Recommendations

Recommendation 1: Support the BBA, its members and other financial service providers to develop the power, value and robustness of the voluntary postcode lending data disclosure scheme through five factors (see Table ES2).

Table ES2: Recommended Developments of the BBA Postcode Lending Data

	Issue	Current Position	Recommendation
Power of Disclosure	Data 'filters'	Filter rules are ambiguous at margins.	Introduce and report a common system of cell 'markers' across reported datasets to identify reason for blank or missing data.
	Evidence of unexplained data volatility across datasets	Opaque process of data construction. Explanatory notes, including on quality assurance processes, provide little insight. 'Early days/limited number' of data releases.	Expand accompanying notes to provide detail of coverage and construction process across all participating lenders (and BBA) for each data release. Provide an additional technical report on dataset construction and which addresses issues of expected and actual volatility. The detail should allow like-for-like comparisons of data cells across lenders and data releases as much as possible.
	Use of Postcode Sector for reporting	Scale does not allow detailed analysis or ease of comparison with other key data.	Also to report at Lower-layer Super Output Areas/Scottish Data Zones (LSOA) or, if not, Middle-layer Super Output Areas (MSOA). Some trade-off between more detailed geographies and data disclosure may occur but, at minimum, this should be tested.
	Limited lending data	Total lending variable by Postcode Sector only.	Expand data release to include: number of transactions, including declines; individual loan amounts; markers of cost of loan release; and characteristics of the borrower (e.g. gender, ethnicity) or business (e.g. turnover, employment, legal form).
	Market coverage	Partial.	Seek common standard publication of lending data by all BBA members and related financial service providers.

Recommendation 2: Build on the now almost complete annual data collection and reporting exercises of most market providers to support area-based lending disclosure.

Virtually all 'segments' of the personal and SME markets are now undertaking annual reporting and disclosure of lending activity to a greater or lesser extent. This provides a set of reporting activity which, in unison, has the potential to provide comprehensive data on area-based lending and local lending markets – but only given understanding of the strategic power and operational requirements of area-based information reporting. The 'owners' of these reporting frameworks, principally trade and sector associations, should be actively engaged with and supported to develop area-based information reporting, including through highlighting existing examples.

Recommendation 3: Look to build on the UK experience of developing data disclosure to support international developments in area-based lending disclosure.

There is growing international interest in transparency, data disclosure and financial exclusion. The UK is learning from and now sits alongside the USA as an international example. Within the UK there now exists:

- Theoretical, policy and practitioner understanding of the power, costs and benefits of data disclosure, including working examples;
- A set of mainstream financial institutions engaged in voluntary data disclosure;
- Provision of lending information across personal and SME market segments and provider categories; and,
- Understanding of the key metrics and data points to support area-based lending analysis as the basis for targeted intervention.

