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Does Consumer Microfinance Expand Financial Inclusion in the UK?

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The aim of this research is to examine if consumer microfinance reduces levels of financial exclusion in the UK and to explore its impact on social inclusion. Despite an abundance of research on microfinance, it is largely based on lending for enterprise, with a developing country focus. There is a dearth of research in Europe which this study addresses by looking at a consumer microfinance institution (MFI) in the UK and assessing its ability (or not) to promote social and financial inclusion. Furthermore, what little research has been carried out has concluded that UK consumer microfinance offers 'insignificant' benefit (Lenton and Mosley, 2012:87), however this was based on poverty reduction, not financial inclusion. This work fills the gap in knowledge regarding European consumer microfinance and contributes to its ongoing debate (Corbucci, 2016). This original research, which is based on new data, leads to a greater understanding of the topic hitherto under- studied which others can subsequently build upon.

Grounded Theory (GT) methodology was used, focussing on in-depth interviews with 31 participants from a UK-based MFI. GT generates understanding in fields with little prior literature (Glaser and Strauss, 1967). It is especially apt for reaching the aims because it approaches the field with no a priori assumptions. Instead, it accesses the opinions and experiences from service users who are best placed to ascertain if they feel more or less financially included and why. Also, its core analytical tool ensures that findings are rooted in data which is useful to counteract the assertion that the design of most microfinance research is flawed because it is looking for positive social outcomes (Bateman, 2010).

The main findings are that participants experienced considerable improvements in financial and social inclusion despite poverty-line incomes and poor credit scores thus improving financial capacity and money management. The majority of lending is used for consumer consumption which meets core social needs and contributes to 'lead(ing) a normal social life in the society in which they belong' (European Commission, 2008:9). This leads to a higher standard of living resulting in important mental and physical health improvements as well as increasing self-esteem. These results provide empirical evidence demonstrating microfinance's ability to promote financial and social inclusion. The limitation of the results are that they are not generalizable because of sample size. But it could be extended to include customers from a range of consumer-lending MFIs in the United Kingdom and across Europe to ascertain if the findings can be replicated. These findings represent cutting edge research in an unexplored field of European microfinance so will make a significant contribution upon which others can build future impact studies.

Keywords: Microfinance, Inclusion, Impact, Consumption

1. Introduction

According to Coffinet and Jadeau, 'understanding and preventing financial exclusion is a major concern for policymakers worldwide' because it is understood that universal financial inclusion
brings many benefits and is therefore one of the 'main pillars of the development agenda' (2017). However, financial exclusion also exists in Europe with devastating effects. It can lead to desperation causing people to turn to expensive sub-prime commercial credit. This can create over- indebtedness which can lead to very poor individual and social outcomes such as worsening mental and physical health, relationship breakdowns and poor outcomes for children (Dayson, 2004). Despite an abundance of research on microfinance, it is largely based on lending for enterprise, with a developing-country focus, but there is a dearth of research in Europe (Kraemer-Eis and Conforti, 2009).

Examples exist of personal-lending microfinance being used in Europe as a tool to override the market failures that create financial exclusion, and this could be effective in addressing financial exclusion. But little is known about the extent by which this might occur and whether or not it contributes to positive social outcomes (Lenton and Mosely, 2012). Furthermore, what little research has been carried out has concluded that UK consumer microfinance offers 'insignificant' benefit (Ibid.: 87), however this was based on poverty reduction, not financial inclusion. This study sets out to address that information gap by examining the impact of Helping Hands (a pseudonym). They are a UK-based Community Development Financial Institution (CDFI) who provide personal-lending microfinance. In-depth interviews with customers from this organisation have been carried out in order to assess their ability (or not) to promote social and financial inclusion. This original research, based on new data contributes to the ongoing debate regarding personal- lending microfinance in Europe (Corbucci, 2016), thus leading to a greater understanding of the topic hitherto under-studied, which others can subsequently build upon.

The first section of this paper will define financial exclusion and outline the key literature regarding its causes, extent, impact, and consequences. This is followed by a section on the governmental and financial institution based solutions that have been used in industrialised countries in response to financial exclusion. The article proceeds to outline the role that commercial and not-for-profit financial organisations play in addressing the market failures that cause financial exclusion in the UK. It examines their impact, as stated in the limited literature, which provides the rationale for conducting research into this field. The research methodology is presented and is followed by the findings. The article concludes that personal-lending microfinance creates financial inclusion and is accompanied by positive social outcomes.

2. Literature Review

The European Commission defines financial exclusion as 'a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong' (European Commission, 2008:9). This definition includes the financial aspect of limited access to mainstream financial services and products, as well as the inability to lead a socially appropriate 'normal' life, otherwise known as social exclusion due to a lack of financial resources. In the UK, a 'normal' life includes, but is not limited to, participation in cultural festivities, birthdays, holidays, leisure activities and socialising with friends (Hirsch, 2015).

Causes of financial exclusion

The multivariate and intersectional causes of financial exclusion include societal, supply and demand factors. The societal factors include age, digital proficiency, level of education, and low-income (Berthoud and Kempson, 1992; Kempson et al., 2000; Coffinet and Jadeau, 2017). As a result, single parents, the unemployed and the disabled have higher than average levels of financial exclusion with unemployment incurring a fourfold risk of financial exclusion (House of Lords, 2017; European Commission, 2008). Labour market changes create lower levels of household income thus increasing the likelihood of financial exclusion (Kempson et al., 2000; European Commission, 2008).

Demand factors are reflected in Dayson's definition of financial exclusion which acknowledges the 'unwilling(ness)' of certain consumers to access mainstream finance (Dayson, 2004) due to expectation that they would be refused credit which prevents people from applying for it (Kempson et al, 2000; European Commission 2008). This is exacerbated by a lack of awareness regarding accessible lower cost providers (Boelman et al., 2016; House of Lords, 2017).

Supply factors are barriers originating from financial institutions which impede access to their products such as exclusionary determinants of credit scoring (European Commission, 2008; Vik, 2016) and the closure of bank branches (Vik, 2016) which geographically excludes people who do not live near remaining bank branches. This is exacerbated by the increased online production and delivery of financial services due to limitations in capacity and access (FCA, 2017; House of Lords, 2017). This affects 12 million people in the UK who live in remote areas with poor internet signals, and one quarter of households, (rising to almost 40 percent in Glasgow), who do not have broadband in their home. Furthermore, almost all people 80 years old and above do not use internet banking (House of Lords, 2017).

Extent of Financial Exclusion

138.6 million Europeans are financially excluded (Bruchert, 2016) with more financial exclusion occurring in Greece, Cyprus, Poland and Slovakia (Coffinet and Jadeau, 2017). This notwithstanding, in the UK 12 million Britons lack access to affordable credit (Boelman et al., 2016) and two million do not have access to a bank account (Hadjimichael and McLean, 2017). Furthermore, 14% of Britons are financially excluded (Ibid.) and 1.25 million are considered destitute (House of Lords, 2017). Lack of a bank account is problematic because it is a 'social necessity' in a modern capitalist society (Leyshon and Thrift, 1997; House of Lords, 2017) as it affects people's ability to prove their identity, pay bills, receive income from social security benefits and wages. Financial exclusion creates poverty premiums resulting from the inability to generate discounts on utilities using direct debits as a result of not having a bank account (Dayson et al., 2012) and from the high cost of expensive sub-prime credit (Davies et al., 2016).

Impact of Financial Exclusion

The way financially excluded individuals can raise, allocate, and use their monetary resources creates financial and social consequences (European Commission, 2008) and there is a clear link between financial exclusion and social exclusion (Leyshon and Thrift, 1997; Kempson et al., 2000; House of Lords, 2017) due to a lack of financial resources with which to participate in 'normal' social activities. It is to the financial and social consequences of financial exclusion that we shall now turn.

Financial consequences

People unable to get credit from banks or other mainstream financial providers often have to use intermediaries, unregulated or sub-prime lenders (Kempson et al., 2000). These can incur interest rates of between 190 percent for social enterprises, upwards of 1000 percent for some commercial lenders (European Commission, 2008; Alexander et al., 2015; Davies et al., 2016) which reduces disposable income (Dayson, 2004). Sub-prime and unregulated products may feature reduced customer protection and regulation (Dayson, 2004) and customers are at risk of unscrupulous lending practices, and aggressive and intimidating behaviour (Kempson et al., 2000). Furthermore, those that save their money at home or with friends are vulnerable to theft and loss (Kempson et al., 2000).

Despite the high cost and risks, demand for sub-prime commercial credit is strong because continued access to credit is more important than cost for people who are financially excluded (Tebbut, 1983). This is because the alternative is complete credit exclusion which increases the risk of an inability to finance their material needs, which can result in social exclusion. However, debt dependency, debt spiralling or over-indebtedness can result from using products with unaffordable repayment schedules, taking out more credit than is affordable, or accruing financial penalties on defaults and arrears (European Commission, 2008). There is also an increased risk of default on primary debt such as utility and council tax bills (Bow, 2017; Bailey, n.d.) which can further erode credit history and can perpetuate a cycle of financial exclusion.

Social consequences

Financial exclusion causes people on low-incomes to experience high levels of anxiety and worry about finances to the extent that it can impair cognitive function by up to 13 IQ points (Mani et al., 2013). This is because the brain's capacity is consumed with trying to solve financial issues and manage poverty (Ibid.) thereby making it more difficult to make economically rational decisions (Sivanathan and Petit, 2010). Financial exclusion can have negative consequences such as housing difficulties, mental and physical ill-health, relationship breakdown and unemployment (Fitch et al., 2009; Hill et al, 2016; Barnard, 2017) and is associated with inferior outcomes for children (Hirsch, 2012;Barnard,2017). The inability to access' appropriate credit may stigmatize and reduce welfare level and self-esteem' (European Commission 2008:13) having a negative effect on the overall quality of life.

Solutions to Financial Exclusion

Governments and suppliers can provide solutions to financial exclusion. Governments can use legislation to ensure fair lending. For example, in the UK, the Financial Conduct Authority (FCA) is given the responsibility for the oversight of financial institutions and used this to implement a cap on the interest rate of pay day lenders in order to protect vulnerable consumers. In the USA, banks are legally required to publish their lending decisions. This allows for public scrutiny of their lending activity and incentivises lending across the social spectrum to avoid accusations of 'redlining'. 'Redlining' is where banks lend only to the most profitable segments of the market to the detriment of the rest of the community due to subjective lending decisions that are based on postcode rather than objective abilities to repay (Dreier, 1991).

Governments can also setup interest-free loans for those on low-incomes. TheBudgetingLoan in the UK exemplifies this. Eligible recipients receive interest-free loans with repayments deducted at source. This scheme is effective as 97% of loans are successfully repaid. But demand outstrips the supply because it is a cash-limited budget with strict eligibility criteria, resulting in a rejection of a large number of applications (Resolution Foundation, 2014). It does, however, serve as a good example of what can theoretically be achieved for all low-income individuals if the criteria were modified and the scheme expanded.

Governments might also work in partnership with the third sector to underwrite loans. This has been done in France to good effect by Caisses d'Epargne, who are a regional cooperative bank, and the French government. Caisse d'Epargne created Parcours Confiance, which is a personal-lending microfinance organisation. They are partnered with the National Public Guarantee Fund which was set up by the French government to underwrite the risk (European Microfinance Network, 2015). The interest rate is less than 4 percent a year (Ibid.). These examples demonstrate that there are tools that governments can use to address financial exclusion.

Commercial financial institutions supply high cost short term credit (HCSTC) for the financially excluded. Repayments are in the form of small regular reimbursements that can be managed from meagre resources and spread over time even if the overall cost of credit is high (Boelman et al., 2016). This form of credit plays a vital role in the poor community (Graeber, 2014), and for many reasons it suits the needs of many of its low-income customers (Rowlingson, 1994; FCA, 2014). Conversely it can become the cause of a high degree of misery and despair through over- indebtedness leading to debt-spirals and debt dependency. This can create poor mental, physical and social outcomes for those affected (Fitch et al, 2009; FCA, 2014). Critics of the sector refer to its institutions as 'legal loan sharks' due to anger at the 'eye wateringly high interest rates' (Edmonds, 2018).

HCSTC has a large economic value as it represents approximately 10 percent of all outstanding personal debt in the UK in 2016 with debts outstanding to the value of £4.1bn (fca.org.uk, 2017) with 2.1 million customers (Ibid.). Demand for this form of credit is growing (FCA, 2014; FCA, 2017). The products that are primarily used include pay-day lending, rent-to-own and home-credit (fca.org.uk, 2017).

Community development financial institutions (CDFIs) in the UK provide personal-lending microfinance as a not-for-profit alternative to HCSTC in order to provide responsibly provided and affordable credit at a lower cost. In 2017, £22 million was lent to 55,348 individuals (Hadjimichael et al., 2017). It is a small sector (Dayson and Vic, 2014), being equivalent to just 3.6 percent of the value of the rent-to-own sector alone (FCAb, 2018). Their development started in the 1990s to meet local needs and was inspired by developing country microfinance, first lending to SME's, then in the early 2000s, introducing small personal-lending products 'to meet consumption needs, pay off debt, and in particular escape from the grasp of the doorstep lender' (Lenton and Mosley, 2012:11).

There are ten personal-lending CDFIs currently in the UK (Rodrigues, 2017; FCAb, 2018) and the loans are used to finance the purchase of Christmas presents, holidays, and household improvements (Lenton and Mosley, 2012:69). CDFIs continue to offer microfinance for consumption purposes at lower rates than the commercial sector.

Growth in alternatives such as CDFIs is needed in order to satisfy the credit demands of financially excluded individuals who have challenging credit scores and very low incomes whose only other recourse to credit is the 'exorbitant' commercial sector (Alexander, 2017), or illegal lenders whose rates range between 400% to over 1400% (The Guardian, 2018). However, the national impact CDFIs can have in reducing financial exclusion and deprivation is limited by the speed with which they can 'grow and support their market' (Lenton and Mosley, 2012:25). The scale and reach of CDFIs is restricted due to the small number that specialise in personal-lending to individuals (Rodrigues, 2017) and difficulties in securing long term, low-interest, patient, capital funding across the industry is a significant barrier to growth (Dayson and Vic, 2014; Boelman et al., 2016; Davies et al, 2016). In order to better understand why investment into this sector is needed, we need to be able to articulate what impact it has on those who use it.

Impact

Not much has been written on the impact of personal-lending microfinance in Europe with the European Commission stating that the impact on the access and use of moneylenders is missing from the debate on financial exclusion (European Commission 2008:84). The exception to this is Lenton and Mosley's book Financial Exclusion and the Poverty Trap (2012).

Lenton and Mosley state that the 'modus operandi of personal-lending CDFI's'....is to 'improve well-being by building the client's financial capacity' (2012:63) with an objective to 'ease the debt problems of low-income people who are financially excluded' (Ibid.:131). Furthermore, they quote Muhammed Ynus who said that 'nothing' more is required of microfinance except to lend money and get it back safely (Ibid:155). This notwithstanding, their aim was to find out if CDFI's in the UK work to eradicate poverty (Ibid.) with the conclusion that consumer lending CDFI's offer an 'insignificant average benefit for a large number of people' (Ibid.:87). However, the stated objective of consumer-lending CDFIs is not to lift people out of poverty but to lend to those who cannot get credit elsewhere and safely get it back. Therefore to use poverty eradication as a measure of impact rather than the ability to financially include, and then render that impact 'insignificant' rather misses the point because it is asking the wrong question.

Lenton and Mosley state that consumer-lending CDFIs have no 'parallel in developing countries' (2012:131) yet Bateman (2010) suggests that 80 percent of microfinance use in developing countries is for consumer purposes. Furthermore, individuals in both sets of countries find it difficult to save and use microcredit to fund consumer spending in order to maintain a socially acceptable standard of living and use the loans as an inverse way of saving (Banerjee and Duflo, 2007; Rutherford and Aurora, 2009). Individuals use loans in this way to attain the 'social benefit of financial inclusion' based on helping people move closer to the types of lifestyle that they want (Banerjee and Duflo, 2012; Graeber, 2014). According to Graeber, this lies at the 'root of why people take out loans' (2014:6507).

The problem with evaluating the impact of consumer–lending CDFI's by measuring increased savings, or exit from poverty, is that these are the aims of enterprise-lending CDFIs. Personal- lending microfinance funds their consumption needs and is not an income generating activity. Personal-lending microfinance users may develop improved financial capacity and increased savings which may make living on a low-income more manageable but it will not solve the structural causes of low-income nor, as Bateman (2010) asserts, eradicate poverty.

If microfinance does not eradicate poverty, what does it do instead? What impact does it have? Does it address financial and social exclusion? Very little known about the impact of consumer- lending microfinance on its consumers in Europe because nobody hitherto has asked those questions (Lenton and Mosley, 2012; Boelman et al., 2016). The aim of this research is to ask what impact microfinance has in the UK including the expansion (or not) of financial inclusion.

3. Methodology

A qualitative approach was adopted using grounded theory (GT) focussing on in-depth interviews with 31 customers from a large personal-lending CDFI in the UK to explore the social impact of microfinance. The name of the organisation has been anonymised to Helping Hand (HH). GT was chosen due to its ability to generate understanding in fields with little prior literature such as this (Glaser and Strauss, 1967). It is an appropriate methodological choice because it approaches the field with no a priori assumptions. Instead it accesses the opinions and experiences from service users who are best placed to ascertain if they feel more or less financially included and why. The initial open question 'Tell me about your experience of Helping Hand' was used to allow participants to explain what is important to them about their microfinance use without being led. The lack of prior assumptions, together with the use of open questions to generate data and the core analytical tool of constant comparative analysis ensure that findings are rooted in data. This is useful to counteract Bateman's assertion that the design of most microfinance research is flawed because it is looking for positive social outcomes (2010).

The limitation of the results are that they are not generalizable because of sample size. Also, the research could be strengthened by having a control group within an experimental research design in order to more conclusively isolate the impact. This could have included people who were not accepted for a loan, or people who do not use credit, but the opportunity to do so was limited by constraints of the research. Further studies including quantitative methods using a larger sample of customers from a range of consumer-lending MFIs in the UK and across Europe including a control group could be carried out based on the findings of this research to ascertain if the results are replicable and homogenous across Europe.

4. Findings

It was found that all participants demonstrated signs of financial exclusion from mainstream credit. Jenny's example is typical when she states that 'I thought I'd go to the bank, but they wouldn't let us have a loan'. When people are financially excluded from mainstream credit, they are likely to turn to commercial sub-prime commercial providers due to their extensive marketing presence. Whilst there are participants who use high-cost commercial credit in addition to microfinance and government budgeting loans, there were many who in addition to being financially excluded from mainstream credit, were also excluded from sub-prime commercial credit as Sam explains when she says that she 'applied to the payday loans that you see on TV. I even went to cash converters to try and get a loan off of them. They said no'. Three people expressed self-exclusion from the most extortionate lenders as Rhi demonstrates when she says 'forget about Wonga and I won't even use Brighthouse, they're ridiculously high'. Self-exclusion from doorstep lenders and credit cards was common due to their high interest rates and aggressive sales tactics which had led to over indebtedness in the past, as well as a dislike of their intimidating and inflexible repayment collection practices.

Low-income is a contributing factor to financial exclusion and HH's customers come from the poorest section of the income distribution. They live on poverty line incomes with an average household income of £15,803 (2016). Other contributing factors that were given included having a poor credit score. June stated that 'I don't have many credit options because my credit score is crap'. Kendra declared that being on benefits contributed to financial exclusion as 'you do get
declined loans, especially when you tell them you're on benefits'. Volatile income levels were also given as a reason as Paul explains: 'I was very annoyed when Shop a Check wouldn't let me have a loan because I'd been a good payer. It was when the benefits muck you about'. Sally explains how poor financial behaviour when young 'destroyed my credit rating from a very young age, so I've always had trouble...it's just I can't get credit', and Stephen describes how his criminal record meant that a mainstream bank 'just didn't want to know. When you mention a criminal record, a lot of barriers come up'.

When low-income and barriers such as those described above create financial exclusion, it can create money problems and without support, 'money problems don't stay as solely money problems for long, and escalate into far-reaching problems such as housing, mental and physical ill-health, relationship breakdown, and unemployment' (Clifford et al., 2014:9) due to the physiological processes accompanying high levels of worry and anxiety (Clifford et al., 2014). If this is not addressed it can escalate into other social, personal and wider economic problems. This proved to be the case with my participants who describe the impact of financial exclusion before the discovery of HH. Their emotional responses to memories of financial exclusion included feelings of 'upset', 'feeling low', 'feeling second-hand', 'not being good enough', 'discredited', that is, lacking in worth, 'jealous', 'lacking choice' and the most frequent term used was 'gutted' which is an English colloquialism which means to be extremely disappointed or upset. The longer term emotional impact of a lack of access to credit when participants were asked to think about how they would cope without microfinance is predominantly that of worry as Daysha and Lynda state:

> **Daysha**: *'I'd be a nightmare. I'd be skint and there would be a lot of money worries so I didn't sleep well'.*
> **Lynda**: *'I'd have sleepless nights, I'd worry, I'd pace, walking in and out of the kitchen, because I forgot what I wanted because I was worried about if I had enough gas or electric. I worry about everything. I think and think, shit, how are we going to do this, how are we going to do that.'*

Alexia explains how when she worries, her epileptic fits worsen: 'I'm a worrier I am, and what seems to trigger my fits off the most is being worried, being under a lot of pressure, being stressed'. Another impact of financial exclusion can be problem-debt leading to relationship problems (Hill et al.,2016). The majority of this data comes from people who are using microfinance successfully and improving their financial capacity. Therefore there is less evidence to demonstrate relationship problems. But three couple participants who use microfinance in addition to a number of additional sub-prime commercial products have become over-indebted and demonstrate signs of relationship stress as Brigid and Alan state:

> **Brigid**: *'I do begrudge her sometimes when she buys herself something and I shouldn't. But I think, we can't afford that...I think, you just bought that, but you don't really need it. We are both down about money all the time, and then sometimes we will have a bicker or argue'.*
> **Alan**: *'We were miserable and we were snapping at one another. The atmosphere was terrible in the house because other people were going out and enjoying themselves and there would be arguments and slamming doors. So when a HH leaflet came through the door, I thought, let's have a talk and see if we can improve ourselves a little bit. It really worked for us and we've never looked back'.*

The FCA 2017 report into illegal money lending states that 'the common theme we heard is that the consumers that use such lenders have exhausted all available resources and have a desperate and urgent need for money, often being tipped into using it by a crisis or unexpected particular shortfall in income' (FCA 2017:5 emphasis not in original). This resonates with the individuals interviewed as the reason many initially approach HH for their first loan is for urgent purposes such as a broken fridge or washing machine, urgent house decoration ect..., or they are tipped into it by a crisis such as children unexpectedly moving in, illness or unemployment causing a shortfall in income. Four of the participants stated that they have used, or would use an illegal money lender if they did not have access to microfinance with others saying they would take a loan at any cost if there were no alternatives as Kerri explains:

> **Kerri**: *'Dave was the money shark. He lent you money out of his money. But you borrow £500andyou'vegottopay£1100backat£50aweek. Ican'trememberwhatitwasfor, but I know that it was important, for a cooker or for a fridge freezer or something like that, something I couldn't do without. Anyway, when I paid him up, he came that week with another £500 and I said no, I don't want it. So then he got aggressive. He got nasty. He said he would send his heavies around. In the end, I had to get the police in'.*

But HH provides a way out for people so they do not have to use illegal and dangerous moneylenders as **Dessa** demonstrates:

> *'Before HH, I was getting myself into debt using pay-day and loan sharks. You haven't got HH at your door with two hefty men. It felt scary. If you couldn't afford a payment they just added more on and add charges that you'd never heard of. They're not registered they can say what they like, what are you going to do? When you needed the money, there's no other option. But now I've had HH, I'm never going to go down that road EVER again. If I need a loan or anything, HH are there to help and I know I can ring up and they will help me every single time'.*

Dessa's example above demonstrates the relief that microfinance can provide for low-income households who are in desperate need of credit. This relief comes as a result of consistent access to affordable credit on terms which meet the needs of low-income households.

I have demonstrated in the section above that this demographic experiences varying levels of financial exclusion. All are excluded from mainstream finance, many are excluded from commercial sub-prime credit, and some self-exclude from the most extortionate or inappropriate products. HH provides financial inclusion for this group in a way that is affordable. Affordability was a feature that every participant mentioned. This prevents over-indebtedness and provides a feeling of relief and safety that could be visibly seen in the majority of participants' body language when talking about how they resolved their financial problems when they had no access to affordable credit, compared to now, when they have access to personal microfinance from HH. Participants would scowl and adopt tense postures whenever they talked about doorstep lenders, pay-day lenders and financial exclusion, but when talking about HH, they would smile and appear relaxed. Stephen is happy that by using HH he 'can't get in too deep' in debt because 'you can't go over your budget because they don't let you, and that is good'.

The financial inclusion that HH provides is reflected in the highly emotional and positive responses that participants have toward the organisation. Many express gratitude as exemplified by Ian when he states that 'I can never ever repay HH for what they have done. They have taken the pressure off of me when I wanted a loan and are so pleasant when it comes to getting one'. Marie stated that 'it is horrible being on benefits, but without HH, I wouldn't have what I have now in the house. I wouldn't have carpets and every year, I've done something with the money that has improved my standard of living, improved in the house and things like that and it's been tremendous'. Daysha said that 'I was so grateful that they could lend me because I know that if I went with a pay-day company, I would have had the stress, knowing I would have to pay back over £1000'. Anna stated that HH 'has helped us get the kids back basically (because they got a car with the loan which meant that they could visit estranged children). Something that we hadn't been able to do before. That's massive'.

People appreciate that HH are flexible and understand their volatile financial circumstances. HH make sure to communicate that if people are struggling to repay, that they will help them as Anna explains: 'Sometimes, I have slipped up on payments. But they're ever so nice. They ring you up and they say, is everything alright? And I explain the situation to them, and I say, a bill's gone out, and they say, well it doesn't matter, we will just add it on to the end. Whereas, some loan companies say, (in a harsh angry voice), you've got to pay us now, or we will do this or we will put this charge on. No charges or nothing with HH'. Ash states that 'the loan I am on now was supposed to be £35 a week. But the kids went back to their mums as I was grieving. As I lost their money, I phoned HH up and explained the situation and the bloke agreed to reduce the repayments, just like that, done. I couldn't do the same with Provident'.

HH provide loans in a non-judgmental way as Elaine and Kerri demonstrate.

> **Elaine**: *'I don't feel like I'm getting judged'.*
> **Kerri**: *'I find them brilliant, they listen and they don't judge'.*

This leads to a high level of trust in the organisation as reflected in Alan's experience.

> **Alan**: *'They're not going to do something that's going to put you in trouble, I've not got any worries about that at all. I really haven't. I've got 100% faith in HH.*

People feel valued and respected as a result of financial inclusion as evidenced by Lynda.

> **Lynda**: *'Does getting access to credit make you feel more valued as a person? Yes, definitely. Because I get, obviously, nothing but knockbacks everywhere, you're not good enough to have credit from us. So being accepted by them is nice'.*

People also feel valued and respected because they are treated with dignity as Alexia shows:

> **Alexia**: *'I'm not just a person, I'm a customer. I've got their respect and that means a lot to me. I'll never have to grovel or beg for money with HH'.*

Access to affordable credit is so important to people on low-incomes because it helps them to meet their financial obligations and purchase material goods to satisfy both basic, and social necessities. This importance is reflected in the highly emotive terms they use when thinking about HH. The term 'lifesaver' was used by a number of customers as well as the term 'security'. But even stronger terms than these were used as the following statements reveal.

> **Tonya**: *'They are like a parent. You say, I need this money, and they're like, there's the money, just pay use back £20 a week'.*
> **Linda**: *'I suppose they are like my financial parents. Because they are the ones that help me out, other than like my parents, who maybe are supposed to help me, but they don't'.*
> **Alexia**: *'It's the same as my mum. HH and my mum, ...I could go to either one of them. But you don't always want your mum to know everything you do. I love HH as well'.*
> **Immelda**: *'It was like a saviour'.*
> **Daysha**: *'They are my lifeline'.*
> **Anna**: *'HH are like my backbone, they are good support.'*

By using HH, customers have found that they have improved their financial capacity. This has occurred through an ability to get control of finances as Linda and Jon state:

> **Linda**: *'They have 100% helped me to get more in control of my finances'.*
> **Jon**: *'By going with HH, it's enabled me to pay for things monthly. They can check with my bank and see that my direct debits go out on time and I never miss a payment. And that's upped my credit rating. Since having that loan I can do a lot more'.*

Furthermore, a number of people have also expressed that they are able to save using HH where they have never been able to save before. **Ashan**'s example demonstrates the common process described by participants of how a previous inability to save has been transformed by HH's saving structure:

> *'I do have a bank savings account, but nothing ever stays in it because it's immediately withdrawable. Whereas with HH, there has been times where I've had money in my savings, and I've needed it but I've not had instant access to it, you have to wait for a period of 3 days for the withdrawal. That's really good because you can't just make a rash decision to take the money out. Before when I had a crisis, I would pawn my items. I really didn't have a choice. Now I can use my savings. It feels good having something to rely on, not just a loan either, my money'.*

When people are able to gain control over their finances, the 'stress, worry, and mental consequences of the lack of control can be much reduced' (Clifford et al., 2014), and this is what comes across strongly in the data as Kendra and Judy's statements exemplify:

> **Kendra**: *'If you're worried about money all the time it drains you, physically and emotionally. Because you're thinking, I haven't got enough money to do this, or have I got enough money for that. I'm glad I'm not in that position now. HH have definitely helped me to get out of that position'.*
> **Judy**: *'Well if you've got more control, you don't lose sleep with worrying'.*

Because people are able to meet their social and material needs, they experience less depression as the following examples demonstrate:

> **Alexia**: *'If I couldn't get my child anything it would depress me. I would get really down, and then I would be worrying and stressed, which then would lead to me having a fit (epileptic)'.*
> **Alan**: *'Has HH helped increase your standard of living? Yea, just making more available that I needed... I did buy a TV for instance. Especially when you're on your own, the TV is quite a big companion. You can talk to the TV you know?*

The overwhelming evidence is that credit is empowering and the use of it reduces social exclusion. Consequentially, if people are offered 'top-up loans', the temptation to take it is strong. **Sam** explains how they felt unable to say no to this offer:

> *'Yea, they shouldn't ring up and ask you if you want to top up your loan. They should wait until you've paid it all off. They shouldn't ring you up at all unless it's about payment. That's like dangling a carrot in front of a donkey, it is. Especially when you're on benefits as well. Who's going to say no, really? But I wish to God that I never took it. You're not on a massive income, and then someone's standing there saying, I'll give you £800. You think, and this is how everyone thinks, I'll get it, I'll pay it back by Christmas. It will be fine, it will be fine. The reality is that it will not really be fine. At all.'*

This example is outside the normal experience of all but one of the participants, but it does evidence that when 'sales tactics' are used to promote this type of credit, (and it is not HH's policy to do this) that it can create total financial exclusion, even when there is current affordability, as there is nowhere else to turn should income shocks occur and all credit options have been utilized.

5. Discussion

With the exception of once case, there is strong evidence that HH does expand financial inclusion for the majority of people in this sample who are financially excluded. As a result, families are able to live lives that are closer to the social norm and they are able to basically decorate, carpet and furnish their homes which wards off depression. The loans enable them to participate in nationally recognised social activities such as Christmas and parents are happy that they can provide for their children instead of experiencing depression, worry and anxiety because of considerable financial pressures. In this way, there is evidence of improved physical health, and improved relationships. There is a stark contrast in how participants describe their negative experience of commercial HCSTC compared to their positive experience of responsibly provided and affordable microfinance. There are additional impacts demonstrated of increased financial capacity in the form of increased savings, and increased control over finances and improved attitudes to money. As a result, people who were financially excluded who now have access to affordable credit feel an enormous sense of relief and a strong sense of gratitude, value, trust and reliance toward HH

with many feeling that HH is so important to their wellbeing that they metaphorically refer to them in parental terms.

6. Conclusion

This paper set out to explore whether microfinance in the UK expanded financial and social inclusion. The results of this investigation show that microfinance provided by HH does increase financial and social inclusion by providing affordable microfinance in a flexible way which removes worry and anxiety. This has a positive impact on mental and physical health, and on relationships. People report greater levels of self-esteem due to being 'good enough' for a loan. Use of illegal lending was eliminated as a result of financial inclusion. People attributed their ability to deal with income velocity and precarity to the provision of microfinance and they were also able to meet their social needs and participate in normal social activities such as Christmas. Participants reported improved financial capacity as a result of microfinance use and increased savings as a result of the structure of HH's associated savings scheme.

This study has made an important contribution to the debate about personal-lending microfinance in Europe and whilst this evidence is limited, it does indicate that it could potentially be a life- changing tool to expand financial inclusion. I would recommend that further research in this field is carried out with a view to expanding the definition of microfinance in Europe to include personal-lending and promoting it as a responsible and affordable option for financially excluded Europeans.

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