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

Final Report
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Erratum 18 March 2016: Table 3.4 Row 5 figure has been corrected to read as - 0.1555
Sponsors Foreword

There is global acceptance that fair access to financial goods and services is critical to achieving improvements in economic well-being and tackling financial inclusion, especially amongst low income communities.

Big Society Capital, Citi, the Community Investment Coalition and Unity Trust Bank have come together to commission this research from Coventry and Newcastle Universities to support such fair access. We are organisations committed to tackling financial exclusion and believe that transparency and data disclosure have a critical role to play in achieving this. We believe that this data has real potential to improve the prospects for individuals, communities, businesses and social enterprises. This report helps to highlight the value of data disclosure while setting an ambitious agenda for a stronger data disclosure framework that can really have impact in supporting increased competition in financial service markets and tackling financial exclusion.

The G20 has identified financial inclusion (for individual households as well as enterprises) as a key driver of economic growth, reduced economic vulnerability for individual households, poverty alleviation, and improved quality of life for people around the world. It recognises data and measurement as essential to improving financial inclusion. As the importance of financial inclusion has taken hold, so has interest in better data at both the global and national level.

The United Kingdom Government has recognised the need for transparency and data disclosure within the financial services market to improve access to financial services and products through increased competition. In 2013, the launch of the voluntary framework for disclosure of bank lending data was a significant step forward in creating transparency about the provision of banking services at a geographic level.

The Financial Secretary to the Treasury, speaking in the House of Commons in July 2014 reaffirmed the Government’s commitment to data disclosure, stating that:

“...improving competition in banking is a No. 1 priority for many jurisdictions, not least the UK. The publication of the (bank lending) data will therefore play a big role in improving competition by enabling challenger banks, smaller building societies, credit unions and CDFIs to identify and move into areas that are not currently served by the larger banks. It will also mean that our economy is better served by their offering finance to customers who are crying out for support to help their business grow. I certainly believe that the project (disclosure of bank lending data) is vital and that it will play a key role in improving lending in areas where it is currently lacking”.

After the USA, the UK is now a G20 and world leader in bank transparency and has a real opportunity to set the standard for those countries looking to follow this path.

As with the release of any new data set, the opportunities and limitations of the data only become clear when people start to use it. This report is the first attempt to fully analyse the bank lending data and to really understand how it can be used to further increased competition and tackle financial inclusion. It sets out some key recommendations for how the voluntary framework can be strengthened so that it meets its original objectives and becomes a potentially replicable model for other countries to adopt.
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Executive Summary

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.

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\(^1\) See [http://www.communityinvestment.org.uk/](http://www.communityinvestment.org.uk/)


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 at 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).

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 below).

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.
Figure ES1: Average Bank Personal Lending per Head of Adult Population by Local Authority (GB)
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 down to less than £40,000 in a number of localities (see Figure ES2 below).

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

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. 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 below).

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.

**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).

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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 actually 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 – but 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. 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 overleaf provides a review of the current position on area-based lending data disclosure across the landscape of UK personal and business lending providers.

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 exist 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.

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### Table ES1: Data Disclosure across the Lending Jigsaw

<table>
<thead>
<tr>
<th>Lending Market</th>
<th>Provider</th>
<th>Disclosure of Area-Based Lending Information</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personal</strong></td>
<td>‘Mainstream Banks’</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>‘High cost lenders’</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Credit Unions</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Community Development Finance Institutions</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Crowdfunding (peer-to-peer)</td>
<td>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.</td>
</tr>
<tr>
<td><strong>SME</strong></td>
<td>‘Mainstream Banks’</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Community Development Finance Institutions</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Asset Based Lenders</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Crowdfunding (debt and equity)</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Business Angels</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Venture Capital</td>
<td>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.</td>
</tr>
</tbody>
</table>
## Recommendations

Recommendation 1: Support the BBA, its members and other financial service providers to further 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

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

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.
1 Why this Report?

1.1 The issue of financial exclusion

Financial exclusion is a pervasive issue within UK economy and society made both more transparent and intense in the aftermath of the global financial crisis. Today, it is recognised that fair access to financial goods and services is a basic requirement for full engagement in modern society.

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 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.

1.2 The contribution of data disclosure to tackling financial exclusion

In 2000, the UK Social Investment Task Force (2000) identified bank data disclosure as an important tool in tackling financial exclusion.

In 2006, drawing on bank data disclosure experience in the USA, the New Economics Foundation (NEF) demonstrated the power of potential disclosure and how transparent and public information can identify who, and where, the banks are reaching - and who remains outside of the financial system.

Mapping localised patterns of lending supports understanding of why patterns of financial exclusion occur and how these patterns may be targeted through the actions of banks themselves, in partnership with alternative and community-based alternative providers and through policy interventions. However, in 2006, NEF concluded that ‘there is virtually no area-based disclosure by UK banks’ and, in 2010, the Task Force report Social Investment Ten Years On noted that the recommendation for voluntary data disclosure had not proved successful.

In 2013, the Parliamentary Commission on Banking Standards' report ‘Changing Banking for Good’ was able to welcome the forthcoming disclosure of lending data by banks. The Commission noted that:

‘Increased disclosure of lending decisions by the banks is crucial to enable policy-makers more accurately to identify markets and geographical areas poorly served by the mainstream banking sector. The industry is currently working towards the provision of such information. We welcome this. It will be important to ensure that the level of disclosure is meaningful and provides policy-makers with the information necessary accurately to identify communities and geographical areas poorly served by the mainstream banking sector. The devil will be in the detail of the disclosure regime that is put in place…The Commission therefore supports the Government’s proposal to legislate if a satisfactory regime is not put in place by voluntary means.’

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6 See http://www.communityinvestment.org.uk/
8 See http://www.socialinvestmenttaskforce.org/
Furthermore, given the recent evidence of and drive for greater diversity of providers, the call for lending data disclosure is now directed at all financial service providers (including pay day lenders, peer-to-peer, community development finance institutions and credit unions alongside banking institutions).  

1.3 The 2013 voluntary bank data disclosure scheme in Great Britain

On 17 December 2013, the British Bankers Association (BBA) and Council for Mortgage Lenders (CML) voluntarily published total lending data by Postcode Sector drawn from participating lenders across three categories:

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

At the time of our analysis, three data releases had taken place covering Quarters 2, 3, and 4 in 2013.

In terms of the market coverage of participating lenders:

- for loans and overdrafts to SMEs, data released cover about 60 per cent of the total national market of all SME lending by banks and building societies;
- for mortgages data released cover about 73 per cent of the total national residential mortgage market; and,
- for unsecured personal loans (excluding credit cards) data released represent 60 per cent of all personal loans but only 30 per cent of the total national unsecured credit market.

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

1.4 Study objectives

This research study had three key objectives:

- To map current bank disclosure data and delineate patterns of lending in personal and SME lending markets (and to identify any data limitations);
- To compare patterns of lending against:
  - the geography of deprivation; and,
  - the geography of SMEs.
- To provide an initial comparison of the findings with the current evidence base for other ‘geographies of financial provision’ in similar markets - contributing to a more comprehensive picture of the landscape of financial demand and provision.

The provision of substantially greater amounts of comprehensive area-based lending data provides a major opportunity to identify a further piece in the jigsaw puzzle of localised patterns of financial provision in Great Britain.

The ultimate aim is for the study findings to support the ability for new and innovative financial partnerships to target underserved markets and the market failures that lie behind and perpetuate issues of poor access to finance and financial exclusion.

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It should be noted that the study only considered data on personal lending and SME lending, and not disclosed data on mortgage lending.

1.5 Study methodology

The study methodology comprised:

- **Testing** the British Bankers’ Association (BBA) published personal and SME bank postcode lending datasets;¹⁴
- **Statistical description and mapping** of the datasets;
- For personal lending, **analysis and mapping against Census** characteristics (‘deprivation’);
- For SME lending, **analysis and mapping against business demography** (‘demand’);
- **Literature review of geographies of lending** by other financial providers within personal and SME lending markets; and,
- Recommendations.

1.6 The structure of this Report

Following this introduction, the report is structured as follows:

- Section 2 reviews the construction, comprehensiveness and robustness of the released BBA lending datasets;
- Section 3 analyses and maps the personal lending dataset, including against measures of deprivation;
- Section 4 analyses and maps the SME lending dataset, including against business demography;
- Section 5 sets out existing knowledge of the area-based lending patterns of other finance providers based on a literature review; and,
- Section 6 draws Conclusions and provides Recommendations.

¹⁴ The analysis which follows uses the data released for Quarter 4 2013 and was downloaded on 15th July 2014. This dataset release also included columns providing data for Quarters 2 and 3 2013 which we have also used for change over time and averages. There are some discrepancies between the previous quarters’ figures included in the Quarter 4 dataset and those released previously for Quarters 2 and 3. It is unclear what accounts for these differences and whether they are data revisions. The supporting documentation does not mention or account for these discrepancies.
2 The BBA Postcode Sector Lending Datasets

2.1 Introduction

At the time of this study, the BBA had released three sets of quarterly postcode sector lending data for Great Britain – on 17 December 2013, 8 April 2014 and 11 July 2014. The data covers Quarters 2, 3 and 4 2013.

The datasets are accompanied by a brief analytical commentary and a set of accompanying notes describing the coverage and content of the dataset, including filters which have been applied to ensure customer confidentiality15.

On announcement of the postcode data release the BBA Chief Executive Anthony Browne said16:

“The banking industry is committed to transparency and is actively supporting the government, business and community groups in understanding the borrowing landscape for individuals and SMEs across the UK.

This landmark voluntary agreement between the industry and government makes the UK industry one of the most transparent in the world and builds on our earlier commitments.

The publication of thousands of postcode level figures will help promote greater competition between finance providers and lead to better evidence-based policy making.”

The aims of this section are to describe the data released and assess the overall data quality (including the accompanying explanatory documentation).

2.2 Use of Postcode Sector for reporting

The lending data are released at Postcode Sector level. Postcodes in the UK have a hierarchical structure (see Table 2.1).

<table>
<thead>
<tr>
<th>Example</th>
<th>Geographic Unit</th>
<th>Number in UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>PO</td>
<td>Postcode Area</td>
<td>124</td>
</tr>
<tr>
<td>PO16</td>
<td>Postcode District</td>
<td>3,108</td>
</tr>
<tr>
<td>PO16 7</td>
<td>Postcode Sector</td>
<td>12,358</td>
</tr>
<tr>
<td>PO16 7DZ</td>
<td>Unit Postcode</td>
<td>1.75 million approx (Live)</td>
</tr>
</tbody>
</table>

Source: Table reproduced from the Office for National Statistics17

The most detailed level is the Unit Postcode, which is the full postcode included in postal addresses (there are approximately 1.75 million live postcodes). Above this is the Postcode Sector which contains aggregations of Unit Postcodes. These are subject to some change over time as new (unit) postcodes are introduced and others are terminated. The BBA data contains cells for 10,959 Postcode Sectors. It should be noted that not all of these Postcodes Sectors are both in use and cover residential areas, as is shown by Census 2011 population figures only being available for 8,977 Postcode Sectors.

15 See https://www.bba.org.uk/news/press-releases/borrowing-levels-reported-by-british-lenders/#.VBGilWfQMaI
There are a number of limitations to the use of Postcode Sector as the geographical unit at which the data are released. Postcodes are subject to change over time in both their coverage and existence. More substantively from the point of view of data analysis is that Postcode Sector boundaries are not aligned to administrative boundaries and the geographical scales at which other data is routinely released and analysed. For a few datasets (for example, the Census) the Office for National Statistics provides data estimations for Postcode Sector on a best-fit basis but for other datasets researchers must try to ‘fit’ those figures to the postcode geography (a relatively onerous and specialist task). It would be helpful if the lending data could be released for more standard geographies in addition to Postcode Sectors.

An important issue is whether the Postcode Sector level is detailed enough to allow for meaningful analysis of the lending data from either a policy or delivery perspective. Patterns of wealth and deprivation change relatively quickly over space in urban areas while Postcode Sectors contain on average more than 5,000 adult residents. It would be most helpful to have data also at the Lower-layer Super Output Areas/Scottish Data Zones (LSOAs) for which data from other sources is available to compare lending patterns with area characteristics of interest. LSOAs are on average smaller in population size than Postcode Sectors and this would allow better identification of different types of areas (for example, deprived areas). There would likely be some trade-off between more detailed geographical data and the scale of data redaction in the lending data because of issues of confidentiality. The extent of this trade-off is unclear but should be tested. This would be an important step in delivering more detailed geographical data.

A next best solution would be to also release data at Middle-layer Super Output Areas (MSOAs). MSOAs also have the same useful information from other sources as LSOAs but are on average of a comparable size to Postcode Sectors. This matching process to other geographies could be undertaken at the data preparation stage; to enable full postcodes to be matched as accurately as possible using publicly available files which allow look-ups from full postcodes to administrative or Census geographies.

In conclusion, publication at Postcode Sector level limits the ability for much meaningful data analysis - especially given that different geographical units are used for most other related datasets and administrative systems. There is scope to make data available for other units of analysis through relatively straightforward processes.

There appears scope also to release some data at a more detailed geographical scale to pick-up changes in area characteristics which can change quite quickly over space (especially in urban areas). Examples would be Lower-layer Super Output Areas/Scottish Data Zones. While there may be some trade-off between more detailed geographies and the level of redaction, the extent of this cannot be estimated without testing the underlying data.

2.3 The BBA Personal Loans Lending Dataset

The personal lending data are released as a single variable of total lending amounts at the Postcode Sector level for a particular quarter. The totals are a sum of lending figures for each Postcode Sector for each of the participating lenders (who also publish their individual data).

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19 The participating lenders are: Barclays, Lloyds Banking Group, HSBC, RBS Group, Santander UK, Clydesdale & Yorkshire Banks and Nationwide Building Society.
Collectively the data accounts for around 60 per cent of all unsecured personal loans (excluding credit cards) but equates to only approximately 30 per cent of the total national unsecured credit market.

### 2.3.1 What the personal loans data covers

The definition of the total lending variable provided with the second data release (Q3 2013) describes the coverage as comprising:

‘drawn-down amounts from agreed borrowing facilities. They will comprise borrowing agreements made in the past, new borrowing agreements, repayments and borrowing written off.’

The data covered some £29.8 billion in personal lending in Q4 2013.

### 2.3.1.1 Data filters

Filters are applied to the personal lending dataset by the BBA and individual lenders prior to release. These filters are:

- ‘Borrowing stocks in a sector postcode is not disclosed where customer confidentiality would be compromised (i.e. where fewer than 10 borrowers exist in the sector or where borrowing is highly concentrated in a small number of the largest borrowers in the sector); and,

- ‘Individual lenders are not obliged to publish borrowing at sector level if they hold less than 3 per cent of personal loans in a sector.’

There is some ambiguity in the wording describing these filters. It is not made clear what the definition of ‘highly concentrated’ that is applied is. There is also no system of markers within the dataset which show where postcodes are subject to redaction.

These are issues which could be clarified through the publication of a separate technical report of the data by the BBA.

Overall, the BBA reports that the impact of filters on the personal lending data release is small - with the value of redactions of personal loans data estimated at around 1 per cent of the total value of personal loans (of participating institutions).

The BBA report that for Quarter 4, 366 Postcode Sectors are affected by redactions - equating to £0.4bn of lending. This is around 4 per cent of Postcode Sectors covered by the data.

In conclusion, the impact of filters on the data disclosed would appear to be small – although the extent to which these different filters affect the specific geographical patterns in the data release cannot be determined in detail. Overall, there is little or no information provided about the process of data construction, data quality and robustness checks. Such information, which could be provided relatively easily, could all be usefully added to support confidence in, and analysis of, the data.

### 2.3.2 Quarterly data consistency

Data quality across quarters can be checked initially by looking at the correlation between data values of a Postcode Sector from one quarter to the next. In other words, what is the level of value fluctuation?

Of course, we are unable to judge fully what extent of fluctuation might be expected between quarters and which could be due to market forces (including customers, for example, moving to providers not covered by data disclosure). Alternatively, the...

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filtering process (see Section 2.2.1.1) might account for some levels of fluctuation, as might any error in the dataset.

Figure 2.1 below provides a simple dot plot of the percentage change in lending values across Postcode Sectors between Quarter 3 and Quarter 4 2013. The percentage change across the vast majority of Postcode Sectors is relatively modest and this is what would be expected.

The data release provides headline figures which show that total personal loan lending values decreased by around £310 million between Quarter 3 and Quarter 4 2013; this equates to roughly 1 per cent of total lending. A similar pattern is apparent at the Postcode Sector level, with a mean percentage change of -0.79. Change at the 10th percentile of Postcode Sector is -10.3, while at the 90th percentile it is +7.1\(^{\text{22}}\).

For some of the outlying observations, however (as shown in Figure 2.1 above), the change is very large. Growth in excess of 100 per cent is observed in a small number of Postcode Sectors; at the other end of the scale declines of 50 per cent or more are observed.

In some of the high change sectors the absolute values of change are relatively small; however, in others, the values run into millions suggesting the changes cannot be the result of changes to a small number of loans. It is unclear whether these very large changes reflect genuine change in lending patterns or if a small number of Postcode Sectors were affected by filtering processes and/or suffer from error in the dataset.

\(^{22}\)A percentile is a measure used in statistics indicating the value below which a given percentage of observations in a group of observations fall. For example, the 20th percentile is the value (or score) below which 20 percent of the observations may be found. Alternatively, if a score is in the 86th percentile, it is higher than 86% of the other scores.
In conclusion, whilst quarterly values for most Postcode Sectors seem consistent over the first data releases, there are a number of Postcode Sectors in which major fluctuations occur – it is not clear if these fluctuations reflect genuine change in lending patterns, were affected by filtering processes, and/or if a small number of Postcode Sectors suffer from error in the dataset. Analysis would be helped by additional supporting documentation accompanying the data which might reflect on and provide a narrative on such variations and the reasons for them.

2.3.3 Missing Postcode Sector data

The full BBA dataset includes a significant proportion of Postcode Sectors for which there are no data recorded.

Looking across the three sets of data release, generally around 1,900 of the 10,839 Postcode Sectors have no lending values attached in any one set of data. The vast majority of missing Postcode Sectors are the same for each quarter of data (i.e. they tend to be missing consistently across the three quarters of data).

A number of reasons for this missing data can be surmised – although only blank cells are released:

- Some Postcode Sectors are no longer in use;
- Some Postcode Sectors have been filtered for confidentiality issues leading to blank returns (in Q4 2013 release it was 366); and,
- Some of the remaining Postcode Sectors have had no lending that quarter – and are a zero rather than a blank cell return.

An analysis of Postcode Sectors with missing returns was run against Census data (for population) structured by Postcode Sector to determine if there were any unexpected or systematic levels of missing data across Postcode Sector. Generally, data was jointly missing from the lending data and Census data, and in only just over 1% of Postcode Sectors was data available from one data source but not the other. Those Postcode Sectors with Census data but not lending data tend to have small populations.

The issue of missing Postcode Sectors appears to relate mainly to postcodes no longer in use and to areas of zero or very low population.

The issue of blank cell returns relates to a mixture of both true zero returns and redacted returns.

Blank cells could be accompanied by an additional flag (marker) to distinguish true zeros from cells which are ‘not zero but not releasable’. An additional flag could also identify Postcode Sectors where any provider had withheld their data in accordance with the filter described previously.

These are straightforward changes which would aid with interpretation of the data.

2.3.4 Redacted Postcode Sector data reported at higher geographical level

Some of the data which are redacted are released in the form of an aggregate of Postcode Sectors, which is referenced to the higher Postcode Area in which it falls (see Table 2.1 above). This allows total lending levels to be reported at that geographical scale.

In the large majority of Postcode Areas this amount is less than 2 per cent of total lending. There are, however, some Postcode Areas where this proportion can be as

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23 Analysis run on Q4 2013 personal lending dataset
much as 10 per cent or even over 40 per cent in the case of East Central London – further limiting the value of the data for detailed geographical analysis.

2.4 The BBA SME Lending Dataset

The SME business lending data are similarly released as a single variable of total lending amounts at the Postcode Sector level for a particular quarter. The totals are a sum of lending figures for each Postcode Sector for each of the participating lenders (who also publish their individual data). Collectively, for loans and overdrafts to SMEs, data cover about 60 per cent of the total national market of all SME lending by banks and building societies.

2.4.1 What the business loans data covers

The definition of the total lending variable provided with the second data release describes the coverage as comprising:

‘drawn-down amounts from agreed borrowing facilities. They will comprise borrowing agreements made in the past, new borrowing agreements, repayments and borrowing written off.’

The data covered some £99.8 billion in SME lending in Q4 2013.

Definitions of SMEs adopted in the UK and the EU may use metrics of number of company employees, turnover and balance sheet total or a combination of these to determine SME status. In statistical analysis employment can often be used as a shorthand definition.

The definition of SME used in the bank lending dataset is not stated in the guidance notes to the postcode release. It is therefore not entirely clear how banks are assigning SME status to companies for coverage in the dataset and the level of consistency in this across individual banks.

The SME lending figures are published down to Postcode Sector level, with lending assigned to a postcode based on a businesses’ ‘primary trading location’ (BBA, 2014).

2.4.1.1 Data filters

Filters are applied to the SME lending dataset by the BBA and individual lenders prior to release. These filters are:

- ‘Borrowing stocks in a sector postcode is not disclosed where customer confidentially would be compromised (i.e. where fewer than 10 borrowers exist in the sector or where borrowing is highly concentrated in a small number of the largest borrowers in the sector).’
- ‘Individual lenders are not obliged to publish borrowing at sector level if they hold less than 10 per cent of SME borrowing… in a sector.’

As with the personal lending data it would be helpful if the filtering processes and any geographical impact of this could be detailed through the publication of a technical report of the data.

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24 The participating lenders are: Barclays, Lloyds Banking Group, HSBC, RBS Group, Santander UK and Clydesdale & Yorkshire Banks. Not all individual banks release their data in the same format as that used by the BBA – and such release formats tend to be less useful for data analysis.


For Quarter 4 2013, of the £99.8bn of total lending, £86.8bn was published at Postcode Sector level (87 per cent)\textsuperscript{28} after filtering processes. Compared to personal lending the number of Postcode Sectors for which data is published is smaller and the number of Postcode Sectors with data redacted is higher. A total of 1,334 Postcode Sectors are redacted representing around £10 billion of lending (BBA, 2014). A larger number of data missing postcodes would be expected for SME lending because of differences in the ways businesses are distributed vis-à-vis people.

In conclusion, the full extent of a common definition of SME used by individual lenders in reporting lending data is not defined in the accompanying guidance. Concerning the impact of filters on the data disclosed, this would appear to be relatively small (but larger than for personal lending disclosure) – although the extent to which these different filters affect the specific geographical patterns in the data release cannot be determined in detail. Overall, there is little or no information provided about the process of data construction, data quality and robustness checks. Such information could all be usefully added to support confidence in and analysis of the data.

\textbf{2.4.2 Quarterly data consistency}

As with the personal lending data, data across quarters can be checked by looking at the correlation between data values of a Postcode Sector from one quarter to the next. Again, we are unable to judge fully what extent of fluctuation might be expected between quarters and which could be due to market forces (including customers, for example, moving to providers not covered by data disclosure). Alternatively, the filtering process (see Section 2.2.1.1) might account for some levels of fluctuation, as might any error in the dataset.

Figure 2.2 below provides a dot plot of the percentage change in aggregate SME lending values across Postcode Sectors between Quarter 3 and Quarter 4 2013. Most sectors move relatively little, as would be expected, however a significant minority show very large increases indeed. It is also worth noting that 20 extreme outliers (those with values above 1,000 per cent) have been trimmed from this graph to aid presentation.

\textbf{Figure 2.2} Percentage change in total Postcode Sector SME lending between Quarters 3 and 4, 2013

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure2.2}
\caption{Percentage change in total Postcode Sector SME lending between Quarters 3 and 4, 2013}
\end{figure}

\textit{*Note: For presentational purposes the graph excludes 20 observations in excess of 1000 per cent*}

\textsuperscript{28} Quarter 4 release BBA guidance
Overall, between Quarters 3 and 4 (2013), total reported SME lending fell from £101bn to £99.8bn, a decline of 1.2 per cent. As Figure 2.2 demonstrates, however, underneath this modest aggregate decline there is a good deal of volatility in lending figures in some Postcode Sectors. Table 2.2 below presents the largest changes in Postcode Sectors in absolute terms between Q3 and Q4 2013.

At the extremes, changes in value include an increase of more than £125 million and a fall of £45 million from one quarter to the next. It is difficult to judge given the information provided whether these reflect genuine lending pattern shifts, processes of filtering, or some issue in the underlying data. However, in many of these cases, changes between Q3 and Q4 are inconsistent with patterns of changes between Q2 and Q3. Such levels of volatility require explanation and it would be helpful if additional technical information could be published by the BBA which addresses the issue of expected and actual volatility in the data.

**Table 2.2 Largest increases and decreases in SME lending in Postcode Sectors**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Region</th>
<th>Postcode Area (within which Postcode Sector sits)</th>
<th>Postcode sector</th>
<th>Total lending £ Q2 2013</th>
<th>Total lending £ Q3 2013</th>
<th>Total lending £ Q4 2013</th>
<th>Change in total lending Q3-Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Scotland</td>
<td>Edinburgh</td>
<td>EH2 1</td>
<td>88,956,915</td>
<td>89,221,455</td>
<td>216,041,188</td>
<td>126,819,736</td>
</tr>
<tr>
<td>2</td>
<td>East of England</td>
<td>Chelmsford</td>
<td>CM4 0</td>
<td>4,612,241</td>
<td>4,798,112</td>
<td>51,946,086</td>
<td>47,147,976</td>
</tr>
<tr>
<td>3</td>
<td>East Midlands</td>
<td>Nottingham</td>
<td>NG1 5</td>
<td>10,750,428</td>
<td>9,931,073</td>
<td>56,507,658</td>
<td>46,576,584</td>
</tr>
<tr>
<td>4</td>
<td>London</td>
<td>Harrow</td>
<td>HA8 7</td>
<td>47,233,842</td>
<td>45,713,362</td>
<td>82,494,289</td>
<td>36,780,928</td>
</tr>
<tr>
<td>5</td>
<td>London</td>
<td>Romford</td>
<td>RM13 8</td>
<td>47,744,322</td>
<td>14,555,808</td>
<td>49,099,528</td>
<td>34,543,720</td>
</tr>
<tr>
<td>6</td>
<td>North West</td>
<td>Manchester</td>
<td>M7 4</td>
<td>125,900,976</td>
<td>123,062,264</td>
<td>155,278,366</td>
<td>32,216,102</td>
</tr>
<tr>
<td>7</td>
<td>London</td>
<td>Kingston upon Thames</td>
<td>KT2 6</td>
<td>2,444,876</td>
<td>2,472,123</td>
<td>32,992,322</td>
<td>30,520,200</td>
</tr>
<tr>
<td>8</td>
<td>East Midlands</td>
<td>Derby</td>
<td>DE13 7</td>
<td>2,637,023</td>
<td>2,517,411</td>
<td>26,957,579</td>
<td>24,440,168</td>
</tr>
<tr>
<td>9</td>
<td>South East</td>
<td>Dartford</td>
<td>DA3 8</td>
<td>632,076</td>
<td>584,392</td>
<td>24,901,049</td>
<td>24,316,656</td>
</tr>
<tr>
<td>10</td>
<td>West Midlands</td>
<td>Coventry</td>
<td>CV37 9</td>
<td>10,609,823</td>
<td>9,876,844</td>
<td>34,059,042</td>
<td>24,182,198</td>
</tr>
<tr>
<td>8247</td>
<td>South West</td>
<td>Gloucester</td>
<td>GL9 1</td>
<td>20,513,450</td>
<td>21,160,227</td>
<td>101,210</td>
<td>-21,059,016</td>
</tr>
<tr>
<td>8249</td>
<td>London</td>
<td>West London</td>
<td>W1S 4</td>
<td>54,519,193</td>
<td>84,467,138</td>
<td>59,294,271</td>
<td>-25,172,868</td>
</tr>
<tr>
<td>8251</td>
<td>West Midlands</td>
<td>Stoke-on-Trent</td>
<td>ST15 8</td>
<td>48,281,874</td>
<td>48,624,183</td>
<td>21,511,422</td>
<td>-27,112,760</td>
</tr>
</tbody>
</table>
A parallel test is to look at change as a proportion of total lending rather than focusing solely on the absolute figures. The patterns of change in the dataset at the Postcode Sector level record median percentage change of a small fall in SME lending of 1.9 per cent (between Q3 and Q4 2013)\(^29\). Change at the 10th percentile is -12.3 per cent and at the 90th percentile is +11.8 per cent\(^30\).

There exist relatively long tails of observations that have fluctuations that are extremely large. Table 2.3 lists the top and bottom ten proportional increases in total lending between Quarter 3 and Quarter 4. The percentage changes observed in many of the areas are very large. There is no clear geographical pattern of the places involved, although a common feature is that the total lending (in Quarter 3, 2013) tends be quite low compared to the dataset average.

### Table 2.3 Changes in quarterly total SME lending: postcode sectors with the largest proportional increases

<table>
<thead>
<tr>
<th>Postcode Sector</th>
<th>Postcode Area (within which Postcode Sector sits)</th>
<th>Total lending (£) Q2 2013</th>
<th>Total lending (£) Q3 2013</th>
<th>Total lending (£) Q4 2013</th>
<th>Change Q3 to Q4</th>
<th>% change Q3 to Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC1M 6</td>
<td>East Central London</td>
<td>N/A</td>
<td>61,652</td>
<td>18,910,530</td>
<td>18,848,878</td>
<td>30,573</td>
</tr>
<tr>
<td>SW19 6</td>
<td>South West London</td>
<td>69,058</td>
<td>53,422</td>
<td>6,785,387</td>
<td>6,731,965</td>
<td>12,601</td>
</tr>
<tr>
<td>L17 8</td>
<td>Liverpool</td>
<td>37,866</td>
<td>30,615</td>
<td>3,632,733</td>
<td>3,602,118</td>
<td>11,766</td>
</tr>
<tr>
<td>SK6 3</td>
<td>Stockport</td>
<td>56,953</td>
<td>50,185</td>
<td>3,628,961</td>
<td>3,578,776</td>
<td>7,131</td>
</tr>
<tr>
<td>SY3 5</td>
<td>Shrewsbury</td>
<td>130,141</td>
<td>130,825</td>
<td>8,359,372</td>
<td>8,228,547</td>
<td>6,290</td>
</tr>
<tr>
<td>CM7 5</td>
<td>Chelmsford</td>
<td>N/A</td>
<td>115,252</td>
<td>7,077,798</td>
<td>6,962,546</td>
<td>6,041</td>
</tr>
<tr>
<td>CO12 4</td>
<td>Colchester</td>
<td>319,388</td>
<td>302,892</td>
<td>17,782,688</td>
<td>17,479,796</td>
<td>5,771</td>
</tr>
<tr>
<td>DA3 8</td>
<td>Dartford</td>
<td>632,076</td>
<td>584,392</td>
<td>24,901,049</td>
<td>24,316,656</td>
<td>4,161</td>
</tr>
<tr>
<td>CO4 3</td>
<td>Colchester</td>
<td>345,185</td>
<td>343,502</td>
<td>10,957,899</td>
<td>10,614,397</td>
<td>3,090</td>
</tr>
<tr>
<td>HD1 1</td>
<td>Huddersfield</td>
<td>221,125</td>
<td>237,029</td>
<td>4,859,592</td>
<td>4,622,563</td>
<td>1,950</td>
</tr>
<tr>
<td>SO17 2</td>
<td>Southampton</td>
<td>12,834,686</td>
<td>13,802,731</td>
<td>584,122</td>
<td>-13,218,609</td>
<td>-96</td>
</tr>
<tr>
<td>BL2 4</td>
<td>Bolton</td>
<td>5,626,452</td>
<td>5,343,547</td>
<td>186,009</td>
<td>-5,157,538</td>
<td>-97</td>
</tr>
<tr>
<td>GU51 1</td>
<td>Guildford</td>
<td>1,415,977</td>
<td>1,407,948</td>
<td>46,157</td>
<td>-1,361,791</td>
<td>-97</td>
</tr>
<tr>
<td>BD12 7</td>
<td>Bradford</td>
<td>64,364</td>
<td>202,212</td>
<td>60,840</td>
<td>-1,963,372</td>
<td>-97</td>
</tr>
<tr>
<td>LE5 2</td>
<td>Leicester</td>
<td>7,539,493</td>
<td>7,262,582</td>
<td>154,084</td>
<td>-7,108,498</td>
<td>-98</td>
</tr>
</tbody>
</table>

\(^{29}\) All figures are based on Postcode Sectors which have observations at both time points

\(^{30}\) A percentile is a measure used in statistics indicating the value below which a given percentage of observations in a group of observations fall. For example, the 20th percentile is the value (or score) below which 20 per cent of the observations may be found. Alternatively, if a score is in the 86th percentile, it is higher than 86% of the other scores.
It is early days in trend and consistency analysis given only three rounds of data release have taken place thus far; with further rounds a clearer set of patterns of change would be expected. Whilst changes in SME lending patterns would be expected to be more pronounced than for personal lending, a number of value shifts in the SME data are very large.

Given the limited documentation released with the data it is difficult to be certain whether such changes in lending patterns reflect genuine shifts in lending behaviour. The BBA should provide additional information, in the form of a technical report, which addresses the issue of volatility in the dataset, as well as dataset construction more broadly.

2.4.3 Missing postcode data

The SME dataset includes a significant proportion of Postcode Sectors for which there are no data recorded.

Looking across the three sets of data release, around 2,400 – 2,500 of the 10,839 Postcode Sectors have no lending values attached in any one set of data. The vast majority of missing Postcode Sectors are the same for each quarter of data (i.e. they tend to be missing consistently across the three quarters of data).

A number of reasons for this missing data can be surmised – although only blank cells are released:

- Some Postcode Sectors are no longer in use;
- Not all Postcode Sectors contain business addresses;
- Some Postcode Sectors have been filtered for confidentiality issues leading to blank returns (in Q4 2013 release it was reported as 1,334, representing around £10bn of lending); and,
- Some of the remaining Postcode Sectors have had no lending that quarter – and are a zero rather than a blank cell return.

Analysis would be aided if a system of 'markers' were provided in the reported data which identify i) Postcode Sectors which have no lending ii) those which have some lending but where data is redacted, and iii) those where data is published but where some individual banks have not provided data (as per the filters).

2.4.4 Redacted Postcode Sector data reported at higher geographical level

Some of the data which are redacted are released in the form of an aggregate of Postcode Sectors which is referenced to the higher Postcode Area in which it falls (Table 2.1 above). This allows total lending levels to be reported at that geographical scale.

For personal lending this amounted to less than 2 per cent for most Postcode Areas (although a handful of Postcode Areas were highlighted where proportions were much higher). For SME lending, however, the proportions are relatively large.

---

31 The equivalent figure for personal lending is around 1,900 Postcode Sectors
Table 2.4 provides the proportion of SME lending data assigned to Postcode Area but not individual Postcode Sectors at the regional level. The proportions involved are relatively large; they average over ten per cent in all but two regions.

Table 2.4 Proportion of SME lending assigned to Postcode Area but not Postcode Sector level – by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Q2 2013</th>
<th>Q3 2013</th>
<th>Q4 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Midlands</td>
<td>12.4</td>
<td>11.8</td>
<td>8.9</td>
</tr>
<tr>
<td>East of England</td>
<td>12.2</td>
<td>10.9</td>
<td>10.1</td>
</tr>
<tr>
<td>London</td>
<td>21.0</td>
<td>18.6</td>
<td>18.8</td>
</tr>
<tr>
<td>North East</td>
<td>8.3</td>
<td>9.8</td>
<td>10.3</td>
</tr>
<tr>
<td>North West</td>
<td>20.5</td>
<td>17.3</td>
<td>16.4</td>
</tr>
<tr>
<td>South East</td>
<td>12.8</td>
<td>11.1</td>
<td>11.2</td>
</tr>
<tr>
<td>South West</td>
<td>7.4</td>
<td>7.0</td>
<td>6.5</td>
</tr>
<tr>
<td>West Midlands</td>
<td>15.9</td>
<td>13.7</td>
<td>14.0</td>
</tr>
<tr>
<td>Yorkshire &amp; the Humber</td>
<td>16.1</td>
<td>14.1</td>
<td>13.4</td>
</tr>
<tr>
<td>Scotland</td>
<td>16.3</td>
<td>13.8</td>
<td>13.5</td>
</tr>
<tr>
<td>Wales</td>
<td>11.4</td>
<td>9.4</td>
<td>9.8</td>
</tr>
</tbody>
</table>

The ten Postcode Areas with the largest proportion of lending not assigned to Postcode Sector are presented in Table 2.5. These all average over 20 per cent of lending not being assigned to a Postcode Sector but only to Postcode Area – again blunting the ability for detailed analysis.

Table 2.5 Proportion of SME lending assigned to Postcode Area but not Postcode Sector level – individual districts

<table>
<thead>
<tr>
<th>Region</th>
<th>Name of Postcode Area</th>
<th>Q2 2013</th>
<th>Q3 2013</th>
<th>Q4 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>EC East Central London</td>
<td>68.0</td>
<td>66.0</td>
<td>60.4</td>
</tr>
<tr>
<td>West Midlands</td>
<td>TF Telford</td>
<td>55.7</td>
<td>50.5</td>
<td>50.1</td>
</tr>
<tr>
<td>North West</td>
<td>L Liverpool</td>
<td>41.4</td>
<td>37.8</td>
<td>39.1</td>
</tr>
<tr>
<td>London</td>
<td>WC Western Central London</td>
<td>43.1</td>
<td>39.5</td>
<td>31.9</td>
</tr>
<tr>
<td>London</td>
<td>E East London</td>
<td>37.0</td>
<td>34.8</td>
<td>31.6</td>
</tr>
<tr>
<td>London</td>
<td>SW South West London</td>
<td>24.3</td>
<td>18.4</td>
<td>26.6</td>
</tr>
<tr>
<td>London</td>
<td>W West London</td>
<td>24.6</td>
<td>19.8</td>
<td>23.3</td>
</tr>
<tr>
<td>Yorkshire &amp; the Humber</td>
<td>S Sheffield</td>
<td>20.0</td>
<td>20.2</td>
<td>23.3</td>
</tr>
<tr>
<td>South East</td>
<td>RG Reading</td>
<td>26.9</td>
<td>23.7</td>
<td>23.1</td>
</tr>
<tr>
<td>North West</td>
<td>M Manchester</td>
<td>34.0</td>
<td>25.6</td>
<td>22.6</td>
</tr>
</tbody>
</table>
2.5 Bank data disclosure: international developments

<table>
<thead>
<tr>
<th>Bank Data Transparency Around the World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Why is bank data transparency important?</td>
</tr>
</tbody>
</table>

It is widely recognised that fair and affordable access to financial goods and services is a basic requirement for full engagement in modern society. In contrast, there is strong evidence of differential patterns of access, provision and lending leading to a range of individuals, businesses and communities in the UK experiencing forms of financial exclusion.

Data from banks on their lending activities can be utilised to gain a greater understanding of those groups not adequately served by mainstream banking institutions. Identification of patterns of lending provides the basis for investigating why underserved markets have developed – and, in turn, the basis for solutions. Greater levels of market information and transparency can support:

- new initiatives by existing lenders, new market entrants or specialist provision such as through credit unions and community development finance institutions, and/or;
- policy responses and targeted interventions to overcome market failures, and/or;
- the combination of both in new forms of financial partnership, including with communities.

Where can we find examples of bank transparency?

Bank data transparency in most countries around the world is very limited – although the global financial crisis and its continued repercussions have seen a strengthening of oversight of the financial system, including concerted calls for greater transparency and disclosure by all lenders. The UK BBA scheme is a leading example of bank data transparency.

UNITED KINGDOM

In July 2013 the UK government announced that some of the biggest lenders would through a voluntary framework publish data on their lending activities at the local level. This included agreement of a set of parameters which lenders feel strikes a balance between the desire for transparency and customer confidentiality:

- the first data set including SME lending, mortgage lending and unsecured personal loans was released in December 2013 by the British Bankers Association and Council of Mortgage Lenders (see https://www.bba.org.uk/news/statistics/postcode-lending/) and, importantly, published simultaneously on an individual basis by the participating banks and building societies. Data will be published on a quarterly basis;
- the data is for the stock of lending, for Great Britain only and is released at the geographical level of Postcode Sector. Collectively, the lenders releasing data account for around 72% of the mortgage lending market, 60% of the bank lending market and 60% of unsecured personal lending (excluding credit cards) in Britain;
- no data is published on any socio-economic characteristics of lending patterns: for example, such as gender, ethnicity or income band for personal lending or, for business lending, characteristics such as sector, employment or turnover band;
- it is expected that more lenders including banks, building societies and other organisations will also begin to publish their data.

FRANCE

There is strong policy awareness and public sector activity in France concerning the issue of access to finance and financial exclusion. Pay day lenders, for example, are banned. A meeting was held in 2010 between French banks, NGOs and other stakeholders around the potential to develop legislation similar to that in the USA to bring forward data disclosure. Little collective progress has been made subsequently but pressure remains (see, for example, http://www.lelabo-ess.org/IMG/pdf/Propositiondeloi_mars2013.pdf).

UNITED STATES OF AMERICA

The USA is cited as probably the most advanced example of bank transparency. This transparency has been driven by two key legislative initiatives: ‘Home Mortgage Disclosure Act’ (HMDA) and the
'The Community Reinvestment Act' (CRA).

The HMDA requires financial institutions to compile and disclose data about loan applications for (i) home purchase and (ii) home improvement loans they originate or purchase during each calendar year by 31 March of the following year. The twenty-six fields of information that lending institutions must report include:

- Data about each application (loan type, amount, date and action taken (loan/denial and reason with date) and the location of the dwelling (by census tract) to which it relates;
- The race or national origin, ethnicity, sex, and gross annual income of the applicant or borrower;
- In March 2012, over 7400 institutions reported over 18 million HMDA records (see http://www.ffiec.gov/hmda).

The CRA aims to encourage ‘depository institutions’ (‘banks’) to meet the credit needs of the communities within which they operate, especially low-and moderate-income communities, consistent with safe and sound banking practices.

The financial regulators conduct periodic examinations to evaluate how banks are fulfilling the objectives of the CRA and issue a report and rating of a bank’s CRA performance. Performance is evaluated on lending, investments and services provided in the community that help to meet credit needs, including the use of reported HMDA data.

Both the report and the rating are made public. A CRA rating of less than a “satisfactory” can prevent institutions from proceeding with a planned merger, acquisition or expansion of operations (see http://www.federalreserve.gov/communitydev/cra_about.htm).

There is widespread recognition that transparency - based on regulator quality assurance of bank disclosure data - has promoted behavioural change by banks, encouraged new competition, and supported policy initiatives, community activity and financial partnerships (see, for example, the work and forensic reports of the National Community Reinvestment Coalition; http://www.ncrc.org/resources/reports-and-research).

2.6 The BBA Postcode Sector Lending Datasets: A Summary

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.

Analysis of area-based lending patterns is, however, substantially constrained by data content and levels of imprecision are introduced by the processes of data construction.

2.6.1 Data Content

- **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).

### 2.6.2 Dataset Construction

Analysis of the lending datasets shows significant levels of unexplained volatility in a small number of Postcode Sectors. Given the limited documentation released with the data it is difficult to be certain whether such changes in lending patterns reflect genuine shifts in lending behaviour.

Issues with data construction include:

- **Redaction (non-reporting) of data:** ‘filters’ are used and some data are not published, the cells affected by this are not marked;
- **‘Blank cells’ returns:** can be generated for a number of reasons, including no lending undertaken, but which remain unexplained; and,
- **The accompanying notes:** provide limited explanation of the application, quality assurance and impact of database construction processes on quarterly release figures.

The study’s assessment of the dataset construction and content is summarised in Table 2.6 (overleaf).
Table 2.6  The BBA Postcode Lending Datasets: An Assessment

<table>
<thead>
<tr>
<th>Lending Data</th>
<th>Total Market Coverage, %, (approx.)</th>
<th>Content: ‘Total’ lending value per quarter per Postcode Sector</th>
<th>Quarterly Value Volatility by Postcode Sector</th>
<th>Missing Postcode Sector</th>
<th>% Reported Lending Not Allocated to Postcode Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal</td>
<td>30</td>
<td>No data on:</td>
<td>Generally consistent but a few unexplained fluctuations and outliers</td>
<td>Mainly relates to postcodes no longer in use or of zero/low population (around 1,900 from 10,839 sectors)</td>
<td>Generally around 2% per Postcode Area but a few where the percentage of lending not reported at the Postcode Sector level is over 10% of the total figure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- No. of transactions, including declines</td>
<td></td>
<td>Includes unknown mix of redacted (360 odd) and zero returns</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Individual loan amounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Markers of cost of loan release</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Borrower characteristics</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SME</td>
<td>60</td>
<td>No data on:</td>
<td>A significant minority of Postcode Sectors have very high variation (e.g. over 100%) and outliers</td>
<td>Relates to postcodes no longer in use or of zero business (around 2,450 out of 10,839 sectors)</td>
<td>Generally over 10% per Postcode Area and a few where percentage of lending not reported at the Postcode Sector level is much higher</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- No. of transactions, including declines</td>
<td></td>
<td>Includes unknown mix of redacted (1,330 odd) and zero returns</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Individual loan amounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Markers of cost of loan release</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Borrower characteristics</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Definition of SME used in data not stated</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3 The BBA Personal Lending Dataset: An Analysis

Section 2 provided an introduction to the personal lending dataset including coverage, data construction and quality. Section 3 begins with an analysis of Postcode Sector lending patterns for personal lending – and which must be read in light of the data limitations as set out in Section 2. The Section then utilises Census data to map lending data against area characteristics, including measurements of deprivation.

3.1 Aggregate personal lending per Postcode Sector

Total lending figures vary enormously across Postcode Sectors.

A simple ranking using the Quarter 4 (2013) data is presented to demonstrate this in Table 3.1. At the extremes, the level of lending ranges from almost thirteen million pounds to less than fifty thousand pounds (for those Postcode Sectors with non-zero values).

Of course, it is the case that Postcode Sectors are of very different population sizes (with the adult population ranging from fewer than 500 people to in excess of 10,000) – and, clearly, population size is reflected in total lending.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Aggregate lending (£), Quarter 4 2013</th>
<th>Postcode Sector</th>
<th>Postcode Area (within which Postcode Sector sits)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>12,797,750</td>
<td>SE28 8</td>
<td>South East London</td>
</tr>
<tr>
<td>2</td>
<td>12,450,481</td>
<td>G75 8</td>
<td>Glasgow</td>
</tr>
<tr>
<td>3</td>
<td>12,367,186</td>
<td>EH54 6</td>
<td>Edinburgh</td>
</tr>
<tr>
<td>4</td>
<td>12,031,754</td>
<td>RG22 4</td>
<td>Reading</td>
</tr>
<tr>
<td>5</td>
<td>11,834,815</td>
<td>RG24 9</td>
<td>Reading</td>
</tr>
<tr>
<td>8.976</td>
<td>51,958</td>
<td>NE66 4</td>
<td>Newcastle upon Tyne</td>
</tr>
<tr>
<td>8.977</td>
<td>47,700</td>
<td>G2 7</td>
<td>Glasgow</td>
</tr>
<tr>
<td>8.978</td>
<td>45,996</td>
<td>L37 5</td>
<td>Liverpool</td>
</tr>
<tr>
<td>8.979</td>
<td>40,776</td>
<td>PA26 8</td>
<td>Paisley</td>
</tr>
<tr>
<td>8.980</td>
<td>30,249</td>
<td>EH2 2</td>
<td>Edinburgh</td>
</tr>
</tbody>
</table>
3.2 Level of personal lending per capita

The level of personal lending per capita (the level of lending adjusted for Postcode Sector population size) allows for more meaningful comparison.

In Table 3.2 we use a measure of the total adult population of each Postcode Sector\(^{32}\), which is derived from the 2011 Census\(^{33}\). The measure of personal lending total used is the average from the three Quarters of data released\(^{34}\).

**Table 3.2 Percentile distribution of lending per adult**

<table>
<thead>
<tr>
<th>Postcode Sector Percentile</th>
<th>5</th>
<th>10</th>
<th>25</th>
<th>50</th>
<th>75</th>
<th>90</th>
<th>95</th>
</tr>
</thead>
<tbody>
<tr>
<td>£ per adult lent</td>
<td>346</td>
<td>416</td>
<td>510</td>
<td>602</td>
<td>691</td>
<td>774</td>
<td>836</td>
</tr>
</tbody>
</table>

\(^{*}\)Lending per adult average using three Quarters of data (Q2-Q4, 2013)

The median figure for lending per adult across Postcode Sectors is £602.

At the 10th percentile\(^{35}\) per head lending figures are £416 – so in 10 per cent of Postcode Sectors lending per adult is £416 or less. At the 90th percentile per head the lending figure is £774 or more.

The individual Postcode Sectors with the largest and smallest per head values are provided in Table 3.3 overleaf.

At the very top of the range are two observations which seem implausibly large. Lending per head is £13,405 in Postcode Sector G2 1 and £8,937 in Postcode Sector EC1A 436. Both of these Postcode Sectors refer to financial localities of city centres which have very small population sizes (Glasgow and London). It may be that in these two observations loans data are recorded to some address other than home addresses (for example, work addresses).

At the other end of the scale the rate of lending per head is less than £100 in Postcode Sectors across a range of areas.

---

\(^{32}\) Defined as the total population aged 18 or over


\(^{35}\) A percentile is a measure used in statistics indicating the value below which a given percentage of observations in a group of observations fall. For example, the 20th percentile is the value (or score) below which 20 percent of the observations may be found. Alternatively, if a score is in the 86th percentile, it is higher than 86 per cent of the other scores.

\(^{36}\) The total value of loans at these two Postcode Sectors is however well below the average.
Table 3.3  Largest per adult head loan borrowing figures by Postcode Sector

<table>
<thead>
<tr>
<th>Postcode Sector</th>
<th>Postcode Area (within which Postcode Sector sits)</th>
<th>Lending per head adult population (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>G2 1</td>
<td>Glasgow</td>
<td>13,405</td>
</tr>
<tr>
<td>EC1A 4</td>
<td>East Central London</td>
<td>8,937</td>
</tr>
<tr>
<td>G72 6</td>
<td>Glasgow</td>
<td>2,182</td>
</tr>
<tr>
<td>PE7 0</td>
<td>Peterborough</td>
<td>2,009</td>
</tr>
<tr>
<td>LS17 0</td>
<td>Leeds</td>
<td>1,846</td>
</tr>
<tr>
<td>NE13 9</td>
<td>Newcastle upon Tyne</td>
<td>1,805</td>
</tr>
<tr>
<td>MK42 6</td>
<td>Milton Keynes</td>
<td>1,749</td>
</tr>
<tr>
<td>PR7 7</td>
<td>Preston</td>
<td>1,725</td>
</tr>
<tr>
<td>SA7 0</td>
<td>Swansea</td>
<td>1,719</td>
</tr>
<tr>
<td>EC1V 2</td>
<td>East Central London</td>
<td>1,666</td>
</tr>
<tr>
<td>S3 7</td>
<td>Sheffield</td>
<td>84</td>
</tr>
<tr>
<td>LS6 1</td>
<td>Leeds</td>
<td>84</td>
</tr>
<tr>
<td>DD1 5</td>
<td>Dundee</td>
<td>84</td>
</tr>
<tr>
<td>LS2 9</td>
<td>Leeds</td>
<td>81</td>
</tr>
<tr>
<td>WV1 1</td>
<td>Wolverhampton</td>
<td>74</td>
</tr>
<tr>
<td>BS1 1</td>
<td>Bristol</td>
<td>72</td>
</tr>
<tr>
<td>L3 5</td>
<td>Liverpool</td>
<td>66</td>
</tr>
<tr>
<td>S1 4</td>
<td>Sheffield</td>
<td>64</td>
</tr>
<tr>
<td>DD1 1</td>
<td>Dundee</td>
<td>56</td>
</tr>
<tr>
<td>L7 7</td>
<td>Liverpool</td>
<td>33</td>
</tr>
</tbody>
</table>

3.3  The bank personal lending data mapped

3.3.1  By GB Local Authority

Figure 3.1 provides a map of lending per head of population to the finest detail possible (Postcode Sector) for the published bank personal lending data, overlain by Local Authority area.

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).

Annex 1 contains the same map for each of England, Scotland and Wales.

Figure 3.2 repeats this mapping for Parliamentary Constituencies.
Figure 3.1  Average Bank Personal Lending per Head of Adult Population by Local Authority (GB)
Figure 3.2  Average Bank Personal Lending per Head of Adult Population by Parliamentary Constituency (GB)
3.3.2 Newcastle and Gateshead Local Authorities

Lending data by Postcode Sector can also be overlaid for individual Local Authorities as exemplified for Newcastle and Gateshead (Figure 3.3). At this scale lending patterns for different wards of a city can be delineated\(^{37}\). In this example:

- The area with no lending data (green) is Newcastle city centre;
- The adjacent areas with low lending values spread along the River Tyne where deprivation levels tend to be high;
- Higher values characterise most of the outlying suburbs; and,
- The highest (deep-red) area covers a new-build area of higher prestige housing.

These lending patterns could be overlaid with a ward-based mapping of deprivation (for example the Index of Multiple Deprivation) but as described in this report the substantial limitations of the data released mean using this data alone one cannot infer if lower lending is due to: lower demand, lending practices or possibly the use of other providers.

Figure 3.3 Average Bank Personal Lending per Head of Adult Population for Newcastle and Gateshead (GB)

\(^{37}\) See, also, the original work by Brown on Birmingham data available at http://citysavecreditunion.files.wordpress.com/2014/01/personal-loans-birmingham.pdf
3.4 A comparison of personal lending data with area-based Census data

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). The relationship of lending patterns to ‘who you are and where you live’ is complex and dynamic, but there has been long held concern over access to financial goods and services experienced by deprived areas and communities.\(^{38}\)

Using Census 2011, it is possible to carry out some basic preliminary comparisons of the bank personal lending data with area level characteristics of populations in different Postcode Sectors.

It should be stressed that the following analysis is descriptive. It does not test for possible causality or any processes which underlie the patterns observed. There are important and significant limitations to the data; for example, we can tell nothing from the data about who applies for loans, the loan acceptance rate, interest rates and how these differ by individual or area characteristics. In addition, in the sets of measures presented, personal lending and Census variables are area-based and so ‘average’ across households and individuals.

The limitations to the analysis which can be performed are a reflection of the level and detail of the lending data which is currently released.

3.4.1 Bank personal lending and deprivation

Area-based Census analysis is provided for the Postcode Sectors which have full information (those that have Census data and bank lending data at each of the three quarters for which it is released). This leaves 8,864 Postcode Sectors, with a further two Postcode Sectors being omitted which are obvious outliers (G2 1 and EC1A 4).\(^{39}\)

The Census variables presented describe dimensions of different characteristics of Postcode Sectors. These variables are:

- Proportion of households with one of more deprived characteristics;\(^{40}\)
- Proportion of households which are owner-occupied;
- Unemployment rate (among the population aged 16-74);
- Proportion of the population who are non-UK born; and,
- Proportion of the population categorised as ethnic minority.

Table 3.4 provides simple bivariate correlations between the variables listed and a Postcode Sectors’ personal lending per adult head of population.\(^{41}\)


\(^{39}\) Section 2.2.4 above explains missing postcode data – and that, in the main, both the Census and lending data are similar in their exclusions due either to very low population (disclosure issues) and/or postcodes no longer in use

\(^{40}\) The Census deprivation variable was first released to accompany the 2011 Census. The four dimensions of household deprivation which it measures are: 'Employment - any member of a household not a full-time student is either unemployed or long-term sick; Education - no person in the household has at least level 2 education, and no person aged 16-18 is a full-time student; Health and disability - any person in the household has general health 'bad or very bad' or has a long term health problem; and, Housing - Household's accommodation is either overcrowded, with an occupancy rating -1 or less, or is in a shared dwelling, or has no central heating'. See http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-286348 Table QS119EW
Table 3.4  Bivariate correlation of personal lending and Postcode Sector characteristics (Spearman’s rho)

<table>
<thead>
<tr>
<th></th>
<th>Lending per adult</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of population non UK Born</td>
<td>-0.2119***</td>
</tr>
<tr>
<td>Proportion of population ethnic minority</td>
<td>-0.1105***</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>-0.0706***</td>
</tr>
<tr>
<td>Proportion of households deprived on at least one measure</td>
<td>-0.1555***</td>
</tr>
<tr>
<td>Proportion of households owner-occupied</td>
<td>0.2437***</td>
</tr>
</tbody>
</table>

Number of observations: 8,862; *** Significant at 0.001

In all cases these individual relationships are relatively weak, although all are statistically significant and move in the direction that might be expected. The strongest single relationship with personal lending is that of owner occupation rate. To summarise, the relationship higher average personal lending per adult tends to be found in areas with:

- Fewer non UK born residents;
- Lower proportions of ethnic minority residents;
- Lower unemployment rate;
- Fewer residents who are deprived; and,
- More owner-occupation.

Figure 3.4 overleaf presents a scatterplot of one of these relationships – lending and deprivation. The graph shows that average lending tends to decline as deprivation increases.

---

41 The measure used is Spearman’s Rank to allow for relationships to be non-linear. For simplicity we only present the coefficients for the relationship with bank lending, of course many of the variables are correlated with each other, in some cases very strongly (for example, unemployment and deprivation).
In general, the data suggest that average levels of personal lending tend to decline as the area’s deprivation level increases. The association between deprivation and lending levels at the Postcode Sector level is, however, relatively weak.

3.5 The BBA Personal Lending Dataset: A Summary

Taking account of the limitations of the released data as set out in Section 2, the BBA Personal Lending Dataset suggests 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; and,
- 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.
4 The BBA SME Lending Dataset: An Analysis

Section 2 provided an introduction to the SME lending dataset including coverage, data construction and quality. While bearing in mind the limitations of the released data set out previously, this section begins with an analysis of Postcode Sector lending patterns for SME lending. The Section then utilises business demography data to map lending data against business geographies.

4.1 Aggregate SME lending per Postcode Sector

Total lending figures vary enormously across Postcode Sectors. A simple ranking using the Quarter 4 (2013) data is presented to demonstrate this in Table 4.1. At the extremes, the level of lending ranges from over 215 million pounds in EH2 1 (in Edinburgh) down to less than forty thousand pounds in a number of localities.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Aggregate lending (£), Quarter 4 2013</th>
<th>Postcode Sector</th>
<th>Postcode Area (within which Postcode Sector sits)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>216,041,188</td>
<td>EH2 1</td>
<td>Edinburgh</td>
</tr>
<tr>
<td>2</td>
<td>174,181,370</td>
<td>N16 6</td>
<td>North London</td>
</tr>
<tr>
<td>3</td>
<td>155,278,366</td>
<td>M7 4</td>
<td>Manchester</td>
</tr>
<tr>
<td>4</td>
<td>130,085,283</td>
<td>N16 5</td>
<td>North London</td>
</tr>
<tr>
<td>5</td>
<td>120,451,209</td>
<td>NW11 9</td>
<td>North West London</td>
</tr>
<tr>
<td>8,326</td>
<td>32,221</td>
<td>L19 9</td>
<td>Liverpool</td>
</tr>
<tr>
<td>8,327</td>
<td>31,749</td>
<td>BS15 9</td>
<td>Bristol</td>
</tr>
<tr>
<td>8,328</td>
<td>28,285</td>
<td>NG11 8</td>
<td>Nottingham</td>
</tr>
<tr>
<td>8,329</td>
<td>23,145</td>
<td>M14 4</td>
<td>Manchester</td>
</tr>
<tr>
<td>8,330</td>
<td>21,689</td>
<td>CH46 2</td>
<td>Chester</td>
</tr>
</tbody>
</table>

The Postcode Sector SME lending figures can be mapped, including against Local Enterprise Partnership (LEP) area (see Figure 4.1). The mapping shows both the impact of redacted data and the substantial range in SME lending levels across LEPs and localities.
Figure 4.1  Total Bank SME Lending for Great Britain, including Local Enterprise Partnership boundaries

This UKBORDERS dataset has been provided by ONS Geography who release data under a UK Open Government Licence.
Corianna Distance Survey data © Crown copyright and database right 2014.
4.2 Business lending per SME

Of course, Postcode Sectors have very different SME population sizes (business demography) – and, clearly, size of SME business base will be reflected in total lending. The level of lending per SME (the level of lending adjusted for business population size) allows for more meaningful comparison.

Whilst this measure still does not truly capture ‘demand’ it does provide a broad proxy. SMEs are of very different sizes, ambition, growth stage, sector, etc. and appetite for external lending and other such subtleties of demand are lost using just business population.

4.2.1 SME lending by region

The BBA publishes a regional comparison of total SME lending figures against published data on regional share of turnover.

In the most recent release, most 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.

4.2.2 Business lending per SME by Postcode Area

For the following mapping exercise we have to adopt an estimation method because data on SMEs by Postcode Sector is not available in published form. Instead the study uses the published data on SMEs at the Middle Super Output Area (MSOA) level and ‘fits’ this data to Postcode Areas. One mitigating advantage of having to analyse at this broad level is that the substantial proportion of SME lending that is not published at the Postcode Sector can be included.

The mechanics of this process involve a simple best-fitting which assigns MSOAs to Postcode Areas on a one-to-one basis (based on the Postcode Area in which the majority share of an MSOA falls). This provides an estimate of SMEs by Postcode Area. Lending data for Postcode Areas is then merged with the SME population estimates. We then divide total lending in each Postcode Area by the estimated number of SMEs to give a per capita (or per SME) estimate (for Q4, 2013 data).

The average (median) per capita figure of SME lending by Postcode Area is £47,072. At the tenth percentile the figure is £34,266, at the 90th percentile it is £68,707. This is a relatively small distribution but this would be expected as the areas used are considerably in size (larger than a county for example).

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42 The BBA publication of the figures uses estimates of lending and turnover for SMEs at the regional level but no further geographical disaggregation of comparable figures is made.
44 Estimates can be derived from use of secure microdata held by ONS but this requires a process of application and clearance for the proposed research. Time and the scoping nature of this study precluded this path.
45 MSOAs are a statistical area.
46 Share data were downloaded from Geoconvert. This method suffers from a degree of misallocation in the matching process as SMEs tend to be clustered in particular places, while Geoconvert shares are based on a population. This problem is limited by the relatively large Postcode Areas which we have aggregated up to; of 8,249 MSOAs, 8,015 are based on matches above 0.9 and 7,369 are matches of 1.0. Inevitably, however, a degree of error is introduced by weaker matches. The figures should therefore be considered as rough rather than detailed estimates.
47 The definition of SME used for business population estimates is that used in the UK Business Counts – Enterprises dataset accessed via NOMIS and equates to all businesses with less than 250 employees.
48 Median is the midpoint frequency of a set of observed values; that is, as many values fall above as below.
49 A percentile is a measure used in statistics indicating the value below which a given percentage of observations in a group of observations fall. For example, the 20th percentile is the value (or score) below which 20 percent of the observations may be found. Alternatively, if a score is in the 86th percentile, it is higher than 86% of the other scores.
This data can be mapped also but only at the high level of Postcode Area (see Figure 4.2).

Figure 4.2  Bank SME Lending per head of business at Postcode Area level for Great Britain

The SME lending 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 in order 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. As is stands, estimation of SME demand would still be mapped against only one published lending variable (total lending).

4.3 BBA Business Lending: A Summary

Given the limitations of the released data as set out in Section 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% of Postcode Areas stood at £34,266, and in the highest 10% of Postcode Areas lending per business was £68,707;

- 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.
5 Other Geographies of Lending

5.1 Introduction: the lending jigsaw

In the context of this report, the drive for data disclosure by banks – more precisely, area-based information on a range of bank activities – is a drive to better understand financial exclusion.

The focus is on bank (and building society) lending patterns due to their dominance of personal and business lending markets and their key role in the ability of all consumers and citizens to access financial good and services. Generally it is recognised that given particular business models and target markets it is where the major banks choose not to invest (or ‘underinvest’) that sets the market framework for other providers of financial services. A range of financial providers with differing objectives and business models – including state-funded policy interventions – exist within these market segments and gaps, in between and alongside banks.

In the context of a diversity of providers, then, if financial exclusion is to be fully understood it requires knowledge of the lending patterns of all providers; banks are merely one (if invariably the largest) piece within the lending jigsaw. This is why the call for lending data disclosure is now directed at all financial service providers.

Data released under the voluntary BBA (and Council for Mortgage Lenders) disclosure scheme has been reviewed above, but what evidence and data exists for the lending patterns of other personal and SME lenders?

The following section provides an overview of what is currently known about the geography of lending and, relatedly, data disclosure of other financial providers for personal lending and SME lending markets.

5.2 Geographies of personal lending: other finance providers

In 2013, the CDFA commissioned a review of community finance markets which set out the range of finance providers that seek to fill the gaps and opportunities left by mainstream banks. These included ‘high cost lenders’, credit unions, community development finance institutions and certain forms of crowdfunding amongst others.

To date there is limited published information beyond the national scale for each of these types of lenders, although there have been some efforts to explore this in more detail.

5.2.1 ‘High cost lenders’

The Office of Fair Trading has defined the high-cost credit market as including pawn brokering, payday and other short term small sum loans, home credit and rent-to-buy credit. Providers operate lawfully within the terms of credit licenses from the Financial Conduct Authority (FCA) and other regulation frameworks (such as the Competition and Markets Authority, CMA).

Lending products are typically small loans borrowed over short periods, where high interest rates or premium prices are charged. This consumer market is intended to provide quick and easily obtained short-term finance to individuals, offering an alternative to overdrafts or credit

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cards provided by mainstream lenders – and which for many consumers in this market are unobtainable. Credit unions struggle also to respond to such a market, given their requirement to create a saving relationship with the individual before personal lending can be undertaken and the issues of delivering a financially responsible and sustainable service.

It has been recognised that high cost lending can place a heavy burden on the low-income consumers they serve, but that they do provide a flexible and quick alternative when few other choices, or worse choices such as loan sharks and log loan books, are available.

The Centre for Social Justice (2014) suggests that 2 million people in 2012 took out a high cost loan because they weren’t able to access another form of credit. In 2014, the CMA analysed what they believed to be as over 90 per cent of the market representing 15 million loans worth £3.9 billion over the period 2012 – 2013. The CMA estimates that in 2012 there were around 1.8 million payday loan customers in the UK, taking out approximately 10.2 million loans, worth £2.8 billion.

Academics at the University of Nottingham have been building a GIS database that reveals the changing geography of financial infrastructure including the details of branch locations of new entrants to UK retail financial services such as payday lenders. In 2013 there were 10,348 bank or building societies in England, Wales and Scotland combined, and 1,427 short term lender branches. The data suggested one short term loan provider for every seven bank or building society branches in UK high streets.

These short-term lending branches are disproportionately located in disadvantaged communities and Competition Commission analysis of comprehensive lending data has identified that 80 per cent of loans made in high-street branches were to individuals within 3.2 miles of high-street branches and 95 per cent to individuals within 9 miles of the store. This analysis is based on postcode data which highlights that the CMA holds a dataset that could map the detailed geography of payday lending in the high cost loan market for 2013-2014, including against deprivation indices.

It should be noted, however, that the ‘high cost lender market’ is undergoing substantial and rapid change including, in November 2014, the FCA confirming proposals to limit (‘cap’) the level of interest charged and range of customer charges admissible in the market. The industry’s main trade association, Consumer Finance Association, has recognised the proposals as sensible and proportionate, although evidence is that lending levels have...

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54 ESRO (2014) Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services, for Financial Conduct Authority
56 ESRO (2014) Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services, for Financial Conduct Authority
dropped substantially in the last year and a number of providers have left, or announced that they are leaving, the market.\(^{63}\)

### 5.2.2 Credit unions

Credit unions are member-owned, not-for-profit financial institutions providing bill payment facilities, financial advice and education, life insurance and other financial products. They are legally obliged to define a group of people who share a ‘common bond’ from whom they can recruit their membership and to whom they can provide services. This is often the workplace and/or the local community. Credit unions vary in size and membership and in the services they offer including savings, ISAs, banking and loans. In being prepared to lend to people who are (or are likely to be) rejected by commercial banks they address financial and social exclusion.

The Association of British Credit Unions suggested that in December 2013 there were 375 credit unions in across England, Scotland and Wales with over 1.1 million people using the sector with total estimated loans of £676 million and £1 billion of savings\(^{64}\). Civitas has explored the size and distribution of credit unions between 1982 and 2012 revealing substantial variation with the largest, the Glasgow credit union with 30,000 members, and the smallest having just a few hundred members\(^{65}\).

This report also presented data at the regional level from the Financial Services Authority highlighting the number of credit unions in the UK in 2011 with the highest proportion in the North West (16.7%), and West Midlands (8.6%)\(^{66}\). Beyond the regional level there is little published about the detailed geographical lending patterns of credit unions beyond the assumption of local lending provision related to credit union location\(^{67}\).

No comprehensive publication of the geography of lending of credit unions at postcode level exists although annual returns on value and volume of loans are made to the financial regulator by all credit unions.

### 5.2.3 Community Development Finance Institutions (CDFIs)

Community Development Finance Institutions (CDFIs) are independent finance organisations that provide financial services such as loans and investment to those people and businesses who struggle to get finance from high street banks. In 2013 CDFI’s provided personal loans totalling £19 million to 40,600 households with the value of personal lending increasing by over 70% since 2012\(^{68}\). The distribution of these loans has been published at a regional level and, in 2013 two-thirds of customers were located in the 35% most deprived areas (by Index of Multiple Deprivation). It should be noted also that in one or two local instances CDFIs committed to data disclosure and transparency have sought to pilot publication of their local lending data (see Fair Finance Box overleaf).

Overall, no comprehensive publication of the geography of personal lending of CDFIs at postcode level exists but as comprehensive annual returns on value and volume of loans have been developed the trade association, CDFA, under its Inside Community Finance reporting programme, is now actively investigating the possibility of such data disclosure.


67 But see, for example, file:///C:/Users/ab5841/Downloads/community-finance-for-london-santander-.pdf for some element of geographical analysis for London

Fair Finance – A UK Pioneer for Data Disclosure

London-based Fair Finance offers a range of financial products and services designed to meet the needs of people who are financially excluded. They aim to revolutionise personal finance, starting with the people whom the mainstream providers have left behind. As they put it, ‘when we have helped to put the loan sharks and predatory lenders out of business, then we will know we have been successful’.

Initially published as a physical report, Fair Finance now provide an interactive map accessible directly from their Home Page that details all their personal and business loans since 2005, by volume and value, at Ward level for the London Boroughs (http://www.fairfinance.org.uk/map). Fair Finance strongly believes that through such data disclosure they are being transparent and accountable to the public.

Fair Finance report that their initial pilot work on data disclosure was limited in the main by technical and presentational issues. Data protection was resolved by delinking names and addresses from loan details and an initial set-up cost of under £8,000 has facilitated an online system requiring no more than data entry for a few hours a month.

The newly mapped data was used to plan expansion and marketing strategies (for example, existing and new client locations and new branches) and supported securing investment and finance.

5.2.4 Crowdfunding (peer-to-peer personal lending)

Crowdfunding describes the collective cooperation of people who network and pool their money and other resources together, usually via the Internet, to support efforts initiated by other people or organisations to raise funds. It enables an enterprise or individual to raise external finance from a large number of people who make a small contribution. In return investors or donors receive a financial return, social benefit, in-kind reward or a combination of these, depending on their motivation to participate. Crowdfunding is now recognised to be a key ‘pillar’ in the collaborative economy.

The debt model of crowdfunding operates similarly to a bank loan but in this case the lender is ‘the crowd’. There are some variations within this model depending on the financial motivations of the investors. Where the lending motivations are purely financial this is referred to as peer-to-peer lending. Peer-to-peer lending platforms bring savers and borrowers together and create investment packages offering both sides more attractive interest rates than offered by mainstream lenders.

Levels of regulation are not as high as in other lending markets and this is currently subject to investigation and possible further regulatory proposals. It should be noted also that as an alternative source of personal lending it has been reported that individuals most likely to access peer-to-peer lending are those with a good credit rating or those who are able to provide additional security or guarantee. Zopa represents one of the largest peer-to-peer platforms lending around £56 million since it was established in 2005. It is estimated that there have been around 80,000 borrowers to date, with 52,000 active lenders.

Almost intrinsically, the nature of crowdfunding and crowdfunding platforms is the digital collection and provision of substantial lending and market information to support distanciated and (relatively) disintermediated investment behaviour – making the sector highly geared to the potential for data disclosure on (the geography of) lending. Funding Circle provides data on all its loans since it began trading in 2010 including a wide range of information such as the original credit band of the borrower, purpose of the loan, the loan term and loan amount, the interest rate, and the next repayment date of the loan, etc. Such transparency in turn

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69 NESTA (2012), The Venture Crowd: Crowdfunding equity investment into business
70 NESTA (2014) Making Sense of the UK Collaborative Economy
71 Zopa http://www.zopa.com/about
allows sites such as [http://www.altfi.com/data](http://www.altfi.com/data) that provides interactive daily updates on the growth of the UK peer-to-peer market.

<table>
<thead>
<tr>
<th>ODI (2013) Show Us the Money – Opening Up Bid Data in Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilising data from the largest peer-to-peer lenders (accounting for over 90 per cent of the market), this report sets out to exemplify the power of ‘open data’ through mapping and data visualisation of lending patterns at the regional and county level (see <a href="http://smtm.labs.theodi.org/ODI-P2P-report-16jul13.pdf">http://smtm.labs.theodi.org/ODI-P2P-report-16jul13.pdf</a>). Simple findings include:</td>
</tr>
<tr>
<td>▪ Four regions invest more than they receive. All four regions, London, South East, South West and the East of England, lie in the South of the UK.</td>
</tr>
<tr>
<td>▪ The range of lending per person ranges from £1.4 to £11.8 for UK regions whereas the range for recipients goes from £3.9 to £7.3 per person.</td>
</tr>
<tr>
<td>As the report authors state:</td>
</tr>
<tr>
<td>“A broader message of this project is that this sort of granular financial data is collectable in the age of terabyte warehouses, and analytically tractable with the visualisation tools we demonstrate here. In sum this project is a step toward a more publicly transparent and comprehensive mapping of the financial system. Eventually we hope this map will become updated in real-time with data feeds directly sourced from P2P platforms.”</td>
</tr>
</tbody>
</table>

5.3 Geographies of SME lending: other finance providers

Information about the spatial distribution of SME lending in the UK is even more limited than that available for personal lending. There have been some efforts to begin to explore the geography of the SME lending landscape.

In 2013, the CDFA commissioned a review of community finance markets which set out the range of finance providers that seek to fill the gaps and opportunities left by mainstream banks. These included community development finance institutions; asset-based lending, crowdfunding (peer-to-peer) and equity based lending such as business angels and venture capital.

5.3.1 Community Development Finance Institutions (CDFIs)

Community Development Finance Institutions (CDFIs) are independent finance organisations that provide financial services such as loans and investment to those people and businesses who struggle to get finance from high street banks.

In 2013, CDFI’s provided business loans totalling £52 million to over 9,300 business customers. The distribution of these loans has been published at a regional level and, in 2013, one-third of customers were located in the 35% most deprived areas (by Index of Multiple Deprivation). It should be noted also that in one or two local instances, CDFIs committed to data disclosure and transparency have sought to pilot publication of their local lending data (see earlier Fair Finance Box).

Overall, no comprehensive publication of the geography of business lending of CDFIs at postcode level exists but as comprehensive annual returns on value and volume of loans have been developed the trade association, CDFA, under its Inside Community Finance reporting programme, is now actively investigating the possibility of such data disclosure.

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5.3.2 Asset based short term lending

Asset based finance options represent a range of financial products that can provide funding against a series of corporate assets, including: stock, property, machinery and equipment and sometimes where appropriate even intellectual property. The types of products that could be gained through this channel include factoring, invoice discounting, and asset-based lending. Asset based lending has typically been made by large multinational corporations but advances to SME’s have been growing strongly. In 2014, asset-based lending in the UK had a record quarter.

Asset based lending in the UK is dominated by the large clearing banks including Barclays, Lloyds Banking Group, Royal Bank of Scotland and HSBC representing about 80% of the market. The Asset Based Finance Association release data on the level and type of asset based finance provided by its members, but there is no exploration to date of the geographical distribution of where this finance is provided.

5.3.3 Crowdfunding (debt and equity)

Crowdfunding describes the collective cooperation of people who network and pool their money and other resources together, usually via the Internet, to support efforts initiated by other people, organizations or businesses to raise funds. It enables an enterprise or individual to raise external finance from a large number of people who make a small contribution. In return investors or donors receive a financial return, social benefit, in-kind reward or a combination of these, depending on their motivation to participate. Crowdfunding is now recognised to be a key ‘pillar’ in the collaborative economy.

The nature of crowdfunding and crowdfunding platforms is the digital collection and provision of substantial lending and market information to support distanciated and (relatively) disintermediated investment behaviour – making the sector highly geared to the potential for data disclosure on (the geography of) lending. UK market leaders in debt-based business peer-to-peer lending include Funding Circle and ThinCats and who both provide a range of information on-line on loan activity. Such transparency in turn allows sites such as http://www.altfi.com/data or Crowd Data Centre (http://thecrowdfundingcentre.com/?page=datacenter) to provide real time tracking of market activity.

A report from the Crowd Data Center in 2014, for example, lists the UK as an area of high growth with 608 projects fully funded during Q1 2014 representing a growth of 317%. In Q2 of 2014 the Crowd Data Center suggests that there were 3,455 new projects in the UK of which 1,027 were funded. The Crowd Funding Centre has also produced an interactive global map crowdfunding map and a report which begins to explore the global distribution of finance provided via crowdfunding. The United Kingdom was listed 2nd in the top 10 high...
performing countries based on the number of successful projects with the top 5 cities in the UK listed as London, Edinburgh, Glasgow, Brighton and Manchester. London is positioned 4th in the top locations globally for crowd funded projects (behind Los Angeles, New York and Nashville). The potential exists for detailed lending geographies to be mapped.

Nesta (2012) defined equity crowdfunding as ‘the offering of securities by a privately held business to the general public, usually through the medium of an online platform’.

This is similar to a debt-based model of crowdfunding - as investors tend to be motivated by more attractive financial returns than they can obtain from mainstream banks - but differs in terms of risk and ownership structure. The crowd becomes a shareholder in the business and each investor holds a stake. The rules of ownership and the financial motivations for investors are similar to investors buying shares in a company quoted on the stock exchange. The businesses seeking investment from crowdfunding platforms tend to be much smaller, new business start-ups and there is a lot less reporting and financial rules required.

Steady growth in equity lending platforms offering SME financing is taking place and the same potential exists for mapping detailed geographies of lending through these platforms.

5.3.4 Equity finance: Business Angels and Venture Capital

Approximately 1-2% of SMEs access lending via Business Angels (experienced entrepreneurs or business people) or Venture Capital (often a fund run through general partners). This type of finance is usually used as a catalyst to spark development or commercialisation of emerging technology or products with potential for high growth.

A report from the UK Business Angels Association examined 262 deals worth £137 million between 2012-13, including a regional level analysis of volume and value of deals84. For example, over half of angel investment was received by businesses in London and the South East. Currently, a further study on the scale and impact of UK angel investing is underway85.

Comprehensive and consistent data on the lending activity of British and European venture capital funds are collected annually by the British Private Equity and Venture Capital Association and the European Private Equity and Venture Capital Association86. Data collection is undertaken in line with the (Walker) Guidelines for Disclosure and Transparency in Private Equity introduced in 2007 in response to increased scrutiny of and negative publicity around the equity industry (see Walker Guidelines Box below). Detailed investment geographies are not published.

86 http://www.bvca.co.uk/ResearchPublications.aspx; http://www.evca.eu/
### The Walker Guidelines for Disclosure and Transparency in Private Equity

Sir David Walker’s Guidelines for Disclosure and Transparency in Private Equity were developed and introduced in 2007 in response to the increased scrutiny and negative publicity the private equity industry faced from the media, trade unions and politicians, culminating in Treasury Select Committee hearings.

The industry has embraced the Guidelines. Over eighty companies are providing additional disclosure voluntarily with a number of benefits identified including:

- The Guidelines provide a framework for the private equity industry to enhance stakeholders’ understanding of activities and address concerns about a lack of transparency in the industry;
- The data published on the performance of portfolio companies supports the advocacy work the BVCA does on behalf of the private equity industry, including credibility and evidence when discussing the industry’s contribution to the broader economy. This in turn allows for more informed and proportionate decisions on policy and regulation by Government and regulators. It also supports returns attribution analysis;
- By publishing annual reports on portfolio company websites and including further disclosure on private equity firms’ websites, the industry is able to demonstrate its commitment to transparency is real and here to stay;
- Enhanced reporting and disclosures demonstrates the industry as responsible owners and builders of businesses and has supported reputational benefits and reporting ahead of public market listings.

The Guidelines are monitored by an independent body which further validates the private equity industry’s transparency commitment.


### 5.4 Summary: The jigsaw of lending provision

The findings from this snapshot review of the range of personal and business lending providers are summarised in Table 5.1 overleaf. The findings illustrate the current 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 lending patterns.

Nevertheless, a number of developments and inferences can be noted, including:

- 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 if 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 international example (and lessons) 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 under review in this report there exist processes of annual collection of lending data that could provide the platform 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.
<table>
<thead>
<tr>
<th>Lending Market</th>
<th>Provider</th>
<th>Disclosure of Area-Based Lending Information</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personal</strong></td>
<td>‘Mainstream Banks’</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>‘High cost lenders’</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Credit Unions</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Community Development Finance Institutions</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Crowdfunding (peer-to-peer)</td>
<td>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.</td>
</tr>
<tr>
<td><strong>SME</strong></td>
<td>‘Mainstream Banks’</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Community Development Finance Institutions</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Asset Based Lenders</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Crowdfunding (debt and equity)</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Business Angels</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Venture Capital</td>
<td>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.</td>
</tr>
</tbody>
</table>
6 Conclusions and Recommendations

6.1 Building an understanding of the jigsaw of financial provision: some conclusions

This study has set out to utilise the new development in data disclosure of the BBA Postcode Lending Data to map area-based patterns in personal and SME lending markets. Given that the call for lending data disclosure is now directed at all financial service providers the study has further reviewed the ability to undertake area-based analysis across those other providers that lend in personal and SME markets.

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.

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.

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 – but current limitations substantially constrain analysis of area-based lending patterns.

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 exist 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.

6.2 **Recommendations**

**Recommendation 1:** Support the BBA, its members and other financial service providers to further develop the power, value and robustness of the voluntary postcode lending data disclosure scheme through five factors (see Table 6.1).

<table>
<thead>
<tr>
<th>Issue</th>
<th>Current Position</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data ‘filters’</td>
<td>Filter rules are ambiguous at margins</td>
<td>Introduce and report a common system of cell ‘markers’ across reported datasets to identify reason for blank or missing data</td>
</tr>
<tr>
<td>Evidence of unexplained data volatility across datasets</td>
<td>Opaque process of data construction. Explanatory notes, including on quality assurance processes, provide little insight. ‘Early days/limited number’ of data releases</td>
<td>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</td>
</tr>
<tr>
<td>Use of Postcode Sector for reporting</td>
<td>Scale does not allow detailed analysis or ease of comparison with other key data</td>
<td>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</td>
</tr>
<tr>
<td>Limited lending data</td>
<td>Total lending variable by Postcode Sector only</td>
<td>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)</td>
</tr>
<tr>
<td>Market coverage</td>
<td>Partial</td>
<td>Seek common standard publication of lending data by all BBA members and related financial service providers</td>
</tr>
</tbody>
</table>
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.
Annex 1  The BBA Postcode Lending Data: Selected Maps

A1.1  Average Bank Personal Lending per Adult by English Local Authority
A1.2 Average Bank Personal lending per Adult by English Parliamentary Constituency
A1.3 Average Bank Personal Lending per Adult by Scottish Council

This UKBORDERS dataset has been provided by OS Geography who release data under a UK Open Government Licence.
Contains Ordnance Survey data © Crown copyright and database right 2014.
A1.4 Average Bank Personal lending per Adult by Scottish Parliamentary Constituency
A1.5  Average Bank Personal Lending per Adult by Welsh Local Authority
A1.6 Average Bank Personal lending per Adult by Welsh Parliamentary Constituency