 DOES A RISING TIDE LIFT ALL BOATS?
A REVIEW OF SOCIAL MOBILITY IN FINANCIAL SERVICES

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A number of key indicators point to a growing gulf in Britain between those with the least in our society with no apparent prospect of improving their life chances, and those who have enough capital or save enough to prosper and take advantage of opportunities to do so. It is because of growing inequality that the issue of social mobility has recently come to the forefront of UK politics through a number of high profile resignations seeking to bring government’s focus back to alleviating inequality.

There is no single accepted definition of social mobility. It can be described in sociological terms as the ability of an individual to move up or down from one social class to another and in socio economic terms by changes in income and wealth. Inequality is not the same as social mobility however concern around social mobility arises as a result of the increasing inequalities in the UK and many other developed economies. Where there is no inequality, parents have no advantage to pass on to the next generation. Where there is great inequality, the advantages for those at the top are considerable while the consequences for those stuck at the bottom are extremely serious.

### INTRODUCTION

Bringing Social Mobility to the Fore

A number of attempts have been made to bring the social mobility issue to public attention. The entire group of Social Mobility Commissioners led by Alan Milburn resigned (Savage 2017) recently citing the lack of government attention to a serious problem that threatens current and future generations as well its collective impact on our society. Shortly thereafter, they were joined by former Minister for Education, Justine Greening, who feels strongly that more needs to be done through education and that more grammar schools was not the solution. In 2018, the Chair of the Commons Education Select Committee argues that “if we are to tackle the social crisis in our country, we must devote far greater energy and focus to the social justice agenda”. Employers are increasingly becoming involved, with a number of initiatives, including in the financial services (FS) sector, a vital part of the UK economy accounting for 3.1% of all workforce jobs and 7.2% of the UK’s total Gross Value Added. In June 2017, seven companies from the banking sector were in the top 50 UK employers who have taken the most action to improve social mobility in the workplace. More recently, Justine Greening has launched the Social Mobility Pledge, in conjunction with the Harrison Centre, to make three individual pledges: partnering with schools before secondly giving access to apprenticeships or work experience opportunities to disadvantaged young people; and opening recruitment practices that promote a level playing field for candidates, such as name-blind or contextual recruitment. Twenty founding partners include insurance company Aviva, financial adviser firm True Potential, Provident Finance and a number of city law and professional services firms. www.socialmobilitypledge.org

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3  Financial services: contribution to the UK economy, Gloria Taylor, Briefing paper, Number 6193, House of Commons Library, March 2017
4  ranking from Social Mobility Foundation (http://www.socialmobility.org.uk/) and the Social Mobility Commission, in partnership with the City of London Corporation (https://www.gov.uk/government/news/top-50-uk-employers-for-social-mobility)
It is a natural assumption that when the economy booms, everyone is better off and therefore that economic growth is the key to social mobility. However, studies such as those of Beller and Hout\(^5\) (2006) as well as the current evidence of a widening gap in UK society suggest that there is more to improving social mobility. Policies based on the logic that economic growth is best stimulated through tax cuts for the rich assume there will be a trickle-down effect as the rich spend on more goods and services resulting in growth and jobs. The most recent example of a trickle-down policy is the reduction of taxes for the wealthy in the US by President Trump. This view is challenged by economists such as Piketty (2014)\(^6\) who argue that slow economic growth rates (such as we have experienced in the last ten years) and a failure to tax accumulated wealth from investment income growing at a rate which is higher than the growth of the economy, have done nothing to redistribute wealth throughout society nor to increase the incomes of those in the low-paid jobs that are created. Hence the gap widens and so the inequality grows.

David Willetts author of “The Pinch – How the Baby Boomers Took Their Children’s Future – And Why They Should Give It Back”\(^7\) describes a widening gap in quality of life and prospects experienced by children and grandchildren of the baby boomer generation. This, he says, is a result of unparalleled benefits to wealth and health, from rising property values, generous tax benefits and improved welfare provision that have changed the demographic profile of the UK. Baby boomers – those born between 1945 and 1965 – are in the most senior decision-making positions in companies and government. Given the longer life expectancies of this post-second-world war generation, their children do not stand to inherit until they reach their sixties. But when they do, for those who stand to inherit nothing, the gap will widen even more.

Lord Willett’s contention is that, to restore the balance, there is a need to improve social mobility through reforms to council tax and inheritance tax in order to fund public services. These reforms, he contends, would reduce the burden on future generations which as a group, are already facing an uncertain future due to changing employment practices (the so called gig economy, zero hours contracts, automation and technological disruption) that result in fluctuating earnings or periods of no earnings at all. Student debt, less security and reduced generosity of pension schemes, on top of real income stagnation, all contribute to a growing imbalance in society in both wealth and income which will continue to grow in the absence of social mobility. The challenges of wealth and income redistribution are issues for government fiscal policy. Government can also influence social mobility through education policies. However, in this paper we concentrate on the impact that the financial services sector can have on this issue, as employers and as providers of financial services to all.


\(^{6}\) “Capital in the Twenty-First Century — Thomas Piketty | Harvard University Press.”

\(^{7}\) Willetts, D. ‘The Pinch – How the baby boomers took their children’s future – and why they should give it back’ Atlantic Books (2011)
Social mobility and the Financial Services sector
The challenge of social mobility is a complex and important one that requires an integrated strategy, active intent, effort, and a shift in policy involving government, education and employers.

Britain’s Defining Challenge
Our defining challenge in Britain is to level up opportunity; making sure that all young people get every chance to go as far as their talents will take them. Ultimately it is about delivering generational change – and that means looking right across people’s lives, from early years through to adulthood.

It means understanding the ways in which poor social mobility can become concentrated and entrenched in some parts of our country and some communities, and understanding the challenges that creates for our education system.

The key to success is realising that we all have a role to play in bending the arc of opportunity upwards, not just those of us in education, such as teachers, but especially business, in developing our young people throughout their education and once they get into their careers.


While access to a good quality education is clearly one foundation of social mobility through the opportunities it provides to enter well paid careers, this paper concentrates on the financial services (FS) sector because of the significant position it holds in the UK economy as an employer and its potential to have great impact on social mobility for customers and currently the unbanked. The FS sector acts as an engine of the economy managing the movement of money around it as well as providing the foundation of social mobility through the opportunities that are rare in real life.

Those excluded from financial services are often excluded from many aspects of life that would assist with their social mobility and for this reason, the problem remains an intractable one. The sector is also as a major employer with 3.1% of all UK workforce jobs and 7.2% of the UK’s total Gross Value Added.9

This paper suggests that the choices, decisions and actions that financial services companies make can influence, in a positive way, the social mobility of many people now and in future, directly and indirectly through their recruitment and training practices, their policies and products and their corporate and social responsibility initiatives. A concerted effort and emphasis on improving social mobility in the sector could therefore have a major impact on the prosperity of the whole nation. We suggest that beyond a moral and ethical responsibility to engage in this effort, there are also potential commercial benefits to organisations, not least through, for example:

Commercial Benefits for Financial Services
Customer benefits
• Enhanced reputation and restoration of trust in financial services providers amongst the communities they serve
• New product and service possibilities for existing and new customers

Workforce benefits
• More equality of opportunity leading to a more diverse workforce better aligned and attuned to its customer base
• Better paid, more meaningful, skilled jobs, leading to more engagement

Employer benefits
• More sustainable, profitable business in new markets
• Productivity and innovation gains as a result of a more diverse and engaged workforce and retention of talent
• Harnessing of what is currently latent potential to create a more skilled and successful workforce

Social Mobility – Who Cares?
Widening income inequality has been described by former US President Obama as “the defining challenge of our time” and Pope Francis has also spoken out against the “economy of exclusion” (IMF 201510). Policy makers tend to focus on education and in many cultures a strong work ethic is also seen as a means of getting ahead, however a Pew Research Centre survey (PRC 201411) found that, in addition to these factors, coming from a wealthy family and having a good network of contacts are also critical to improving social mobility. These factors create a persistent barrier to those in disadvantaged groups and refute the popular and romantic dreams of “rags to riches” stories that are rare in real life.

While most societies would subscribe to the values of equality of opportunity and fairness from a humanitarian perspective there are other risks of widening inequality at a macro level:

Widening inequality also has significant implications for growth and macroeconomic stability, it can concentrate political and decision making power in the hands of a few, lead to a suboptimal use of human resources, cause investment-reducing political and economic instability, and

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8 Rowlingson, Mckay Financial Inclusion annual Monitoring Report 2016
9 Financial services: contribution to the UK economy, Gloria Taylor, Briefing paper, Number 6193, House of Commons Library, March 2017
10 Dabla-Norris, E., Kochhar, K., Suphaphiphat, N., Ricka F., Tsounta, E. “Causes and Consequences of Income Inequality: A Global Perspective SDN/15/13 June 2015 International Monetary Fund
raise crisis risk. The economic and social fallout from the global financial crisis and the resultant headwinds to global growth and employment have heightened the attention to rising income inequality. Source: IMF 2015

The IMF paper highlights the fact that raising the income share of the poor and also the middle classes, is associated with higher GDP growth. The paper also distinguishes between inequality of opportunities and inequality of outcomes (those measured by income wealth or expenditure). Unlike effort or work ethic, inequality of opportunities results from situations beyond an individual’s control such as the circumstances of their birth – gender, ethnicity, heredity, family background, presence of a disability etc. While some inequality can be a driver or incentive for people to be entrepreneurial or competitive resulting in them doing well, the fact remains that many people are not starting from a level playing field and therefore this severely limits their social mobility.

**Five Types of Social Mobility**

Beller and Hout (2006) describe five types of social mobility:

**Educational mobility** (i.e. access to education resulting in a level of educational attainment and skills greater than one’s parents) (OECD 2014)

**Occupational mobility** (i.e. ability to access occupations and jobs of a similar or higher status than parents or to access new skills or retraining to switch careers)

**Wage mobility** (i.e. the relative movement upwards in role or status through promotion resulting in more pay – e.g. from the shop floor to the Board)

**Family income mobility** (the relative income or rank in income distribution compared with parents or parents’ family)

**Wealth mobility** (the change up or down the wealth distribution of families relative to previous generations)

Beller and Hunt (2006) refer to the need for an ‘opportunity structure’ which promotes social mobility. Opportunity structures are created by the inter-relationship between family background, education, employer recruitment practice and how the labour market functions. In the right combination this would allow some people to escape poverty while “limiting the degree to which those who grow up in privileged homes get advantages throughout their lives”. When wider economic growth is added to an open opportunity structure, it has been assumed that all will be better off. But is this actually the case for younger generations today? By the measures highlighted by the UK Social Mobility Commission it would seem not.

**How is Social Mobility Measured?**

In Britain social mobility is measured through the Social Mobility Index which uses a range of measures of differences in the quality and provision of education (from early years onwards); educational outcomes in relation to employability and post school education and training; salaries; progression in the workplace and professional status and home ownership. Each of these are compared across geographical areas.

The State of the Nation 2016: Social Mobility in Great Britain report was the fourth from the Social Mobility Commission which was established under the Life Chances Act 2010 with a duty to assess progress and a remit to improve social mobility in the UK.

In 2016 the report cited four main barriers holding back low and middle income families and communities in England:

1. An unfair education system (namely variation in both quality of provision and access to a university education)
2. A two tier labour market (in which too many people remain in low paid, precarious jobs after years of very low / no increases in wages and with poor career prospects due to a lack of skills)
3. An unbalanced economy (in which the mid-level jobs are disappearing due to automation and technology, leaving more low skilled jobs and fewer jobs for people to be promoted into)
4. An unaffordable housing market (the geographical distribution of jobs means that the chances of accessing a professional job increases the closer you are to cities and major towns where housing is also most affordable. Many low paid jobs exist in cities. The worst social mobility exists where low pay is most prevalent.)

State of the Nation 2017 went further to suggest that the gap is widening and that geographical factors have an impact. There are differences between greater London and the rest of the country. Some areas – The Midlands – and communities, particularly rural ones, are shown to have

14 Investopedia https://www.investopedia.com/terms/o/occupational-labor-mobility.asp
the worst social mobility indicators in general. The picture is murky however as even in the most affluent of areas, outcomes for disadvantaged children living there are worse than for those living in much poorer communities elsewhere. What this means is that disadvantaged young people are almost twice as likely to not be in education, employment or training (NEET) one year after leaving school.

One possible reason for these findings is that slow economic growth since the 2008 financial crisis is reducing social mobility in Britain today. It is magnifying the difference between the upwardly mobile and the downwardly mobile. As this inequality increases, there are more people in the extreme positions, both high and low. Those at the low end have further to rise than before and those at the top, farther to fall in a very unequal society, with each more likely to remain in their extreme positions. This polarisation means that there are also fewer people in the middle of the distribution curve. This picture is not only about an increasing income gap between those in the bottom and top deciles (wage mobility) but also about the availability of good quality school education, and access to further/higher education (educational mobility) and thereafter access to well-paid work (occupational mobility).

When factors outside their control prevent people from getting ahead or improving their lives, they are more likely to feel resentment against those whom they feel have a hand, directly or indirectly in their lack of progress. These divisions in UK society threaten to grow wider creating an “us and them” society where large parts of the country feel ignored, unfairly treated and alienated from those parts of the nation that are seen to be thriving. This feeling of resentment was expressed through anti-capitalist rallies and movements that gained prominence in the aftermath of the banking crisis. The high profile resignations referred to earlier point to frustration over a lack of concerted and joined-up strategic thinking by central government, as well as a lack of sustained action and investment, by both central and local government to tackle this economic and social divide. But of course it is not only governments that contribute to economic development, leading to employment opportunities, skills development and salary levels. Employers, educational establishments and local communities also have a major role to play. One might ask why does this matter? To coin a phrase

“A rising tide lifts all boats”

Source: the New England Chamber of Commerce, later adapted by John F Kennedy (Wikipedia)

Stagnation or decline in real earnings against a backdrop of rising prices for middle and lower income groups, diminishes the potential for any business to grow. People need money to buy now, to invest and to save for later. The long term picture of a decline in their ability and propensity to do that does not bode well for any sector, but especially not financial services for whom financial products and systems are their ‘bread and butter’.

In what ways do Financial Services Perpetuate the Problem?

There are a number of factors that impact on social mobility with respect to financial services employees and customers, including:

Financial exclusion
- The "unbanked"
- Behavioural barriers
- Financial Literacy
- Mistrust

Access to credit
- Automation of loan decisions
- Microfinance institutions
- Credit scoring

Diversity
- Gender Identity and Sexual orientation
- Ethnicity
- Disability, health and well-being
- Socio economic status

Financial Exclusion

Exclusion from several aspects of the ‘opportunity structure’ discussed earlier perpetuates inequality of opportunity and therefore social mobility. In this paper we concentrate on the particular ways in which financial services exclude either deliberately or inadvertently through policies, operational processes or possibly through a lack of consideration for the consequences of decisions that impact on social mobility.

The “unbanked”

There are still 1.5 million people in the UK who do not have access to a bank account20 – the so called unbanked. This precludes them from many aspects of daily life and exposes them to financial risks and difficulties, for example by requiring them to have access to cash and excluding them from other, more convenient and secure payment systems. Holding and operating in cash is not only more risky (it can be stolen for example), it can be more expensive (e.g. “the no change given” scenario or lack of access to discounts for bulk or online purchase or services made possible through credit cards) and it does
not gather interest but rather loses value due to inflation. While there are alternative savings providers, some have notably failed to deliver for the most vulnerable of groups trying to save (e.g. Farepak Christmas Savings Club that collapsed meaning that savers lost their money although the scheme’s bankers, HBOS, ensured that the bank’s position was secured)\(^\text{21}\). These high profile cases do nothing to encourage more trust in the banking system and do a lot to expose vulnerable people to more risky means of accumulating savings.

The rapid move towards a more digital and cashless society further excludes and disadvantages those who do not have access to the technology, devices and internet connections required to function effectively. This includes the elderly, those in rural communities and the very poorest people in society.

**Behavioural barriers**

Behavioural economics or “nudge theory” (Sunstein and Thaler 2008)\(^\text{22}\) is becoming increasingly popular as a means of recognising and overcoming the cognitive and behavioural biases relevant to decisions on our health, wealth and wellbeing.

Financial exclusion – or lack of access to financial services or products – can have harmful consequences from a behavioural perspective. One of its most widespread and harmful effects is to hinder the accumulation of savings to protect against falling into expensive debt.

From a behavioural perspective, having access to a savings account has been found to create a commitment to save, thus encouraging the poorest to save more (Bertrand, Mullainathan, and Shafir 2004)\(^\text{23}\). Typically, money from a savings account cannot be used for ad hoc payments as is the case for cash or for money in a basic bank account. This small barrier to accessing money can sometimes be sufficient to avoid an impulse purchase. A pound put in a savings account is less likely to be spent than a pound coin in a purse or spending a pound by tapping a debit card.

Banks already help people save more by encouraging consumers to set up standing orders into a savings account. We know from experiments analysing retirement savings that once consumers are enrolled or enrol themselves in automatic transfers of money on a saving account, they tend to not to revisit this decision. By default, they continue to save regularly (Thaler and Benartzi 2004)\(^\text{24}\). But there are an increasing number of people working for the gig economy with variable and uncertain earnings. Gale, Holmes, and John (2016), explain how conventional behavioural approaches to encouraging saving (e.g. auto-enrolment, payroll deductions, matching contributions) are not available for contingent workers.\(^\text{25}\) The absence of such behavioural solutions critically exposes these workers to classical biases that leads to under saving (e.g. present bias). The authors show how banks can use fintech to help independent workers reach their saving goals despite irregular and variable income. As with most fintech solutions, the goal is to remove the “friction” that creates and inconvenience of financial transactions.

### Removing Friction

Examples include:

- **Uber**, in partnership with Betterment, a fintech company, proposes that workers select a pre-set amount each month, save a percentage of each payment they receive, or to only save when a payment is over a certain amount. Uber also offers the option for the worker to receive messages of encouragement and reminder messages when payments have been missed.

- **Digit**, a fintech company, proposes a smartphone application that analyses workers’ bank account transactions and, when it detects that the account contains money that is not needed for immediate expenses, automatically sweeps it into a savings account.

- **Impulse Save** is an app provided by True Potential Investments that allows savers to invest or top up their investments in funds thorough small amounts transferred at the touch of a button on their tablet or phone. By linking their bank account and tracking expenditure, small amounts accumulated can be invested with minimum fuss.

- **Revolut**, a Forex fintech company that has introduced a product called ‘Vaults’ allowing users to round up purchases or make regular payments to a saving fund through use of their credit card.

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Financial Literacy

Confidence, self-esteem and resilience are non-cognitive skills that are increasingly linked to social mobility (APPG 2017).26 Financial literacy and enterprise education enable these key skills to be learned, teaching people how to keep going, how to adjust when the unforeseen happens and to make the link between earning capacity, life choices and career aspirations. However, without a cushion, either from inherited wealth or from savings, emergencies hit harder.

Access to banking services and products is harder for people with a relatively low level of education level which is in turn associated with a lower level of financial literacy. Financial products are becoming more complex at a time when consumers are increasingly having to take important financial decisions. A striking example of unequal outcomes is shown in the link between financial literacy and investment decision-making. The literature shows that lack of financial literacy is associated with lower participation in the stock market as somewhere to invest retirement savings (van Rooij, Lusardi, and Alessie 2011)27. And, when people do participate in the stock market, they tend to take less risk (Bianchi 2017).28 So, in the long run, even if they had the same amount of money to invest as wealthier investors, people from an underprivileged background would accumulate less money over time, since they would be deprived of the risk premium earned on more risky investments.

Mistrust

The financial crisis has also had a lasting impact on the psyche of young people, both those who were at the age when they were entering the job market and since, for those emerging with significant student debt. The mistrust has driven quite different consumer behaviour and great interest in fintech companies offering alternatives to the incumbent institutions. For example, services that offer alternative lending, alternative approaches to assessing credit risk, micro and flexible insurance products, apps that allow spending and saving rather than keeping money in the bank.

Mistrust of banks and bank employees is another legacy from the crisis, more insidious than financial literacy, affecting the financially disadvantaged. Bertrand, Mullainathan, and Shafir (2004)29, raise the idea of a behavioural view of poverty in a paper that was later submitted to the Obama administration. They suggest that one of the psychological barriers to opening a bank account could be mistrust of employees of the bank. The not-for-profit organisation, StepChange, points to the findings of their Financial Lives Survey in 2014 which show that more than 4 in 10 of potentially vulnerable adults said they did not have confidence in the financial services industry30. Scandals of banks mis-selling Payment Protection Insurance for decades to naïve clients has certainly contributed to this poor perception and mistrust of banks.31

Supporting the vulnerable

StepChange believes that financial firms could take action to help its most vulnerable clients. A first step suggested by them is that firms should “have a responsibility to take reasonable steps to identify the signs of vulnerability and to have processes in place to take appropriate action where they have identified a consumer with a particular need and at particular risk of harm. “(Stepchange 2018)32. Banks are in a good position to detect when someone’s financial situation may be going wrong. Since bank information systems are already be programmed to determine to charge penalty fees for going into unauthorised overdraft, these systems can surely also be used to trigger contact with the clients who have accumulated worrying amounts of penalty fees with a view to understanding how the underlying problem could be resolved. StepChange recommends that bank staff should be trained to identify vulnerability, and that banks should encourage such customers to approach their bank to discuss their financial problems.

“This could include utilising data; training staff to identify potential signs of vulnerability when engaging with customers; and giving clear signs to customers that any disclosure will be handled sensitively and appropriately.”33

For StepChange’s last suggestion to be effective, the culture of banks may have to be addressed first to counteract possible unethical or even dishonest behaviour amongst employees. A rather worrying paper published in the review Nature (Cohn, Fehr, and Maréchal 2014)34 shows, via an experiment, that bank employees, when reminded of their occupation, behaved less honestly than people from other occupations who were also reminded of their occupation, behaved less honestly than people from other occupations who were also reminded of their occupation, and less honestly than bank employees who were not reminded of their occupation. These results

30 Figures based on a survey of 926 StepChange Debit Charity Clients carried out in 2014
31 See https://www.theguardian.com/business/2011/may/05/how-ppi-scandal-unfolded
33 Cohn, Fehr, and Maréchal, “Business Culture and Dishonestly in the Banking Industry,” Nature 516, no. 7529 ( of Finance ( ed to be provided in order to add a footnote) and here2014): 86–89
indicate that bank employees who participated in the study work in a business culture that tends to tolerate or promote dishonest behaviour. Such a culture may certainly be part of the explanation as to why more vulnerable individuals are afraid of contacting their bank when looking for independent financial advice. There is clearly more work to be done for banks to become more customer-friendly environments.

Access to credit
Along with bank accounts comes access to credit and loans. Credit – especially low-cost credit – favours those with existing assets and incomes on the basis of which a case can be made to lend and borrow.

To avoid the problem of “adverse selection” (Akerlof 1978; Stiglitz and Weiss 1981) i.e. the ability to distinguish between those with high credit ratings and those perceived as higher risk, banks see no option other than to screen and reject credit unless they can provide security on those loans with collateral hence protecting the bank from client default. For those without a credit history, or with a poor credit history, and/or lacking assets against which to secure loans, it is more likely they will be turned down for credit. Typically it is younger people who have not had the opportunity to build up a credit history or who lack the conventional means or collateral to access low cost loans on which they could build a better future for themselves such as a mortgage to buy a first home, or, at least, to avoid falling into unauthorised and unexpected debt from unforeseen events. But of course people who have cash flow difficulties (e.g. through intermittent earnings, delays in benefit payments etc.) can amass poor credit ratings as can people making numerous applications for credit and being turned down. Sources of credit available to people with poor credit ratings are less affordable and are well documented in terms of their propensity to exacerbate debt problems through punitive repayment terms. As a result, the prospects of getting ahead by using debt to acquire an asset such as a home, or to insure against unexpected life events, are quite low.

The housing crisis for the younger generation
The UK is in the midst of a housing crisis that has seen home ownership plummet. The Office for National statistics report that on average, working people could expect to pay around 7.6 times their annual earnings on purchasing a home in England and Wales in 2016, up from 3.6 times earnings in 1997. The situation is even worse among the young. Since 1993, the rate of home ownership among people aged 20-29 has declined from 50% to only 20% (Blanden and Machin 2017). The most worrying aspect is that such a drop is clearly at the expense of social mobility. Blanden and Machin (2017) shows that people who grew up in families that owned the house they lived in are themselves more likely to be owner occupiers. This housing crisis is contributing to the persistence of economic inequality.

Despite government initiatives, such as the Lifetime ISA (or LISA) and the Help to Buy schemes for those saving to buy a house, the jury is still out on whether younger generations will be able to own their own homes in the numbers their parents did. Cumbo and Wiliams (2016) are positive as to the potential impact of the LISA on home ownership. However, the Social Mobility Commission, in its 2017 report, argues that such schemes have a limited effect on social mobility, finding that many low-cost government-backed home ownership schemes are most likely to benefit better-off buyers.

Automation of loan decisions
One factor making homeownership difficult to access for the financially disadvantaged is the use of algorithms to make mortgage loan decisions. Automating loan decisions is an improvement in a number of ways. At the employee level, the use of an algorithm to process borrowers’ information has certainly produced huge productivity gains. At the borrower level, it has allowed applicants to get quicker answers, and to a certain extent, has led to fairer decisions by reducing the possible biases of individual lending officers. At the economy level, automated ways to evaluate borrowers’ risk of default – provided that they rely on the correct model – may have improved the stability of both the financial system and the economy.

However, it is likely that making the offer of a loan solely dependent on the decision of the algorithm, will certainly affect those who are close to – but below – the acceptance

Microfinance institutions

For the disadvantaged, starting their own business represents a real opportunity to be successful in life. Lack of access to a source of funding is certainly often the main barrier. From the lender’s perspective, small businesses are a riskier prospect than offering a mortgage secured on a property. Many banks require small business owners to use their homes as collateral, perhaps in addition to other savings or guarantors, or investors to provide reassurance for loans. Despite this, around half of existing SMEs report having experienced barriers in accessing finance, and a quarter have been turned down for a loan at a crucial stage of growth. In 2018, home ownership in England is at a 30 year low and the private rented sector has doubled in size since in 14 years. This is unlikely to change for some time and the policies and practice of lending based on home ownership, a legacy of different times, appears to be out of step with the reality of what is happening today. We can only imagine the huge number of new entrepreneurial businesses that will never see the light of the day due to lack of initial funds. For many people, the only real prospect of meaningful employment and advancement is to start their own enterprise. This is particularly the case for those living in parts of the country where well paid and highly skilled jobs are not to be found.

Forms of Microfinance Institution (MFI) and Bank Partnerships

Most commonly found forms

- MFIs borrowing from Banks This is the most common type of partnership, where banks fund MFI loans while the MFIs guarantee a high level of repayment
- MFIs with Bank participating in their equity This is another way for the bank to fund the MFI and it also allows the bank to make decisions such as on the strategy of the MFI
- MFIs subsidized by Banks Although the default rate is typically very low, MFIs may need subsidies to cover running expenses. Being subsidised also help in reducing interest rates charged on loans.

Other types of partnership

- MFIs with Bank representatives on their board of Directors
- MFIs co-financing projects with Banks
- MFIs screening and monitoring clients for banks
- MFIs providing Business Development Services for banks’ clients
- MFIs sharing front-office, back-office, offices, ATMs and IT with bank

Even if the risk to banks of investing in entrepreneurs with no assets is unacceptable, they can still be helpful through different, less direct, channels. One approach could be to partner with microfinance institutions (MFIs). We depict in the box above different types of partnership between banks and MFIs that already exist in the UK and elsewhere in Europe (To do this, we use Cozarenco’ (2015) classification). By entering into such partnerships financial firms such as banks can go beyond the CSR activities that companies from other sectors provide in vital ways. Banks can provide current and savings accounts. In the longer term, successful entrepreneurs may become sophisticated customers asking the bank for more advanced and profitable banking or insurance products.

It is worth noting that the vast majority of MFI clients have previously had borrowing requests declined by a bank. Responsible Finance (an MFI formerly called CFDA, Community Development Finance Association) reported that, in 2013, 98% of CDFI’s business customers had previously had borrowing requests declined by a bank. Successful entrepreneurs may become sophisticated customers asking the bank for more advanced and profitable banking or insurance products.

Case study: Tesco Bank and the Grameen bank in Scotland

The Grameen Bank is a microfinance organisation and community development bank founded in Bangladesh. It makes small loans (known as microcredit or “grameencredit”) to the impoverished without requiring collateral. As well as the financial aid provided to the Grameen bank itself to facilitate the setting up and development of its activities in the UK, Tesco Bank also directly enhanced the financial inclusion of Grameen Bank borrowers by automatically providing them with basic current and savings accounts, as well as a range of other services.

43 Mark King, “Tesco and Grameen Bank to Provide Microfinance in
Credit Scoring
Credit history and credit score are of increasing importance where short-term unsecured credit for individual borrowers is concerned. Those with poor credit scores are unable to do much to address this and so access cheap debt and as a result they are also often forced to take out loans, even with reputable lenders, at extremely high rates.

Credit scoring used by financial institutions relies on a rigid battery of criteria that include individuals’ credit histories. One way that would help more disadvantaged people to access credit in the event of an unexpected liquidity shock is to help them to build up a credit history that demonstrates their behavioural inclination to honour their debts.

Creating more relevant credit scores using alternative data sources
"The development of effective but fair credit scoring models should help reduce costs to providers and potentially reduce the poverty premium for some individuals and households. The Big Issue Invest and Experian have worked together to set up the Rental Exchange Initiative, which encourages social housing providers to provide rent payment data for inclusion in tenants’ credit files. Credit Ladder, a bill-payment service, aims to do something similar, by asking tenants who sign up to it to route rent payments through them. While these are promising developments, there are concerns that some people’s credit ratings may deteriorate rather than improve as a result of including this data (including for reasons beyond their control such as late payment of housing benefit), and it is not yet clear how lenders will receive or use rent information. Rent payments routed through bill-payment services are not protected under the Financial Services Compensation Scheme, so are at risk if the intermediary company fails.

Alternative models such as Credit Kudos18, FriendlyScore and Aire allow a wider range of data (including social media data in some cases) to be included in credit scoring to help determine creditworthiness. Pariti enables customers to connect all of their accounts to create a full picture of their financial situation and acts as a broker to help the financially excluded access credit when they need it.

(Making the poverty premium history, Personal Finance Research Centre, University of Bristol 2017)
Diversity in the FS sector

Breaking down the barriers that prevent social mobility requires employers and society generally to combat what is often unconscious bias that prevents the level playing field required to support social mobility. One way of doing that is to actively seek to increase diversity in organisations so that they resemble or at least are capable of reflecting and understanding their customer base or target audiences.

A recent survey shows which factors are used by employers to measure diversity. The table shows how gender is almost universally measured – doubtless due to legislation which has required firms with more than 250 employees to measure the gender pay gap from at the earliest April 2017 and no later than April 2018. Ethnicity is also a key measure of social diversity, both often being subsumed into the term “minorities”.

[Image of a bar chart showing the share of employers monitoring different types of diversity]

Source: APPG on Social Mobility – The Class Ceiling – Access into Leading Professions

Gender Identity & Sexual Orientation

While gender is measured in respect of pay, it remains the case that women through no fault of their own have poorer social mobility. The Chartered Insurance Institute (2018) recently published a report which highlighted three key challenges that it wants the insurance sector to recognise and address with respect to women – not just as employees in the sector but also as customers. These three challenges are related to women’s longer life expectancy, life choices as well as the gender pay gap:

- Longevity – women tend to live longer and this has a negative impact on pricing and provision for their retirement;
- Work-life balance – Women tend to take on more of the caring responsibilities at all life-stages (as mothers, caring for growing families and then later for elderly relatives) which reduces the number of years during which they can work and save for a pension
- Employment differentials – there is a well-documented gender pay gap, women in many sectors still lag behind men, having less senior roles, and are more likely to require flexibility in the workplace (to accommodate the additional caring responsibilities described above).

The uphill climb women face for social mobility

Longevity
Women live longer, often in poorer health than men. Women are also more likely to suffer from dementia and mental health issues meaning that they will require more care towards the end of their lives. For example, the cost of living longer in a care home for women is currently almost double that of men. This ‘longevity trap’ means that, when women become dependent in old age, they typically have fewer assets and less of a cushion to self-fund their care, but will be around longer requiring that care.

Work Life Balance
In social mobility terms, younger women, those in the so called millennial age group, face the prospect of being worse off than their mothers and grandmothers and their male counterparts because they bear more of society’s risks and are therefore more exposed to financial difficulties. The report highlighted 6 significant stages in women’s lives that policy makers and financial planning professionals should understand in order to consider interventions that will equip young women better and improve their financial independence and resilience to risk:

1. Growing up. Studying and re-qualifying
2. Entering and re-entering the workplace
3. Relationship making and breaking up
4. Motherhood and becoming a carer
5. Later life, planning and entering retirement
6. Ill-health, infirmity and dying

Women typically already typically take on more caring responsibilities in our society – from raising children to caring for sick, disabled or the elderly in both family situations but also in social care settings. These roles and jobs are typically either unpaid or low paid. Changing demographics, where people are living longer means that the responsibilities for caring for older people is going to increasingly impact on all of society.

Employment Differentials
Women perform at least as well as men in educational terms but younger graduates are suffering as much from the decline in well paid graduate jobs available. Rising student debt is compounded by low paid work and part-time work, often as a result of caring responsibilities. The gender pay gap still exists at all levels, including at apprenticeship level where women earn 21% less than men due to their choice of sector. The future of work which may render some career choices redundant (especially those in administrative or secretarial roles) will push more women into where there is work requiring a human being.

Estimates that the gender pay gap will not be closed until 2050 (The Chartered Insurance Institute 2018) mean that employers need to do more to support women to achieve their potential and at the same time achieve financial resilience.
Sexual Orientation
On a range of indicators, LGBT people tend to fare poorly relative to the general population in terms of poverty, food insecurity and employment. This comes about through exclusion, cultural and family intolerance, discrimination and in many countries still, criminalisation. These are all experiences that can then lead to a downward cycle – missed schooling, fewer opportunities to work, even the need to seek refuge in another country. All or any of these in turn can contribute to poor mental and physical wellbeing. These are all factors that impact on social mobility.

Ethnicity
“IT IS STRIKING THAT MANY OF THE GROUPS THAT EITHER ATTAIN HIGHEST, OR ARE IMPROVING THEIR ACHIEVEMENT FASTEST AT SCHOOL, ARE NOT YET ABLE TO TRANSLATE EDUCATIONAL SUCCESS INTO LABOUR MARKET OUTCOMES. THIS IS A PARTICULAR ISSUE FOR SOME ETHNIC GROUPS AND WOMEN.” Source: Social Mobility Commission 2016

The Social Mobility Commission points out that parental education, expectations and engagement in their children’s education play a key role in attainment. Clearly, there are additional significant impacts on refugees and asylum seekers – interrupted education, social exclusion perhaps exacerbated by language barriers that prevent access to advice and support and of course financial hardship brought about by fleeing their country of origin with nothing and hindered by the restrictions on work. Ethnic minorities continue to experience higher unemployment than their white British counterparts even taking into account qualifications. The gender pay gap is even greater for women from ethnic minorities. Discrimination is one possible explanation. However, it is also possible that this is explained by a tendency for ethnic groups (and indeed genders) to congregate in particular sectors. A third explanation is the influence of cultural norms – some of which is a function of gender but also relates to the emphasis placed on marriage and families that is found in some communities.
Disability, Health and Wellbeing

Breaking the link between parental income and future life chances through improving education, early development, employment prospects, housing and geographical mobility (through transport or access to a healthy living and working environment) are key determinants in improving social mobility.

The State of the Nation report 2016 identified the role that health and wellbeing play in an individual’s social circumstances and thus their social mobility. Not only, as the Health Foundation chart below shows, is life expectancy much lower for those in deprived areas than in prosperous areas, there is also evidence that health and well-being directly affect employability. For example, those out of the labour market face challenges in terms of their employability. Barnes (1999) suggested that to be defined as disabled means to be either unemployed or underemployed when compared with non-disabled people. Whilst employment rates are rising, further improvements are needed to ensure that disabled people can overcome the financial difficulties and isolation that being without work perpetuates.

Our surroundings
The food we eat
Housing
Family, friends & communities
Money & resources
Transport
Education & skills

What makes us healthy?

Only about 10% of a population’s health and wellbeing is linked to access to health care.

We need to look at the bigger picture:

Good work
Our surroundings
Money & resources
Housing
The food we eat
Education & skills
Family, friends & communities

But the picture isn’t the same for everyone.

The healthy life expectancy gap between the most and least deprived areas in the UK is: **19 years**

Socio economic

Though socio economic status is a measure of social mobility, the APPG graph shows that only around one third of firms surveyed measure it at all. As a result, socio economic status is likely to be given little importance, and this, as we will see, is particularly a problem in the FS sector. Class and educational background are key decision variables for employment. Financial services firms employ a relatively higher proportion from private schools, and lower proportions of women and those from low income families or with low or poorly valued skills.

Recent employer research carried out by The Open University highlighted the reluctance of many organisations to change their recruitment and development practice, citing managerial bias as one reason. The danger of this is that organisations and the UK economy as a whole is missing out on the latent potential of its workforce and that it faces a looming skills and recruitment crisis that will be felt extremely hard post BREXIT. The Sutton Trust, in research conducted by BCG highlighted the issue of a lack of diversity in their “Pathways to Banking” report. A short summary is given below of both findings.

References available at www.health.org.uk/healthy-lives-infographics

Lack of Diversity in Financial Services Sector

Women in finance “Only 9% of leaders in the financial services sector are women. Banking has the highest proportion at 11% and asset management and private equity the lowest at 6%...Across all sectors, 32% of new recruits are women.” (BCG for Sutton Trust, 2014)49

Privileged education “BCG found that 34% of recent intakes and 51% of leaders in the banking sector who were from the UK went to independent schools – compared to 7% of the school population. For the financial services sector as a whole which included banking, insurance, hedge funds and asset management and private equity firms, 37% of recent intakes and 60% of leaders were independently educated.” “and a significant proportion are Oxbridge graduates” (BCG for Sutton Trust, 2014) 50

The risk of “creating organisations of clones”. “The educational backgrounds of the youngest and oldest quartiles, both in terms of school and university, are remarkably similar.” (BCG for Sutton Trust, 2014)51 “three in 10 (29%) senior managers admit they hire people just like them, and warns employers may be overlooking candidates from different social and educational backgrounds, impacting access to talent, and hindering business innovation and performance as a result.” (BCG for Sutton Trust, 2014)52

The ‘degree premium’. More than half (55%) of managers would not be willing to take on employees without a degree and train them up in the skills required, which puts the minimum entry requirement out of reach for many. (BCG for Sutton Trust, 2014)53

“One in six (16%) senior managers still incorrectly believes that apprenticeships are for those who could not get into university, while 13 per cent admit they think less of someone who has done an apprenticeship.” (The Open University Market Employer Research 2018)54

Lack of access to internships for people from disadvantaged backgrounds is a real barrier for their social mobility. They cannot afford unpaid or low paid internships and in any case these internships are invisible to them because they are not advertised publicly and filled informally. (BCG for Sutton Trust, 2014)55

Where people live is also a factor. The concentration of FS HQ’s in London and the south east of England is still where the best paid jobs are located. Other less well-paid jobs – call centres – are located in the regions. This contributes to the imbalance of the economy, exacerbates the affordable housing issue for those in less well-paid jobs and even for those who earn enough to buy homes in other parts of the country. In addition, factors such as available and affordable transport to and from place of work as well as places of learning contribute to the challenge of inclusion.

The prospect of employability, well-being and therefore social mobility also applies to those living on the margins of society such as offenders, ex-offenders and those working in the informal economy. Bringing those people into the mainstream of society and supporting them to achieve their potential is part of the social mobility agenda.
Towards a Solution

The Sutton Project “Pathways to Banking” report and the Department of Education, in its report, “Careers strategy: making the most of everyone’s skills and talents” (December 2017) both assert that employers are aware of the problem of lack of diversity and recognise that recruitment from non-traditional backgrounds has been successful. Participating employers have experienced a positive dynamic, achieved by increasing diversity.

The Sutton Project proposes:
• “Early intervention: working with schools to identify and support potential candidates’ pre-16 and to explain the routes into careers in banking.
• Work with parents and teachers to help them support and boost students’ aspirations.
• University access: getting the right pupils into the right universities
• Work experience: providing relevant on-the-job opportunities for school and university students
• On-going support – providing follow up support to young people once a specific activity has ended, making the most of that experience and future opportunities” (BCG for Sutton Trust, 2014)

One way to do this is to recruit in local, disadvantaged areas. True Potential based in Newcastle, has a local recruitment programme, which has been very successful. Virgin Money also located in Newcastle is not only recruiting locally but also has established the Virgin Money Foundation which has set up a variety of funds (The North East Fund, The Ripple Fund, Take Action Fund and Heart of the Community Fund) to promote long term change in North East communities, sustainable regeneration through creating skills and confidence and engaging with young people, and regeneration of Glasgow, respectively.

Matthew Taylor’s recent review also recognises the importance of high-quality work experience and encounters at different education stages (Careers strategy: making the most of everyone’s skills and talents, Department for Education, December 2017)

“Research from the Education and Employers Taskforce shows that a young person who has four or more encounters with an employer is 86% less likely to be unemployed or not in education or training and can earn up to 22% more during their career”.

This ties in with the government’s move towards encouraging young people to learn technical skills through the new T-Levels which provide technical pathways in the area of finance. This is an excellent opportunity for banks to consider hiring apprentices from a range of backgrounds. For the first time, students following these professional pathways, which often have a majority of people from disadvantaged backgrounds, will be able to benefit from some technical training in finance skills.

Another government initiative to improve social mobility has been fronted by Justine Greening. In March 2018, she launched the Social Mobility Pledge, in conjunction with the Harrison Centre, to make three individual pledges:
• partnering with schools
• giving access to apprenticeships or work experience opportunities to disadvantaged young people; and
• opening recruitment practices that promote a level playing field for candidates, such as name-blind or contextual recruitment.

Twenty founding partners include insurance company Aviva, financial adviser firm True Potential, Provident Finance and a number of city law and professional services firms.

There are thus private and public sector initiatives to improve social mobility. Given the greater diversity problem in the FS sector than in other UK sectors, there is more opportunity for making a big impact and turning their workforces into diverse, creative, and motivated employees who by their very nature will better understand their employers’ customers.

57 www.virginmoneyfoundation.org.uk
59 Mann, A. et al. (2017) Contemporary Transitions: Young people reflect on life after secondary school and college
60 https://feweek.co.uk/2017/03/06/making-sense-of-the-plans-for-t-levels/, http://www.telegraph.co.uk/education/stem-awards/energy/apprenticeship-levy-employer-guide/
Conclusions
This paper has sought to highlight how many financial services products, policies and practices currently work against social mobility for disadvantaged and vulnerable people in the UK and beyond. Many of these are a legacy of a different era reflecting very different customer demographics and circumstances to those facing future generations. In general most, if not all, financial products and policies target and favour the better off through being loyalty related, or offering discounted pricing and favourable rates to those who can pay upfront or who can use the internet and mobile technologies to take advantage of special offers. The most vulnerable pay more for cash settlement, and earn no interest on cash they have to accumulate to pay for things. With no credit rating they cannot take advantage of longer term contracts (from mobile phones to TV packages and internet connections) and so on.

In these important respects, the financial services industry, through its products and product pricing through its lack of diversity in recruitment and employment practices, discriminates against and fails to address the real issues facing many disadvantaged existing customers or potential new ones. By failing to address fundamental inequalities in society with respect to income and wealth, financial capability, gender and race, the financial services industry helps to limit the social mobility of our citizens, and hence the prosperity of our society and of the financial services industry itself.

Any attempts to improve social mobility should therefore address the barriers by targeting the education system, the inequalities of opportunity in the job market, imbalances in the economy, geographical barriers, and the associated lack of availability of affordable housing across the country. The insurance, banking and financial planning professions need to be part of the solution to issues facing young people, specifically young women, the disabled and ethnic minorities, and those who are being left behind in society – not only for their good but for the good of us all. For many of the reasons we have suggested, social mobility is a problem for most organisations and the economy, diversity is too. Increasing diversity comes at a cost – effort and financial but it is beneficial in the long run for all. An organisation or institution which does not reflect or resemble its customers or communities is less likely to be able to serve them well. Employment practices that fail to consider talent and potential over family background, ethnicity, gender, sexual orientation or disabilities contribute to a massive waste of potential in our society.

There are fortunately several examples of where financial services companies are intervening and making a difference to social mobility. It is incumbent upon government to take a lead and integrate fiscal policy, and the strategies of central, local government, those of us working in education, employers and those who provide the oil in the engine of the economy (financial services) to play their part. Financial services has much to gain from development of new products and services that support social mobility through innovative funds and schemes that support commercial as well as reputational and corporate social responsibility objectives.
About True Potential LLP
Formed in 2007, True Potential LLP is one of the fastest growing and most innovative financial services organisations in the UK today.

Through its group of companies – True Potential Wealth Management LLP, True Potential Investments LLP and True Potential Adviser Services LLP – they work with over 20% of UK Financial Advisers and their clients.

They also offer an online investment service that empowers UK consumers to take control of their finances – True Potential Investor. Along with being able to set real goals for your money and giving you the ability to invest in some of the world’s leading funds and track their progress 24/7, True Potential Investor offers the firm’s unique ImpulseSave® top-up feature.

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About The True Potential Centre for the Public Understanding of Finance (True Potential PUFin)
True Potential PUFin is based at The Open University Business School (OUBS). True Potential PUFin is a pioneering centre of excellence for research and teaching related to personal finance capability and aims to influence both policy and practice. It brings together academics with expertise in fields such as regulation, taxation, consumer attitudes, motivations and behaviours, and social marketing.

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