

The Banking Poverty Premium

Foreword

For many of us, having a bank account is a basic fact of life. Our wages get paid in, we try to save, we borrow when we run out of cash, and we increasingly use our cards and smartphones to make a myriad of payments. Having a bank account means that our money is safer and easier to spend than ever before. We can order everyday items like food, furniture and flowers to be delivered to our house because we have access to a bank account and the internet.

But as new technology in banking improves many people's lives it is also creating a divide between the haves and have-nots. Over a million people in the UK are still unbanked - they have often been ignored by the traditional banks and miss out on what we deem to be basic services like internet shopping, contactless bank cards and products like car insurance that are almost impossible to buy with cash.

In this report, we've shown that these people are also being hit with a Banking Poverty Premium of up to £485 per year. The unbanked - who are often those with the lowest incomes - are paying more than you or I for things like electricity, gas and loans simply because they don't have a bank account.

I first saw this when visiting a number of factories around the world, where the one consistent feature between them all was that their employees were paid in cash. Many of these people were even forced to borrow from their employers when they had an emergency in the middle of the month between paychecks.

That's ultimately why I set up Pockit, because I wanted to create a bank that works for everyone. Many people who don't have a bank account, choose not to have one, maybe because they don't trust the financial system or they aren't happy with what the mainstream banks have to offer. But Pockit is different - we believe everyone deserves to have fair banking and they deserve to have support to help them better manage their money. At Pockit we work to give as many people as possible the opportunity to open a bank account, helping them use electronic payments for the first time and, ultimately, improve their financial wellbeing through budgeting tools and support.

Having access to a bank account won't solve everybody's problems overnight. But, helping people overcome this Banking Poverty Premium is an important first step. This is about finding new ways for people to be members of what is an increasingly cashless society, giving them more control over their finances, helping them to manage their money in ways that they couldn't before, and making sure that we create an approach to banking that really works for everyone.

Virraj Jatania

CEO and founder, Pockit



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Executive Summary

There are 1.2 million people living in Britain who don't have access to their own bank account. In a society that is increasingly reliant on online transactions and non-traditional payment methods, they face additional costs, obstacles, and sometimes discrimination in their lives simply because they are denied access to personal banking. This issue, and its impact on the people affected by it, has gone largely unnoticed and has therefore not been adequately addressed.

This report shines a light on the true nature and scale of the issue in Britain today. It exposes how, through a variety of additional hurdles and exclusionary measures for unbanked customers, many people face a cost of nearly £500 every year simply because they do not have access to a bank account.

The reasons for this are because customers with a bank account are often given preferential deals such as direct debit discounts or better rates when they commit to monthly payments via their bank. They are able to get cheaper loans and credit cards - neither of which are available to people without bank accounts. In the case of billing, they get access to online statements, which are free and not available to those unable to complete transactions via a bank account.

At Pockit we call this the Banking Poverty Premium, and it breaks down as follows:

Item	Average annual cost for banked customers	Average annual cost for unbanked customers	Banking poverty premium
Electricity and gas	£829	£1,028	£199
Mobile data	£42	£68	£26
Broadband	£208	£246	£38
Interest payment on an Average 52 week loan of £300	£39	£261	£222
TOTAL	£1,118	£1,603	£485

While this Banking Poverty Premium is in itself unacceptable and unjustified, its impact is exacerbated by the fact that those without access to banking are disproportionately vulnerable and disadvantaged.

This report further shows that the cost of being unbanked goes beyond the quantifiable costs calculated in the Banking Poverty Premium. The unbanked lose out on the range of choices and discounts that the majority, with bank accounts, often take for granted.



For example the unbanked are not able to make online purchases, missing out on the best deals, and instead having to waste time and money shopping around for the basics on the high street. The unbanked miss out on direct debit discounts and face barriers to getting car insurance. Unfortunately the lack of a bank account can also exacerbate the problems of financial abuse.

All of these issues sit behind Pockit's mission as a business - making sure that everyone has access to the fair banking they deserve, to the banking services and support that help them better manage their money, and let them improve their general wellbeing, as well as their financial health.



Introduction

The Poverty Premium – how much more it can cost to get by if you are living in poverty – is a burden that falls upon the least able to pay. But while this concept is fairly well understood, most people won't be aware of a further group of people within this who face even greater difficulties.

There are approximately 1.23 million people who are currently 'unbanked' in the UK. The 'unbanked' are often people who have been denied banking on the high street due to a poor credit rating or have been declared bankrupt. But the term also includes people who don't have a permanent address, are homeless, or are new to the country. If you are 'unbanked' you have a high chance of being a single parent, pensioner, immigrant, long term unemployed or have a disability.¹

There are of course legitimate reasons as to why paying through a bank account can generate savings for customers, and there are also sometimes good reasons to deny people bank accounts. Indeed, it is these very facts that have left us in the situation we are in now, where too many people are caught up in what have become embedded behaviours across the industry, and are therefore being discriminated against by virtue of their situation. We at Pockit want to be part of the solution. We offer a simple, online banking product that's inclusive and fair, and we are deliberately working to engage with the people who have been previously left behind.

We are in the midst of an exciting moment for the banking industry more generally, with a large number of so-called 'challenger' banks and fintechs entering the market. This mixture of innovation and disruption is likely to be beneficial for everyone in the long run, but we want to make sure that these benefits are shared universally as quickly as possible.

"I don't have a birth certificate to get a normal current account so I couldn't do contactless or anything like that so that's why I set up my Pockit account. I don't have to carry cash with me all the time if I have my Pockit card."

Daniella, Pockit customer

Regardless of how people come to be 'unbanked' or their personal circumstances, they all share one thing in common – they are living without a bank account, access to bank credit account or savings account. These are people who are excluded from receiving any financial services, but are living in a society where everyone else does.

They suffer from this exclusion in two ways. They face additional cost burdens such as punitive borrowing fees, higher utility bills and higher costs on products due to the inability to access

[1] Financial Inclusion Commission, accessed 10 April 2019, [link](#)



better deals. They also face discrimination and miss out on savings offered through direct debit discounts, due to their lack of a transactional bank account.

But in addition to the financial premium, there is also an untold story of the social exclusion they face. This group of people are in many ways the most vulnerable people in society and, as a result, the most unlikely to be able to pay. They are often the least mobile, but they will face greater hardships, through physically having to travel to pay bills at their corner shop or Post Office. They are also the least likely to live digitally, with their ability to shop or engage online being seriously limited.² They are normally unable to shop around for better deals online, and often don't have access to monthly, low or zero interest payment plans.

These people are facing a Banking Poverty Premium. In this report, we set out in more detail the realities facing the unbanked, and what the Banking Poverty Premium looks like in terms of the financial cost, but also what it means for these people in their everyday lives.

[2] Yates, June 2017, [link](#)



The Banking Poverty Premium

... On financial loans

Most people have heard of payday loans. They are a form of short-term, high cost credit which is often paid back, plus interest, at the end of the month. At their height, many lenders were charging an interest as high as 3,752% APR.³ They grew in popularity following the 2008 financial crash, as more and more people were turned down for mainstream credit and payday loan companies became more commonplace.

According to a government survey, around 52% of payday loan customers had experienced financial problems before applying for the loan, and over a third (38%) had a poor credit rating.⁴ Following high profile campaigns by consumer groups and charities, payday lenders have been regulated, and caps have been placed on how much they can charge customers over the value of the loan.⁵

With the fall of the UK's biggest lender, Wonga, in August 2018, many might have thought that we had seen the end of the rip-off high-cost credit market and that vulnerable people were being protected. But there are many other kinds of high-cost short-term loans which are yet to be regulated in the same way.

Many payday loan lenders require the customer to have a recurring payment facility – for most this will mean some kind of bank account.⁶ This leaves the 1.23 million ‘unbanked’ with little choice of where to go for this kind of loan. A report by the Carnegie UK Trust found that many are turning to friends and family⁷ - but this is not an option for everyone.

“I had a little trouble because my credit rating was rubbish basically. But now I’ve had Pockit it is a lot easier to use. I can manage my account now. I never used to be able to but now I can go down and [see] I’ve got this much in my account. I can only draw out that much but it’s a lot easier.”

Jonathan, 51 from Chatham, Pockit customer

Without access to a credit card or a bank account the unbanked have limited options and for many, the only place they can access a loan is through home credit also known as a ‘doorstep loan’.

[3] Appleyard, Packman & Lazell, November 2018, [link](#)

[4] Competition & Markets Authority, February 2015, [link](#)

[5] Financial Conduct Authority, accessed 10 April, [link](#)

[6] The Money Advice Service, accessed 10 April, [link](#)

[7] Appleyard, Packman & Lazell, November 2018, [link](#)



Doorstep loans can be repaid with cash through weekly or fortnightly collections from your home. Citizens Advice estimates that around 1.6 million people accessed a doorstep loan in 2017, with the typical APR for this 'home credit' as high as 1558%.⁸ This is in stark contrast to the average credit card APR, which is around 23.1%.⁹ 'Multi-use' of high cost credit options is common, and it is thought that around 45% of people with a doorstep loan will have two or more of these loans at the same time, meaning even bigger charges on interest, and an endless spiral of over-indebtedness.¹⁰ Citizens Advice supported 30,000 people through problems with this type of loan between 2017 and 2018.¹¹

A government report found that the value of most loans is between £250 and £350, and that the typical length is between 26 and 52 weeks.¹² To allow for a comparison between credit card APR and home loan APR, this analysis focuses on a 52 week loan to provide an example.

Doorstep loans are one of a mere handful of credit options available to the unbanked. Without a bank account which might allow access to cheaper borrowing products that can provide much needed affordable credit - and even without the option of alternative sources of credit such as payday loans - they are forced to enter into high cost and unsecured debt.

Analysis reveals that compared with borrowing a similar amount using a credit card, the additional cost associated with an average loan of £300 for unbanked customers is £222 in additional interest repayments over a year. This premium applies to anyone seeking a loan without having access to a bank account.

Based on a loan of £300	APR.	Interest payment
Average home credit (Doorstep loan) APR	299.30%*	£261.60 ¹³
Average credit card APR	23.10%	£38.85 ¹⁴
	BPP	£222.75

*APR on a 52 week loan from Provident, the UK's largest Home Credit lender¹⁵

[8] Hardy, March 2018, Citizens Advice, [link](#)

[9] Money Facts, accessed 10 April, [link](#)

[10] Department for Business Innovation and Skills, March 2013, [link](#)

[11] Hardy, March 2018, Citizens Advice, [link](#)

[12] Department for Business Innovation and Skills, March 2013, [link](#)

[13] Provident Personal Credit, accessed 10 April, [link](#)

[14] This Is Money, accessed 10 April, [link](#)

[15] Provident Personal Credit, accessed 10 April, [link](#)



... On broadband

In 2018, 90% of the adults in the UK had used the internet and the percentage of people that had never used it fell from 9.2% to 8.4%.¹⁶

2018 also saw the rise of people shopping online, with 78% of all adults having reported that they bought goods and services using the internet.¹⁷ This was, perhaps unsurprisingly, much higher for younger ages, where 95% of those aged 16 to 24 years and 96% of those aged 25 to 34 years reported having purchased an item online.

The reality of the modern world is that nearly everyone lives online. It is hard to escape from, and - be it for professional or personal means - you will have some use of the internet throughout the day. It has quickly become a near necessity to have if you want to participate in society, and is the main way people engage with what's going on around the world and how they stay in touch with friends and family.

Despite the necessity it has become, regardless of one's ability to pay, you can still expect to be faced with large bills. Although the main internet providers will offer good deals on fast broadband and phones, getting the best deal remains out of reach for the most vulnerable, and especially the 'unbanked'.

Most phone and broadband providers still require the purchase of line rental with their deals. These can be hefty extra charges, with most providers charging several hundreds of pounds a year. But if you are one of the 'unbanked' you might be facing a greater charge than everyone else.

Our analysis found that two out of the UK's three largest providers,¹⁸ BT (£44) and Virgin Media (£32), offer a 'super line rental discount' if you pay by direct debit. This leaves those people only able to pay monthly through things like cash transfers paying a steep premium of £38 a year on average, because they don't have access to a bank account.

	Line rental standard/plus	Line rental saver	Total premium
Virgin Media ¹⁹	£228	£196	£32
BT ²⁰	£264	£220	£44
	Average		£38

[16] Office for National Statistics, May 2018, [link](#)

[17] Office for National Statistics, August 2018, [link](#)

[18] Ofcom, August 2018, [link](#)

[19] Virgin, accessed 15 April, [link](#)

[20] BT, accessed 15 April, [link](#)



Broadband and phone bills are increasing every year,^{21, 22} and for many people, this will mean shopping around the market for a better deal, or looking for savings where they can make them. This might mean joining one of the mainstream providers to access a discount through direct debit payments. But for the 'unbanked', their limitations on how they pay their bills will hold them back from finding the best deal, and they will likely pay more as a result.

... On electricity and gas

According to Citizens Advice, around 10.9 million people in the UK have a gas or electric prepayment meter in their home, and it is thought that over half of these (59%) are in receipt of some kind of government financial support.²³ This means that instead of paying a monthly or quarterly bill, they must top-up their credit at a local Paypoint or Post Office in order to use gas or electricity.

Gas, electric and water bills are essentials and a core component of a person's monthly outgoings. But with prepayment meters, the key difference is that one must top-up the credit before you can use it, which for many people who are struggling financially, can mean periods of no electricity and no gas. According to Citizens Advice, around 400,000 people have been left without gas and electricity because they didn't have enough money to top up their credit.²⁴ Their research found that these people reported being left in cold homes, being left without any light, and being left without the ability to wash their clothes or themselves.

People without prepayment meters have more options of when to pay their bills, with some energy providers offering fixed-term payments over a year, or quarterly. But for people who are 'unbanked', a prepayment meter can be their only option.

Analysis of Ofgem data reveals that people paying their bills via a prepayment meter paid £199 more on average each year since 2012, compared to those able to pay via direct debit. This means that prepayment meter customers have spent £996 more on average on their annual bills since 2015.

The cost included in this analysis is taken as an average of the difference between direct debit and prepayment tariffs over the last five years. This is to give a representative indicator that allows for fluctuations in tariffs, which are common for electricity and gas due to the extreme volatility in the energy wholesale market.

[19] Virgin, accessed 15 April, [link](#)

[20] BT, accessed 15 April, [link](#)

[21] The Guardian, accessed 10 April, [link](#)

[22] The Mirror, accessed 10 April, [link](#)

[23] Citizens Advice, April 2018, [link](#)

[24] Citizens Advice, accessed 10 April, [link](#)



Date	Market direct debit	Market prepayment	Difference
28/02/2012	£878.10	£969.61	£91.51
28/02/2013	£1,037.2	£1,045.64	£8.44
28/02/2014	£966.34	£1,172.77	£206.43
28/02/2015	£839.28	£1,148.9	£309.62
28/02/2016	£738.38	£1,054.2	£315.82
28/02/2017	£829.19	£970.67	£141.57
28/02/2018	£810.06	£945.76	£135.70
28/02/2019	£929.66	£1,023.39	£93.73
Average (2015-19)	£829.29	£1028.58	£199.28

Ofgem, February 2019, <https://www.ofgem.gov.uk/data-portal/all-charts>

Ofgem's analysis of customers using prepayment meters found that the majority would be classed as 'vulnerable' – and following a crackdown by the government on energy bills, moved to cap the prices on meters.²⁵ This meant a decrease in the premium being charged to these customers. But the energy market is still charging these people more, despite Ofgem having identified them as vulnerable.

... On mobile phone contracts

Another 'hidden' premium for the 'unbanked' is pay monthly phone deals. Analysis shows that the mainstream mobile providers are offering substantially better deals to those able to pay via direct debit than to pay as you go customers.

EE pay as you go customers can expect to receive a fifth of the amount of data, and fewer minutes, for the same money that they would pay on a pay monthly contract. If they wanted to receive the same data allowance as a pay monthly customer, they would need to purchase extra data 'add ons' which would cost them an additional £135.²⁶ O2 customers also receive less data, despite paying the same £10 a month as pay monthly customers. Tesco Mobile customers would need to pay £2.50 a month more than pay monthly customers, to receive the same deal on data that pay monthly customers receive. And with the mobile network, Three, for only £1 more a month, pay monthly customers receive 2GB extra, in addition to unlimited minutes and texts.

[25] Ofgem define an individual as 'vulnerable' if: "A consumer's personal circumstances and characteristics combine with aspects of the market to create situations where he or she is: Significantly less able than a typical consumer to protect or represent his or her interests in the energy market; and/or Significantly more likely than a typical consumer to suffer detriment, or that detriment is likely to be more substantial."[link](#)



In order to fairly compare the difference in price between the deals offered to banking customers compared to deals offered to unbanked customers, this analysis focuses on the price per megabyte offered as part of each deal. To give an illustrative figure for what a customer would pay annually on each of these deals, the analysis multiplies this figure to account for a monthly usage of 1.9GB, which according to Ofcom is the average usage of UK customers.²⁷

The analysis is based on the averages for every deal offered by the major mobile phone providers in the UK, for pay monthly and pay-as-you-go SIM only deals.

In every case, payment methods requiring a bank account are substantially cheaper than pay-as-you-go deals, and unbanked customers will on average be £26 worse off as a result of this.

Provider	Average annual pay monthly	Average annual SIM only
Tesco	£43.38	£61.84
EE	£43.37	£89.06
O2	£50.22	£64.57
Vodafone	£39.54	£66.79
Three	£33.98	£58.06
Average (2015-19)	£42.10	£68.06

According to Ofcom, individuals in lower-income households are more likely to use only one device to access the internet, which tends to not be their computer.²⁸ For many in this position, they may turn to mobile broadband. Mobile broadband can be in the form of a dongle or a wireless hotspot device which can be accessed via a tablet or a phone.

People using mobile broadband are also being unfairly hit with higher costs for pay as you go mobile broadband deals. For example, the mobile network Three offers a 12 month monthly contract for £168 for 120GBs, but a pay as you go 12 month preloaded SIM costs £60 for only 24GBs. This equates to around £1 per GB for pay monthly customers, compared to £2.50 for pay as you go customers - a 150% price premium.^{29, 30}

[26] 32GB extra on pay as you go with EE: (EE 5GB data add on £20 X 6 = £120 + EE 1GB data on £7.50 X 2 = £15) = £135

[27] SimOnlyDeals, 16 January 2018, [link](#)

[28] Ofcom, April 2018, [link](#)

[29] Moneysavingexpert Accessed 16 April, [link](#)

[30] Three mobile, accessed 16 April, [link](#)



How the unbanked are financially excluded

In addition to the quantifiable costs outlined earlier in this report, there is also the untold story of hidden costs that the ‘unbanked’ face everyday.

In 2019 it’s easy to take for granted the basic freedoms that come with having a bank account. It’s easy to take for granted how quickly you can purchase items, access services and plan your life, often all within the space of half an hour, while sat in front of a computer or on your smartphone.

This is not the reality for those without a bank account. If you are unbanked you are likely to face difficulties just because you are only able to use cash. This could mean losing out in terms of not being eligible to receive discounts on direct debits or having to spend extra time and money shopping around for the best deals on the high street. The lack of a bank account also makes it harder to get car insurance and puts people at a greater risk of financial abuse in domestic relationships.

These challenges largely remain unseen, not entirely obvious to the vast majority that have a bank account. However, for the 1.23 million ‘unbanked’ in the UK, these issues are a reality of day-to-day life.

Direct debit discounts

The unbanked miss out on savings offered to customers who are able to use direct debit payments or a debit card. As technology has developed, much of society has moved with it, resulting in a rise of card transactions every year. But the result is that some in society often face extra costs simply because they do not have a bank account.

Our analysis of direct debit discounts found this practice to be common throughout the private and public sector, even in places you might not expect. For example, we found cases of local councils that offer users of direct debit discounts on everyday bills. This covers payments for garden waste collection, as well as discounts on social care services.

- Croydon Council offers residents a £15 discount if you pay your council rent bills by direct debit.³¹
- Islington Council enters residents who pay via direct debit into a £3000 prize draw.³²
- Northumberland County Council offers a 4% discount on Adult Social Care payments paid via direct debit.³³

[31] Croydon Council, accessed 12 April, [link](#)

[32] Islington Council, accessed 12 April, [link](#)

[33] Northumberland County Council, accessed 12 April, [link](#)



- Eastleigh Borough Council offer a discount to constituents subscribing to garden waste collections.³⁴
- Fenland District Council offers a 10% discount to direct debit payers for garden waste collection.³⁵
- Southwark Council offers a 5% discount to people accessing Adult Social Care.³⁶
- Oxford City Council also offer an undisclosed discount on waste collection.³⁷

Limited shopping options

When it comes to shopping, the unbanked, without a bank card, do not have the ability to shop for the basics online themselves. This means that the unbanked have to travel to buy the essentials, spending money on transport, and wasting time that could be spent better elsewhere. This is a regular inconvenience that the vast majority, with access to banking, don't have to put up with.

"I couldn't get a bank account because I didn't have enough ID. Banks weren't accepting the ID. When I got a Pockit account it was so much easier. I only put my money in there to take it out. I buy stuff on Ebay and Amazon and online."

Ben, Pockit customer

The problem is exacerbated as many of the poorest areas have the worst access to cheap and affordable food products, a problem compounded by a lack of transport infrastructure in rural areas. Research by the Social Market Foundation shows that through a combination of poor public transport and lack of nearby supermarkets, 1 in 10 of the most economically deprived areas are so called 'food deserts'.³⁸

This means that the unbanked in these areas are likely to face additional costs to their time and their wallets, having to choose between travelling further afield to buy the basics, or pay the inflated prices charged by smaller convenience stores for the same goods. For example, Tesco Metros were typically 7% more expensive than larger Tesco stores according to a study by Which?.³⁹

The lack of a bank account also makes it much harder to find the products you need at the best prices. Those of us with bank accounts can find the best deals, by shopping around online.

[34] Eastleigh Borough Council, accessed 12 April, [link](#)

[35] Fenland District Council, accessed 12 April, [link](#)

[36] Southwark Council, accessed 12 April, [link](#)

[37] Oxford City Council, accessed 12 April, [link](#)

[38] Corfe, October 2018, [link](#)

[39] Which?, accessed 12 April, [link](#)



Instead of purchasing a new TV from a shop on the high street, you may be able to find a good deal for the same TV on the internet. The range of available options is much wider and you might also be able to get cashback from certain stores.

Without access to a debit card you are cut off from the benefits of online shopping. This makes it harder to buy products best suited to your needs at the lowest prices. What's more, this trend is only likely to get worse for the more than 1 million unbanked people in the UK as online retailers become ever more popular and as high street shops continue to struggle.

Vulnerable People

Most of us take for granted the ability to control our finances without interference. Unfortunately this is often not the reality for people in abusive domestic relationships. Domestic abuse victims are also often victims of financial abuse where excessive control is exerted over their finances.

Without a bank account of one's own, benefits owed might either be paid into a joint account or paid in cash which can exacerbate the problems of financial abuse. In abusive relationships this is commonplace. A Citizens Advice survey found that Citizens advisors regularly encounter this type of abuse with 43% encountering incidents of perpetrators attempting to control or interfere with a victim's benefits. Similarly 57% of advisors encountered abusers controlling access to the victim's income, banking or savings.^[40]

The ability to quickly and easily open a bank account without trips to a bank branch or the need to produce documentation could improve lives for victims of financial abuse. Supporting victims of financial abuse is complex and a multifaceted approach is needed to try and break the cycle of abuse, but Citizens Advice research suggests that ensuring access to banking could help solve or mitigate many of these problems.^[41]

Car insurance

An additional way in which unbanked customers are facing increased difficulties compared to those with access to a bank account is in their ability to take out car insurance. According to Consumer Intelligence, the five biggest providers of motor insurance in the UK are Direct Line, Admiral, Churchill, the AA and Aviva.^[42] All of these providers require their customers to have a bank account in order to pay for car insurance, as they only accept direct debit and credit card as payment methods. There is no evidence of any other car insurance provider in the UK that accepts non-banked payment methods. Yet even if one did exist, the unbanked would still be unable to finance the extensive cost of insurance policies via monthly payments due to their

[40] Citizens Advice Bureau, November 2014, [link](#)

[41] Ibid

[42] Consumer Intelligence, 20 April 2019, [link](#)



inability to build a strong credit score.

Under the The Motor Vehicles (Insurance Requirements) Regulations 2011 it is illegal in the UK to own a car without having taken out car insurance. As a result it is therefore extremely difficult, and in many cases likely impossible, for a person without access to a bank account to own a car. In many cases, especially outside of major urban areas, not having a car can be a serious obstacle to economic mobility and can negatively impact an individual's opportunities in the job market. This means many of unbanked will, almost by definition, face a cycle of poverty, welfare dependency and over-indebtedness.



