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# The Power of Information
## Opportunities for disclosure

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lifestyles must become sustainable

Current priorities are climate change, ecological debt and local sustainability

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**nef** The New Economics Foundation is a registered charity founded in 1986 by the leaders of The Other Economic Summit (TOES), which forced issues such as international debt onto the agenda of the G7/G8 summit meetings. It has taken a lead in helping establish new coalitions and organisations, such as the Jubilee 2000 debt campaign; the Ethical Trading Initiative; the UK Social Investment Forum; and new ways to measure social and environmental well-being.

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# Foreword

At Barclays we are committed to playing our part in promoting financial inclusion, a key component of our social responsibility strategy.

We aim to provide access to financial services to small firms, social enterprises and individuals particularly those in the most deprived communities.

Disclosure of our activities in these areas is now an integral part of our social reporting process and we have published data relevant to both our small business and personal customers for the last 3 years. External research continually demonstrates the value our stakeholders attach to this social transparency.

The data is also beginning to help inform our wider financial inclusion strategy. This means we can track and monitor changes, identify areas where more work needs to be done and, over time, positively influence where we commit our resources.

We are therefore delighted to have worked with the New Economics Foundation on this key piece of research. Banks are major investors in UK communities and have an important role to play in economic regeneration.

We hope that this report will stimulate further debate and enable all those interested to develop a deeper appreciation of the data disclosure issue. The social argument surrounding disclosure is compelling although the commercial benefits are perhaps less evident at the moment.

However the emerging community development finance sector can play an ever important role over the medium to longer term and as a consequence we should not discount the benefits that productive relationships can create.

In the recommendations the authors suggest three key tests which could serve to promote effective disclosure in the UK. At Barclays we look forward to reporting our progress on all three of the test areas in our next CSR Report.

Peter Kelly
Head of Financial Inclusion, Barclays plc



# 1 Introduction

**Introduction**
What does bank disclosure mean? At a basic level disclosure means providing information about a range of bank activities in defined geographical areas. But that is where agreement ends. Opponents of disclosure say that it is a waste of time – producing a mountain of unusable and irrelevant data, wasting resources that would be better invested in corporate giving, new product development or supporting less profitable branches.

But supporters argue that disclosure is vital. They say it provides the public with information on the ways that banks invest public savings and that it can provide an opportunity to deepen understanding of market trends and so refine new products and services to serve these markets better. Supporters of disclosure also argue that comparing the performance of different banks in a transparent and verifiable way can lead to rewards for top performers and reprimands for those at the bottom.

This report is the outcome of the first programme of empirical research looking at the usefulness of disclosing local bank data to both Barclays Bank and the bank's local partners. In a new development in the field of corporate responsibility, the programme explores how responsible corporate action can produce practical benefit. The research is a result of a partnership between the New Economics Foundation (an independent think tank) and Barclays Bank (the first UK bank to publish information about its deposit and lending levels in the UK's most deprived areas). The New Economics Foundation (NEF) designed the programme, carried out the research and prepared the report. The study is based on the data made available by Barclays, together with further interpretation and analysis as required by the NEF.

Profitable banking relies on good quality information. The disclosure of this information opens up a real opportunity to use that information for the public good – an innovation in corporate responsibility, which has traditionally focused on money and people rather than knowledge. The long term aim was to create a win-win situation. The bank could identify and understand these deprived areas and the markets within them better, find the most effective ways of reaching them and create sustainable networks and partnerships that are good for the bank and good for the community. The benefit for the people and businesses in these communities is the increased provision of finance, the availability of a new information source about local enterprise needs and behaviour, and the emergence of better relationships with the local representatives of the financial services sector.

**Aims**
The overall aim of the work was to explore ways in which banks can analyse and present information available from their own systems that is useful and relevant at local, regional and national levels. The motivation for the study is the interest in strengthening local markets and increasing investment and financial service provision. Three deprived areas and one less deprived control area were selected as the areas of study. The aim was to test whether the pilot programme helped improve access to finance and increased local economic buoyancy.

Recent findings in the Social Investment Task Force report (2000) highlighted problems with access to finance in these areas. Improving disclosure can deliver a variety of results – it demonstrates corporate accountability, transparently tracking levels of investment and improving access to finance in particular areas.

While banks are clearly driven by commercial imperatives – specifically targeting lower risk, higher return businesses – the pilot programme wanted to find out if the parameters of profitable bank activity could be extended, made more effective and complemented through the provisions of local market information and the development of local partnerships.

Just as important as clarity about the aims of the research, is clarity about what the research cannot tell us. As a pilot project focused on four areas in the UK, based on estimates of Barclays market share, the study could not provide a comparison of the overall provision of financial services by banks in disadvantaged and more affluent communities, nor could it provide a measure of the level of demand for products and services beyond the Barclays market share. It is not possible from this data to gauge whether there is a 'finance gap' in these areas and, if so, the scale and nature of it.

# 2 Background to disclosure

**Report outline**

This chapter describes the development of disclosure in the US – where both the name and the methodologies for disclosure first began – before looking at disclosure in the UK.

Chapter 3 describes the way that the information from Barclays' management information system was chosen, extracted and presented to a cross section of local partners in the pilot areas and their initial responses.

Chapter 4 covers tailored developments in the data abstraction and analysis following the initial presentation. It also includes a variety of suggestions from local area representatives about the uses of the information.

The final chapter – chapter 5 – reviews the opportunities and lessons for a variety of stakeholders derived from this pilot programme, and suggests a possible forward strategy for disclosure in the UK.

## Access to finance – the disclosure debate

### Community reinvestment – disclosure in the US

The drive for disclosure in the UK has been spurred on by developments in the US. The campaign for mandatory disclosure of information by the banking sector was driven by evidence of 'red lining'. 'Red lining' was a term coined to describe discrimination by banks in lending to individuals and businesses in particular geographical areas, which often coincided with ethnic minority communities. Pressure from activists and community representatives resulted in a series of fair lending laws, which are credited with increasing the levels of financial provision by the retail sector in disadvantaged areas. These fair lending laws, in particular the 1977 Community Reinvestment Act (CRA), have introduced banks to these areas and resulted in developments in the commercial sector to serve low income markets on a profitable basis.

While there is no evidence of overt 'red lining' in the UK, there is concern about levels of lending and the provision of financial services to the UK's poorest communities. There is some evidence of customers in these communities opting out of bank products. For example, some products are inappropriate for individuals and businesses operating in cash, and on a weekly rather than monthly basis. Commentators also point out that some products (such as insurance) are priced unaffordably high for risk, and add that the withdrawal of bank branches is all evidence of the differing access to finance between low and high income communities[1]. The experience of individuals and enterprises having difficulties accessing finance, and the success of specialised lending intermediaries in lending to what commercial banks consider sub-prime markets, has turned attention to the role of the US fair lending laws in improving access to finance in the UK.

The US CRA states that banks and thrifts[2] have an affirmative obligation to meet the credit needs of communities where the banks and thrifts are based, draw deposits and are otherwise intended to serve. These obligations are assessed and rated by regulators on evidence submitted in a mandatory annual report. The assessments are made against three tests – *lending* (including home mortgages, small business credit, small farm loans and community development loans), *investment* in a range of community development institutions through grants, investment and share or equity holdings and *service* (through effective delivery of retail banking services and evidence of innovation). If banks do not meet these tests, the regulatory agency can delay or deny an institution's request to merge with another lender, open a branch or expand its other services. Dialogue between banks and community organisations often results in banks committing to increase lending either directly or through other financial intermediaries. The CRA is credited with encouraging US banks to commit more than $1 trillion in reinvestment dollars for traditionally underserved communities[3].

### The disclosure debate in the UK

Policy makers, practitioners and banks in the UK have always recognised that the domestic banking market in the UK is different from that in the United States. The UK industry is dominated by a comparatively small number of national providers in contrast to the more localised, multiple providers of the US. This means that the US focus on serving all of the community where a bank is located is less easy to translate to the UK. Meanwhile, the ability to halt mergers in the US does not equate to an effective sanction in the consolidated UK environment.

But there are parallels with the UK. While the US legislation focuses on accountability, there are practical outcomes from disclosure which lead to the increased provision of finance and productive local partnerships. This study investigated whether these outcomes could be helpfully replicated in the UK.

In 1999, the Policy Action Team 3 report on Enterprise and Social Exclusion highlighted disclosure as an issue for Government to push forward. It recommended the creation of an informed independent body not directly connected with policy delivery to monitor the character and volume of bank and CDFI (community development finance institution) activity in deprived areas[4]. The Bank of England responded to this call by producing the *Finance for Small Business in Deprived Communities* report in 2000. This report includes qualitative information on the activities of CDFIs, bank support for CDFIs, an analysis of the market (focusing on what it called the 'near bankable market') and some data on levels of deposits and lending in the UK's 88 most disadvantaged local authorities (although the report did not disaggregate data by individual bank).

Since 2001 the Bank of England has introduced chapters on finance for small business in deprived communities in its annual *Finance for Small Firms* report. The most recent of these was published in April 2003. It includes updates on lending levels for the 88 local authorities and average costs of borrowing for customers in the authorities.

In 2000, following the work of the Policy Action teams, the Social Investment Task Force (SITF) report called for more detailed information about the lending pattern of individual banks. The report requested increased disclosure of information by banks of their lending activities in underinvested areas, and sponsorship for the creation of a rating system to reward excellent performance.

In reply, the British Bankers Association undertook to co-ordinate a response. It produced its findings in *Promoting Financial Inclusion* in September 2002. It offers an account of all of the industry's work within the field of financial inclusion (i.e. it does not just focus on small business lending). The report includes tables with aggregated data (i.e. for all banks' reporting, not disaggregated by bank) on small business activity including number of accounts, values of deposits, values of lending and start-ups in specific postcode areas for the first time.

Since the BBA report there has been a hiatus. While the Government and organisations concerned about increasing financial inclusion have a continued interest in disclosure, the commercial banking sector is less clear about what information is required and, crucially, how it can be used to produce practical results delivering commercial gains and local economic development.

Barclays has already demonstrated leadership and a commitment to disclosure by being the first bank to regularly report data on deposits and lending in disadvantaged areas. The bank has included information on number of accounts and the value of deposits and lending (both overdraft and term lending) in its annual social and environmental report since 2000. More recently it has also included information on number of start-ups and their relative growth as well as information on personal accounts in disadvantaged areas. While Barclays' performance is broadly in line with the pan-bank data reported by the Bank of England, without data from other individual banks it remains difficult to assess performance in these areas

This research programme helped Barclays examine the practical applications of the data. It went further by moving beyond what may be produced in a standard report of deposit and lending levels, by tailoring data extraction and presentation to local interests. The programme focused on the potential *applications* of data on business accounts available from Barclays' management information systems. While commentators continue to press for greater transparency and effective accountability, the banking sector has argued that the production of standardised data would be an expensive and ultimately unproductive exercise, because it would not effectively create a source that could have clear practical applications for people living and working in underinvested communities. This programme is the combined NEF/Barclays response to that challenge.

## Methodology

The methodology for the research fell into three broad phases – planning, generating local market information, and policy and practice analysis.

### Planning

The aim of the planning period was to design the most appropriate and productive information disclosure process for Barclays and to create a comprehensive complementary picture of available local market information. During the planning stage the research team identified four pilot areas and did preliminary work with representatives based in them. The team investigated available information at area level and developed a bank disclosure template based on data from Barclays' management information systems (MIS).

### Generating Local Market Information

Once the team had identified the four research areas, they extracted and cleaned the data and began to build 'pictures' of Barclays' business account activity. They then tested the pictures for relevance and usefulness with local representatives.

The research team:

- Produced data analysis presentations for each of the areas
- Integrated information sources to provide local market and disclosure information in a variety of forms useful to the local partners
- Presented the initial pictures to local partners
- Adapted, changed and supplemented the data in response to feedback
- Re-presented the data pictures for feedback

### Policy and practise analysis

The final phase of the research programme focused on analysing the lessons learnt from the pilot programme for a variety of stakeholders. Chapter 5 focuses on developing an understanding of the future potential for applying bank data and how it relates to the development of a disclosure and accountability framework in the UK.

1 Kempson&Whyley 1999 *Kept out or opted out? – Understanding and combating financial exclusion* Joseph Rowntree Foundation, Conaty&Palmer 2002 *Profiting from poverty* New Economics Foundation, London, Conaty&Fisher 1999 Micro-credit for micro-enterprise New Economics Foundation, London
2 Similar to building societies
3 NCRC, 2003 Beginner CRA manual (3rd edition) NCRC, Washington
4 Enterprise and social exlclusion 1999 Policy Action Team 3 HMT

# 3 Enterprise and local market information

**Chart 1/Areas**
% of working age population economically active in the pilot areas

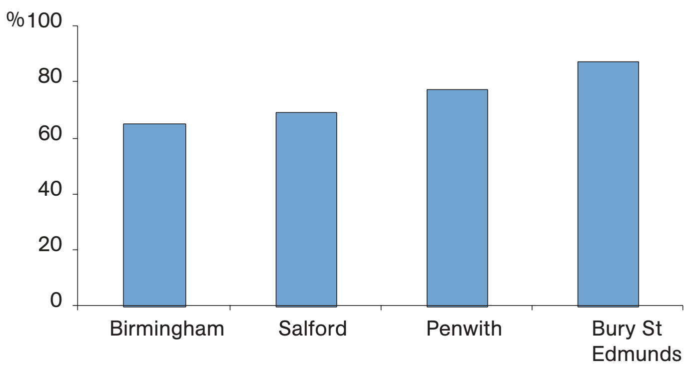
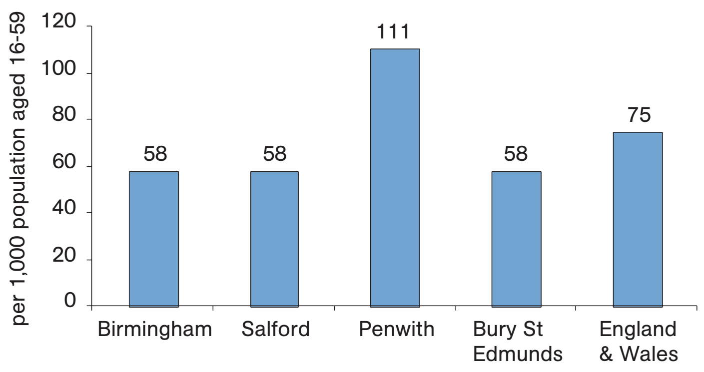



**Chart 2/Enterprise density**
Enterprise density in the pilot areas and England and Wales




## Introduction

The study focused on four areas in Birmingham, Salford, Penwith and Bury St Edmunds (see Table 1 for a list of wards included in each area). These areas comprise three 'deprived' areas: Birmingham, an urban area ranked 157 on the Index of Multiple Deprivation (ILD), Salford ranked 432, rural Penwith, ranked 1,508) and one non-deprived area (Bury St Edmunds, ranked 5,073).

This chapter gives a brief introduction to the four areas under review before presenting a comparative picture of the business base line and Barclays' business lending activity in the areas.

## Understanding the pilot areas

The Birmingham pilot area was made up of 8 wards on the south side of the city centre. This inner city area has a population of approximately 240,000 with large black and other ethnic minority communities.

**Table 1** Study areas – Local authority wards

| Birmingham | Salford | Penwith | Bury St Edmunds |
|---|---|---|---|
| Aston | Broughton | All wards | Abbeygate |
| Handsworth | Blackfriars | | Eastgate |
| Nechells | Kersal | | Horringer Court |
| Sparkbrook | Langworthy | | Northgate |
| Small Heath | Ordsall | | Risbygate |
| Soho | Pendleton | | Sextons |
| Washwood Heath | Weaste and Seedley | | Southgate |
| | | | St Olaves |
| | | | Westgate |

The working age population is relatively small with high unemployment rates (averaging 15.9%) compared with the national average (7.6%). The area scores particularly low in the income, employment and housing domains on the ILD. (see chart 1)

The study area in Salford comprised 7 out of 20 wards in the Salford local authority. The study area is adjacent to the commercial centre of Manchester and includes much of the new cultural, commercial and housing development at Salford Quays. The area also includes several local shopping centres set in residential areas and some older industrial developments. Although unemployment within Salford has fallen steadily in recent years, certain parts of the city, including the study area, are characterised by high relative unemployment. The wards in the pilot area score particularly poorly in child poverty, education, health and income.

The local authority of Penwith occupies the most westerly area of mainland England at the tip of Cornwall. It is predominantly rural, with the town of Penzance the only substantial urban area. Only 73% of the working age population is economically active (compared with 82% South West, 80% England), although this is the highest percentage of economically active people of working age in the three study areas of Birmingham, Salford and Penwith. The rural nature and seasonality of the local economy are two of the factors affecting employment. The rate of full-time employment is low while self-employment is very high. The sources of deprivation differ from those found in inner-city areas. While the area scores badly on measures of income, employment and health, it is around the average for England in terms of educational attainment, housing quality and access to services.

Nine wards within the local authority of St Edmundsbury were chosen to provide a contrast to the other study areas. The St Edmundsbury wards are all drawn from the market town of Bury St Edmunds in Suffolk and have an average ranking on the Index of Local Deprivation of 5,073. The population of the study area is 35,000. The area has high levels of engagement in the labour market with 88% of the working age population economically active.



**Chart 3/Legal form**
Legal form of the businesses in the pilot areas and England & Wales

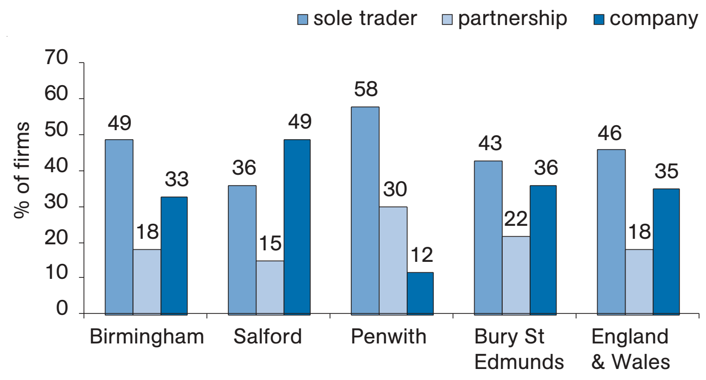
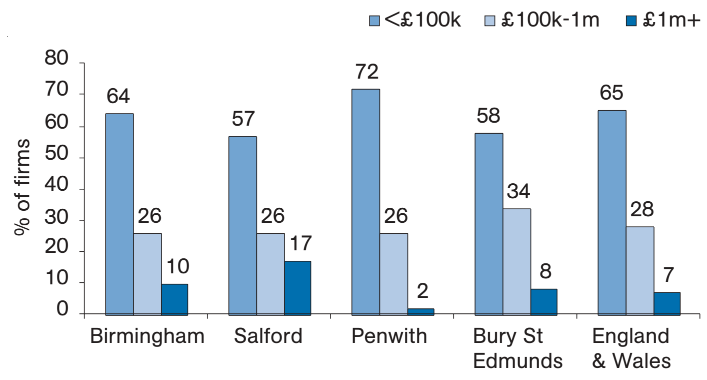



**Chart 4/Turnover size**
Turnover of the businesses in the pilot areas, and England and Wales




## Insight into Barclays' business base

The pilot study was initially based on making presentations to groups of local stakeholders using information drawn from Barclays' data on its business account customers. A sample of the information presented is illustrated here.

To give an initial overview of the number of business relative to the population, estimates of the number of private enterprises per 1,000 population of working age (16-59) were extracted from the data (see chart 2).

The most striking conclusion to be drawn from the business density figures is that the business base in Penwith is proportionately larger than in the other areas by a significant margin. This is largely explained by the local economic conditions in the area (see below). Looking at other factors including legal form and turnover as well as consultation with local representatives also gave a better insight into the reasons for this margin.

Three legal forms – company, sole trader, non-financial partnerships – accounted for the vast majority of identified customers. However, as chart 3 shows, the relative importance of these forms varied considerably between the areas.

In Salford half of private businesses were companies, against one-third in Birmingham and Bury St Edmunds and only just over one-tenth in Penwith. In part, the differences in legal form may reflect differences in the industrial structure of the areas (see appendix 1 for additional information).

Penwith, as the only rural area, had one-fifth of private business in agriculture. Both Birmingham and Salford had a relatively high proportion of retail firms probably prompted by the urban location. Birmingham has a relatively high proportion of manufacturing firms, fitting the wider profile of the West Midlands. Business Services accounted for the largest group of firms in Salford and Bury St Edmunds.

In many ways, these distinctions can be explained by local knowledge and correlate with the data on legal form. The high density of businesses in Penwith is confirmed by local representatives who emphasise that self-employment is often the only good quality employment option choice in the Penwith area, where employment opportunities are focused on lower paid, seasonal agricultural and tourism-linked jobs. The industrial base of the area suggests that those moving into or already established in self-employment tend to use 'simpler' legal forms.

Conversely, the high proportion of companies in Salford can be partially explained by the presence of the Salford Quays development and a range of industrial sectors which are more likely to take a company legal structure. This is backed by the sample where companies are disproportionately associated with manufacturing, financial and business services.

By examining credit and debit payments to and from current accounts held by business in the pilot areas, it was possible to build a picture of business turnover in the four areas. (see chart 4)

As with business density, Penwith stands out among the study areas. More than 70% of its firms had a turnover of less that £100,000 during 2001 and less than 3% of firms with a turn over of more than £1 million in 2001. For the other three areas the former proportion was 50-60%, while at the other end of the scale nearly one-fifth of Salford's businesses had a turnover of £1 million or more.

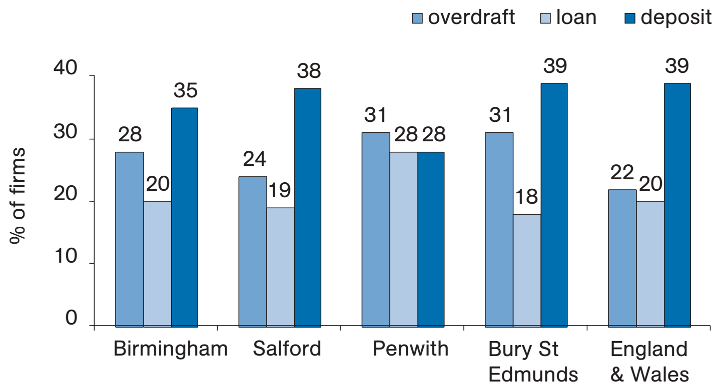



**Chart 5/Product usage**

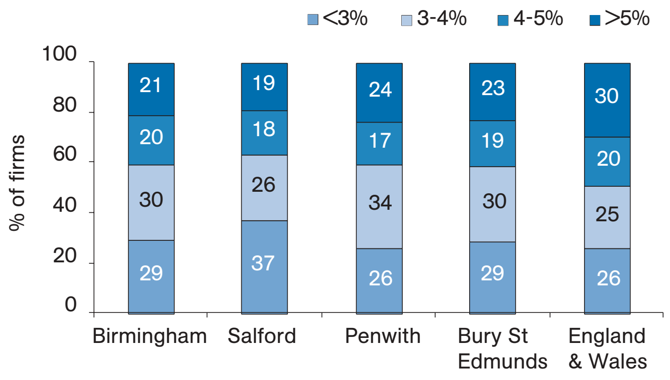



**Chart 6/Borrowing margins – term loans**

**Table 2/Borrowing in the four areas**

| | Birmingham | | Salford | | Penwith | | Bury St Edmunds | |
|---|---|---|---|---|---|---|---|---|
| | % | Balance (£m) | % | Balance (£m) | % | Balance (£m) | % | Balance (£m) |
| Current | | | | | | | | |
| Credit | 72 | 24.04 | 76 | 7.87 | 69 | 4.49 | 69 | 5.13 |
| Debit | 28 | -24.42 | 24 | -10.02 | 31 | -9.41 | 31 | -4.08 |
| Deposit | 35 | 35.94 | 38 | 7.87 | 28 | 4.83 | 39 | 4.26 |
| Loan | 20 | -46.88 | 19 | -10.67 | 28 | -15.66 | 18 | -10.74 |

In terms of product use, slightly different pictures emerge from across the areas. In Birmingham, local firms were slightly more likely than average to be borrowing via an overdraft while other core product usage was similar to the wider Barclays customer base. Barclays customers were borrowing a net £11 million at the end of 2001.

It was also possible to get an impression of the relative margins – or what business customers pay for borrowing (over the cost to Barclays) – across the pilots areas. In the main, businesses pay less for their borrowing through overdraft and term loan in all of the four pilot areas than across the whole of England and Wales. This pattern is shown in chart 6 for term loans, but is reflected in overdraft lending (see Appendix 1 for more information).

The data show that the lowest margins on lending were in Salford. In part, this is a reflection of the size distribution of active firms in the pilot areas, identified earlier. Larger firms are more likely to borrow (both in the pilot areas and in general) and are more likely to be assessed as low risk.

Given an element of risk-based pricing, this translates into a lower average price for outstanding lending for an area such as Salford where outstanding lending balances are relatively concentrated among larger firms.

As well as looking at the whole business base in the pilot areas, the data also gave an insight into the nature and growth of new businesses. Chart 7 shows the number of business start-ups per 1,000 of the working age population in 2001. The business formation rate within the Barclays sample shows little difference from the England and Wales average in Birmingham and Bury St Edmunds, with considerably higher formation rates in Penwith and slightly lower formation rates in Salford. The Penwith formation rates are probably a result of the lack of other employment options available in the area. It is perhaps most striking that the density of start-ups across the areas does not differ in substantial ways suggesting, for the Barclays business base at least, that start-ups in these disadvantaged areas are not significantly lower than in other areas.

Local stakeholder groups were also given information on the sectoral distribution of start ups across the areas (see Appendix 1).

During the initial period, the team also presented information showing the relative survival rates and numbers of high growth new businesses. Although absolute proportions of high growth start-ups are similar across the areas, a different story emerges if high growth start-ups are compared with population size. Chart 8 shows



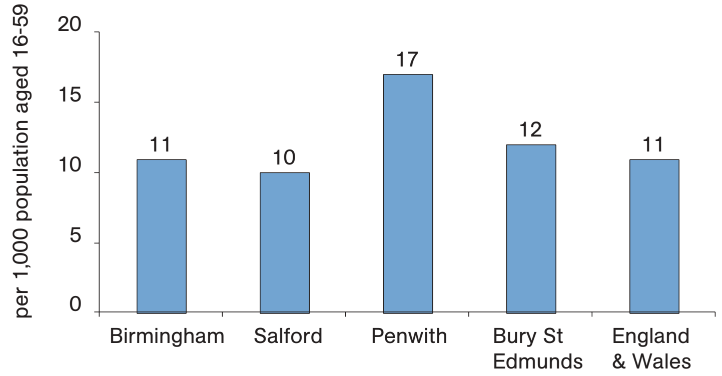



**Chart 7/Business starts**
per 1,000 population during 2001

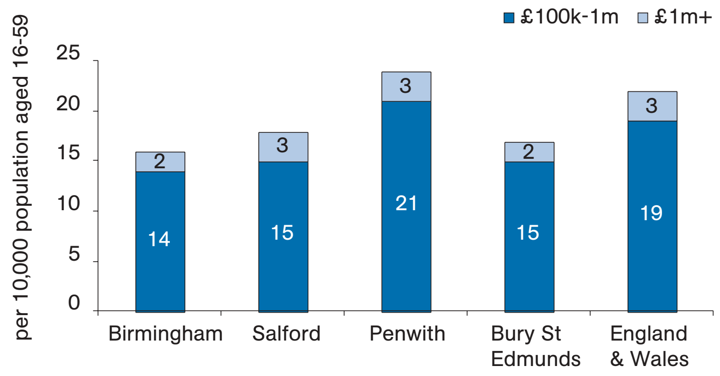



**Chart 8/Business growth – density to population**
start-ups during 2000 at the end of 2001

where the density of high growth start-ups per 10,000 population of working age. Here the picture changes with Birmingham and Salford clearly showing lower densities compared with England and Wales, and Penwith showing higher relative densities, particularly amongst high (rather than very high) growth businesses.

## Local partnership responses

Some differences in the business base emerge across the four areas, and particularly between the deprived areas and the control area of Bury St Edmunds and the wider Barclays business base across England and Wales. The analysis gives an insight into the business base and structure as well as an insight into product use and density and type of start-up. Perhaps the most striking finding is that aside from differences in types of enterprise – chiefly driven by the sectoral strengths of the different areas – few contrasts between the Barclays business base in the different pilot areas emerged.

Local representatives gave a variety of responses to these initial presentations. In all of the areas, there was an overall sense that the data was useful in understanding the enterprise base. Barclays local managers felt the information was 'invaluable to small business teams' while a Birmingham CDFI felt 'anything that helps us address the market is useful' while a Salford economic researcher saw the data as a useful source that could be built on to show trends in the area. But although the comparative picture presented in this report may provide interesting information, many local representatives felt the pictures presented mainly confirmed their qualitative knowledge of their own areas.

The local groups suggested that the data could be better used to understand financial behaviour of enterprises and develop appropriate enterprise support programmes for local contexts. Some of the topics were:

- Understanding and targeting high growth sectors
- Understanding seasonal distinctions and developing correspondent management strategies for local businesses (Penwith)
- Developing trend data and findings for the area
- Understanding product use

This first phase also revealed a number of recurring topics of interest that focused on using the disclosure process to prompt qualitative responses and to build better relationships between Barclays' local managers and the local economic development representatives. There was an interest in using the information to improve access to finance in the area through intermediaries, to develop understanding of commercial bank needs and to strengthen the business base in the areas. These topics included:

- More information on declines and effective referral process from Barclays to alternative finance providers such as community development finance institutions
- Improved understanding of the risk profile and risk assessment process of the bank
- Better co-ordination with the broader business support network and Barclays

# 4 Local market knowledge

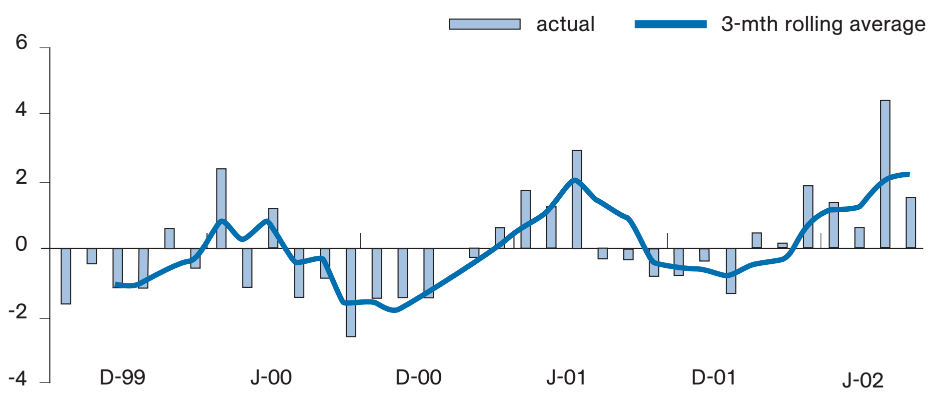



**Chart 9/Debits and credits in Penwith**
(net) cashflow

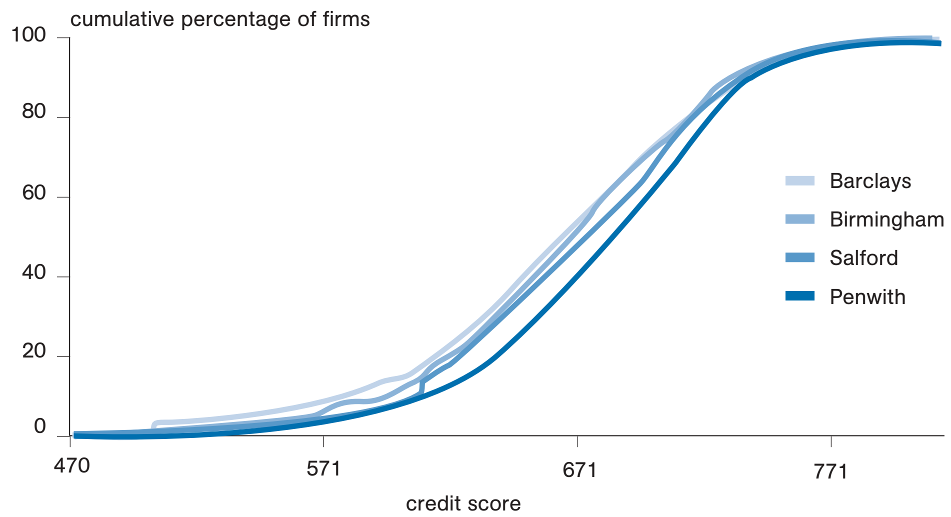



**Chart 10/Cumulative risk scores**

### Outcomes

In all the pilot areas, the local representatives wanted to develop particular topics. Their comments and suggestions led the research team to further develop the initial data extract. This focus on local interests pointed to issues of particular relevance or importance for that particular area.

It was not possible to respond to some of the issues raised by the local representatives, and there was limited scope to explore the feasibility of a number of the more qualitative responses. But it was clear that further development of the data was possible. This section focuses on some of these developments, and analyses the overall response from the four areas to the disclosure methodology and its application.

### Developing local market knowledge

#### Understanding seasonal local economies

The issue of seasonality was seen as particularly important for Penwith, because it is an area that has a large proportion of firms involved in agriculture and tourism. To provide some insight into this seasonality and the degree of volatility this creates compared with the wider business stock, data on the monthly credit and debit turnover of private businesses was compiled for the period between December 1999 and September 2002.

Within the data used there was a clear peaking of account (and therefore business) activity, both credit and debit, in the summer months. Barclays' data strongly suggested that business activity in Penwith has greater variation within the year than is present in the broader business economy. Over the 34 months the standard deviation of credit turnover per Penwith firm was 20% higher than that for the whole Barclays customer base. (see chart 9)

#### Understanding credit and behavioural scoring systems

People in all the pilot areas wanted to know how the credit risk of customers is judged, how their credit profile may differ and what elements make up a risk-scoring system.

Barclays continuously credit scores all firms with a business account with the bank. In recent years, credit risk assessment has become more heavily based on account management. This is combined with more traditional measures, such as the length of relationship and the type of industry. The resulting score allows firms (and areas) to be ranked.



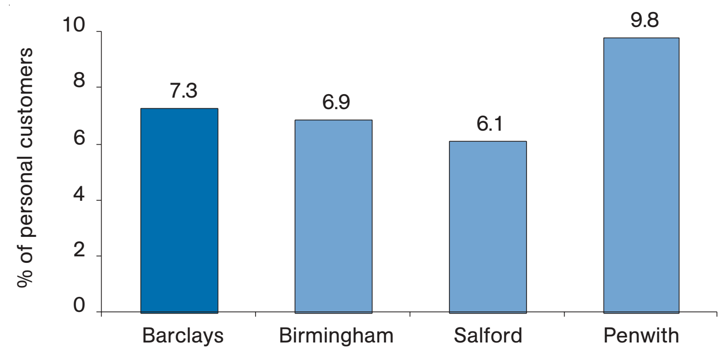



**Chart 11/Personal and business links**

The credit scores of Barclays' customers can be used to assess the relative credit risk of the pilot study areas. The clearest means of doing this is by comparing the cumulative distribution of firms as the credit score increases.

Chart 14 shows the differing distribution of credit profiles of the three areas of interest compared with the whole of Barclays business base at end-September 2002.

All of the areas display an S-shaped cumulative distribution, which reflects the bulk of firms having credit scores towards the midpoint. The data shows that, as of end-September 2002, Penwith had a better risk profile than the other study areas and that for the whole of the Barclays customer base. Birmingham and Salford looked similar, although the former had more low scoring firms. But what is clear from this analysis is that the credit risk profiles for the areas appear not to vary greatly, although there may be an external perception of greater variation in risk. (see chart 10)

#### Identifying high and fast growth sectors

In all of the areas, people were interested in both the volume of fast growth firms and their nature – essentially what type of firms made up the fast growing element of the business stock. Further analysis of the business base in Penwith was carried out to explore these issues.

In Penwith, 10 of the 99 start-ups in 2001 had turnover of £100,000-plus in their first year. At about 10% of all starts (albeit on a small sample) this was a little lower than the 13% of all new Barclays firms reaching this level over the same period. The growth firms identified were drawn from the industrial sectors that have particular strengths in Penwith. Six of the firms were from the retail and hotel/catering sectors, with a further two from business services.

#### Links between personal and business accounts

The pilot area in Salford included areas where local representatives suspected there were significant levels of inward investing as well as indigenous firms (which in turn may have affected the overall picture of the area with a higher than average level of larger enterprises). So there was interest in investigating measures of the inward versus indigenous business base in the wards within the pilot areas.

The methodology developed for this issue was a proxy, which used Barclays personal account data in conjunction with business account data to give a feel for the scale of interaction between residents and businesses. Barclays records where there is a relationship between customers and the nature of that relationship. In this case interest lay in the proportion of personal (current account) customers linked to business customers. This link is defined as one where the relationship of a personal customer to business account is described as 'owner of..', 'partner of…' or 'director of…'

Chart 11 shows the proportion of personal customers with a business relationship across Barclays' customer base and within the three NEF study areas. Chart 16 (in Appendix 1) shows this data broken down to the seven wards that are part of the NEF study area in Salford.

The data for the study areas is similar to that shown previously for the density of the business stock. Salford and Birmingham are somewhat below the average for the wider Barclays' customer base, while Penwith is substantially above.

#### Businesses run through personal accounts

Perhaps of greater interest than the overt involvement of local residents with business, are their covert links. Representatives in the pilot areas were interested in understanding the level of less formal business activity outside the business account data. Estimates suggest that 20-25% of businesses in the UK are operated through personal accounts rather than explicitly through business accounts. Although they are difficult to identify, a subset of this group can be identified with some measure of certainty by looking at those personal accounts which have direct debits to a number of key organisations associated with business activities such as the Inland Revenue, the department of Work & Pensions and business directories.

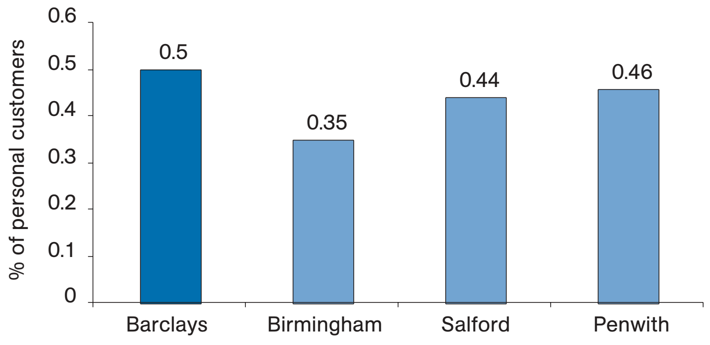



**Chart 12/Probable business activity**
– using personal accounts, end Oct 2002

At the end of October 2002 48,000 Barclays' personal customers were identified, representing only about one in five of the businesses operated in this way within the Barclays personal customer base. The data suggests that all three study areas have a lower proportion of their personal account base among these 'probable' businesses than the average of 0.5%. Penwith had the highest proportion of business activity, a likely reflection of the large role of self-employment in the area. (see chart 12)

The conclusion from these figures is that if there is 'hidden' (or less formal) business activities among the residents of the other two areas, it lies outside of this measure. It may be that in the three pilot areas, businesses are likely to be less formal and not captured as this test can only identify comparatively formal businesses with a higher level of financial product use including electronic transfer payments and direct debits.

## Understanding fragile enterprises

Linked to this focus on indigenous versus inward-investing companies, was a strong desire to understand how the level of marginal or distressed businesses may affect overall confidence by business owners or those interested in starting up. While the data can not reveal issues around the attitudes of business people, or potential business people, it was possible to look at the incidence of firms under the greatest financial stress.

An approach was developed which looked at the incidence of 'warning' markers on the accounts of business customers. There are two main ones – bad & doubtful (essentially the customer is in default in some respect) and caution (where there is particular cause for concern regarding an aspect of the customer's relationship). As can be seen from chart 13, bad and doubtful debt markers are relatively uncommon. But caution markers appear to be a more effective measure and do show a higher incidence in Salford than the other pilot areas.

## Local partnership responses

The local partners in the study responded more strongly to this tailored information than to the original information developed from the comparative templates. The local representatives felt that the information could be used as an active planning tool, helping them 'understand when change is occurring, and helping us enhance positive changes and respond to negative changes'. There was also a sense that the manipulation of the information got under the skin of local economies. As one Salford representatives put it: 'In an area that is half and half [large inward investment mixed with a smaller enterprise base] this kind of micro analysis is really useful'. Although the overall picture that emerged suggested firm characterisations of the areas could not be drawn, local representatives did feel that these were useful pictures for people less familiar with their areas. For instance, representatives said that the Salford picture presented 'a good reflection of an inner city economy…about what's happening on the ground'.

In addition to the tailored data analysis, the local representatives in the pilot areas suggested a variety of more qualitative responses. These fell into different areas. Some suggestions focused on enabling both the bank and local representatives to use the data more effectively. Local stakeholders wanted to complement the use of the data with a variety of other actions to improve access to finance in the pilot areas or to create a better, more productive long term relationship between local representatives and Barclays. Other responses focused on further analysis and uses of the data to build a picture of trends (rather than the fixed point in time that the pilot programme allowed).

The area representatives were keen to build better relationships with front line bank staff and improve liaison. In particular, business support providers were keen to share both knowledge and understanding of local markets. They were interested in improving referral processes from business support services to the bank, and to receive referrals from the bank of firms that may require support to strengthen the business base in the area and/or the quality and level of enterprises accessing bank products and services. Where alternative finance providers (such as community development finance institutions and other locally based loan funds) were already active in the pilot areas there was a strong interest in improving referral processes from the bank. The CDFIs were particularly interested in improving the referral of declines from both existing bank customers and potential customers who may not be able to borrow from the bank itself, as a result of the level of the funds required or their viability judged on bank lending criteria.



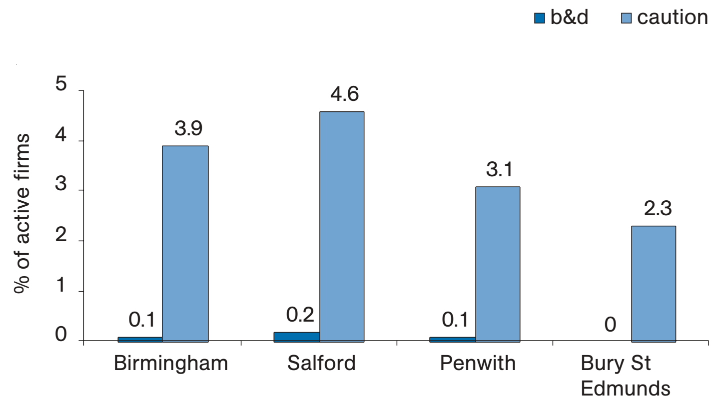



**Chart 13/Incidence of distress markers**
(Dec 2001)

The local representatives were also keen to understand the risk assessment process of the bank better, so they could intervene to build the risk awareness, and therefore the risk profile, of the more marginal or sub-prime businesses in the areas. One idea was for a process through which local representatives could develop a better understanding of how the bank assesses loan and other product applications and the development of correspondent investment-readiness training within the enterprise support sector.

## Conclusion

The stakeholders were interested in using the data to effectively target alternative finance provision by CDFIs through greater understanding of the bankable enterprise in the area. There was also discussion of the way in which the data could be used to analyse markets including targeting marginal businesses and developing financial management tools tailored to the local economy (such as the development of products for seasonal economies or products for businesses run through business accounts).
It was perhaps this last point more than any other that fuelled the focus on using data to prompt action for positive social and economic change in these areas.

The initial data template produced an interesting comparative picture. There were also a number of counterintuitive findings that have relevance for a broader audience such as the high relative density of enterprises in the areas particularly in Penwith, the high rates of survival across all the areas and the comparatively low levels of sole traders.

The stakeholders also had a strong interest in developing more qualitative knowledge, including understanding risk profiles and the processes that govern access to bank products. This was seen as vital for enabling them to help improve financial literacy amongst the financially excluded and improve access to finance.

During the course of the project, interest emerged in information on business banking activity to better understand and support businesses. In turn, this could strengthen the quality and volume of enterprises in the areas and ultimately create a stronger market for commercial  on topics that were linked to 'sub-prime' or more marginal markets. Here the strongest responses were on information on fragile businesses, those run through personal accounts, and those businesses with ties to the areas. Interest in more traditional economic development topics focused on new start-ups, the nature of high growth businesses and differences within as well as between areas.

It became clear that the provision of the information itself was only of interest to local stakeholders when it helped inform action to improve access to finance or enterprise stability and strength in their areas. Their overall interest was the increase of financial product provision and service. The experience of presenting to local stakeholders suggests that the development and maintenance of partnerships are a crucial component to make disclosure of information effective. Indeed, it is vital that others get involved in financial and social intermediation in order to lower the costs of bank engagement. Partnerships enable banks to take action emerging from disclosure, strengthen local markets and ultimately improve financial service provision. The stakeholder groups requested a variety of qualitative responses from the bank to build relationships that could effect change. As a result the project produced a variety of potential actions by banks and local stakeholders that would further the provision of financial services.

# 5 Lessons for area based disclosure

## Introduction

The overall aim of the work was to explore effective ways in which banks could analyse and present information available from their own systems that is both useful and relevant at local, regional and national levels. The programme has produced a variety of outputs – the creation of a potential new source of data and analysis within the pilot areas, the formation of tentative partnerships within the pilot areas and a series of lessons for developing disclosure, at the local level of the pilot areas and developing broader accountability frameworks at the national level.

The findings of the programme can shed new light on potential future developments in the disclosure agenda in the UK. In particular, the findings could inform future strategies to make any disclosure framework effective in delivering both commercial opportunities for the banking sector and economic development through improved access to finance in disadvantaged areas and increasing local market information. While information itself does not prompt action, the programme has shown that information both informing decisions and improving understanding of specific local markets has the potential to form the base for practical local action by a variety of stakeholders.

This chapter reflects on both the opportunities and limitations of the disclosure methodology and draws some lessons for the variety of stakeholders who are interested in the wider issues stemming from it.

## Lessons and opportunities

The disclosure pilot programme has produced a range of information and revealed a variety of opportunities and limitations that go beyond the immediate scope of the Barclays work and its applications. There are clearly lessons for the development of the broader disclosure agenda.

## Lessons and opportunities for banks

Bank action within this arena can deliver a variety of returns. Instead of being focused on building corporate profile and brand awareness, effective disclosure can also improve market penetration, increase local market information, increase CDFIs ability to serve and strengthen businesses banks are not reaching and respond to community pressures to maintain service provision in less profitable areas. While safeguarding customer confidentiality and complying with data protection requirements places some limitations on disclosing information at the very localised level, there is scope for broader disclosure for practical benefit.

Some specific opportunities emerged from the pilot project.

- Increased financial product provision
  For instance, by improving effective demand by offering packages of finance contingent on using business support from local partners or the development of products appropriate to local economic conditions

- Developing processes and partnerships
  During the course of the project a menu of options emerged that would help develop market penetration in these areas including:

  - Develop local networks among banks and local stakeholders like CDFIs and business support providers
  - Develop tailored risk training for CDFIs
  - Exchange of risk/credit history between banks and CDFIs
  - Active, effective referral systems between banks and CDFIs
  - Provide a substantive alternative to bank branch infrastructure through CDFIs and other providers
  - Provide new data on banking trends amongst local businesses e.g. borrowing and savings product use, changes in credit scores between areas and across time.

- Developing local manager reward structures
  For these actions to be effective the commitment of local bank staff is vital for referral systems to work and improved local networks to be formed. This means that the reward systems of banks need to be appropriately modified to give staff incentives to work with CDFIs and to build the customer base.

- Developing local market information
  For those banks that have strong management information systems, the kind of disclosure process developed in this pilot could yield a base line against which to measure the success of the local partnerships (such as increasing bank market share, improved cross referrals, increasing financial provision).

## Lessons and Opportunities for local stakeholders

It is clear that the active participation of a variety of local stakeholders is vital if action by banks to increase investment in disadvantaged areas is to be effective. Here a number of opportunities emerged:

- Cross referrals
  There are opportunities for both business support agencies and local finance providers to improve cross referrals.

- Transferring credit histories and CDFI market information
  CDFIs in particular can strengthen the bank-CDFI relationship not just by referring, but also by transferring credit histories and evidence of sound lending behaviours to banks and transferring their own knowledge of local markets and developing opportunities.

- Understanding and applying local market information
  If local market information is made available to local stakeholders further guidance and training may also be needed for those groups to effectively use the data. The cdfa (the community development finance association – the UK trade association for CDFIs) could play a role in developing effective partnerships.

## The future for disclosure

Disclosure may be framed by the accountability agenda, but its effectiveness should be measured through changes in the levels and appropriateness of financial provision in areas of greatest need.

A framework should be developed which tracks both efforts by the banking sector to make information available (such as on the number of accounts, deposit and lending levels, margins and enterprise density and formation rates) and strategies for using information or other actions to improve provision of finance in disadvantaged areas, for example through levels of investment in CDFIs. In the first instance a voluntary reporting structure should be tested. The aim of this phase would be to develop and refine three disclosure tests against which to report, tailored to the UK environment. This reporting structure should be used on a voluntary basis unless it becomes clear after not more than one year that it was not prompting action across the whole of the banking sector.

The lessons from this pilot project have produced three key test areas to develop that would create an effective disclosure framework focused on action.

**Investment test –** Disclosure in the UK has focused on tracking lending and deposit levels in the 88 most deprived local authority wards on an aggregated basis. We recommend that all UK banks report this data on an individual basis. This is the only transparent way of producing an effective baseline against which to measure progress and provide a comparative picture of different banks' activity levels. We also recommend that banks disclose both their direct and indirect investment in CDFIs. We believe that the benefits of producing this data would outweigh the costs.

**Information test –** The pilot programme has clearly shown that the commercial finance sector has a useful and valuable information source which could be made available along the lines developed in selected areas. This information service could form the basis of an information test within an accountability framework. For instance, as well as producing disaggregated data on investment levels as outlined above, Barclays has also produced information on volumes of start-ups and the proportion of high growth starts amongst them in their annual reports.

**Action test –** The action test is the area with the most scope for producing change. But it is also probably the area in which it is most difficult to develop a comparative indicator. There is scope for developing qualitative assessment of strategies which lead to actions to improve access to finance and strengthen the business base in disadvantaged areas. These could include, for instance, provision of further information, development of referral partnerships or product development, sharing branch facilities or transfer of credit histories.

Together these tests could effectively harness disclosure in the UK to its maximum potential. However, if the disclosure agenda is to move forward there needs to be effective ways of incentivising good bank performers within this arena. The Government is clearly interested in accountability and there are now opportunities for developing effective rewards for those who respond to the calls for this increased accountability by showing how the disclosure can lead to action to improve finance provision that supports local economic development.

# Appendix 1
## Additional data

**Chart 14**
Industrial sector distribution of the businesses in the pilot areas and England and Wales

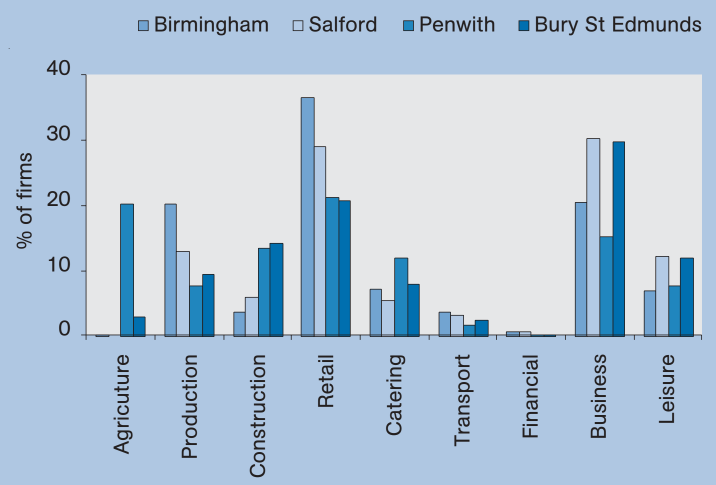



**Chart 15**
Business stock – new firms

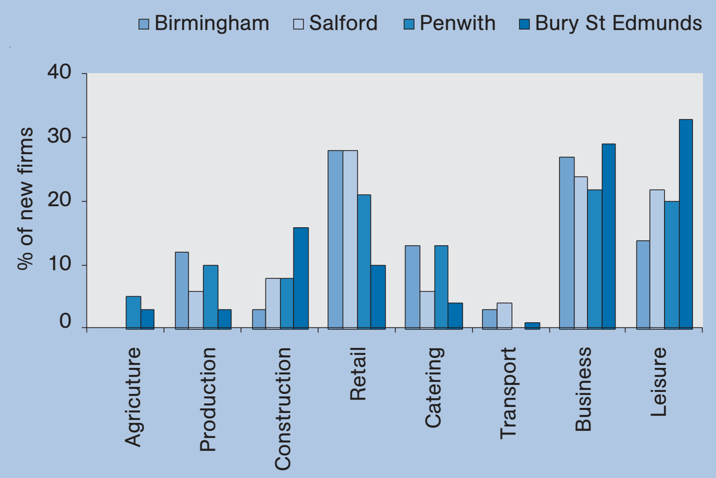
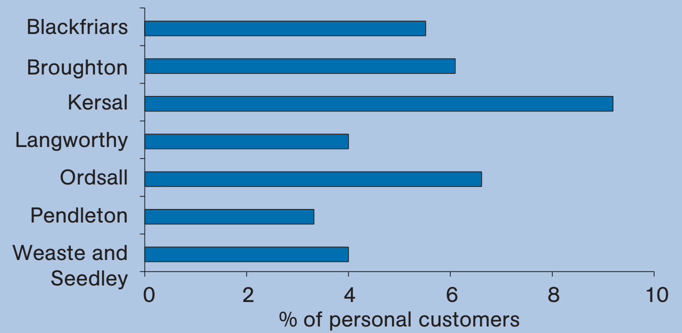



**Chart 16**
Personal-business links, end Oct 2002




### Business stock – new firms

The business stock chart gives an insight into the types of business start-ups by industrial classification. Unsurprisingly, agriculture start-ups only feature in Penwith, although strong start-up sectors are hotels and catering and leisure – reflecting the local economy. By contrast, retail and business were the strongest start up sectors in the two urban areas. But none of the areas has as high a proportion of starts in the leisure sector as Bury St Edmunds, perhaps a sign of the relative affluence of the area.

### Personal/business ties

Looking at the ward data for Salford this pattern is broadly continued, although differences in business-personal links are not as stark as for business density (ward level business density, sector and turnovers were also produced for the Salford wards). Langworthy, Pendleton and Weaste & Seedley, the three wards with the lowest business densities, showed the lowest levels of business-personal links. An interesting point to note is the high rate for Kersal. This suggests that the relatively high business density here reflects local business activity, against the 'transplanted' activity of Blackfriars and Ordsall. The reason for this spike was confirmed by local representatives who confirmed a local shopping centre is located in Kersal.



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What does bank disclosure mean? At a basic level, disclosure means the provision of information about a range of bank activities in defined geographical areas. However, that,s where agreement on the topic ends. Comment is divided on the potential applications, the focus and the usefulness of banks reporting on their activities.

This report is the outcome of the first programme of research to explore the usefulness of disclosing local bank data to both banks, local partners and Government. In a new development in the field of corporate responsibility, the programme explores how responsible corporate action can produce practical benefit and deliver private and public gains.

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