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The banking needs of Universal Credit Claimants: the potential role of budgeting accounts

Policis

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Views expressed in this report are not necessarily those of the DWP or any other Government Department.

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Summary

As Universal Credit is rolled out to more Jobcentres and continues to include a wider claimant base, the Department for Work and Pensions wished to commission research to understand whether 'Jam Jar' or Budgeting Account-type products would effectively support claimants to manage a single combined benefit paid monthly.

The research, conducted by Policis, was undertaken in two stages. In the first qualitative stage, 75 depth interviews were conducted with both legacy and Universal Credit claimants who were then invited to take part in subsequent focus groups. A typology of claimant types and their banking and budgeting support needs was developed as an output of this qualitative work. In the second quantitative stage, secondary analysis of existing survey data was conducted to validate the typology and create a segmentation to provide indicative sizes of the different claimant groups it identified to inform the Department's Personal Budgeting Support strategy.

The qualitative research showed that claimants presented with the notion of Jam Jar accounts intuitively understood and liked the concept, believing that such an account would facilitate monthly budgeting and managing larger sums over a longer period. But when different pricing structures were introduced (reflecting those of products currently available on the market), claimants rejected them out of hand as too expensive and poor value. Furthermore, there was also a strong sense that if the accounts were to be attractive to claimants they must not be marketed or positioned as 'banking for the poor'.

With the recent agreement between Government and the major banks regarding New Basic Bank Accounts, the research also sought an early response to such products by research participants. Respondents were broadly positive towards these accounts which may help to achieve greater engagement with banking functionality for some Universal Credit claimants.

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List of abbreviations

ATM	Automatic Teller Machine
BBA	Basic Bank Account
CTC	Child Tax Credit
DWP	Department for Work and Pensions
ESA	Employment and Support Allowance
HB	Housing Benefit
HMT	HM Treasury
ID	Proof of identity
IS	Income Support
JSA	Jobseeker's Allowance
NBBA	New Basic Bank Account
PIN	Personal Identity Number
POCA	Post Office Card Account

Glossary of terms

Banking functionality	The features of a bank account which enable account holders to view their accounts, make payments and transfer funds and conduct a range of banking transactions in the use of their account.
Banking inclusion	The inclusion within mainstream banking of those who are currently unbanked.
Basic Bank Account	A bank account (available before New Basic Bank Accounts were introduced in January 2016) with more limited functionality than a full service account. Account holders have no checking or overdraft facility, but can access ATMs, payment services and internet and mobile banking functionality. See below for full definition of New Basic Bank Accounts.
Budgeting period	The interval between the points at which income is received and over which individuals therefore need to budget.
Budgeting support	Support provided (in this case to claimants) to assist with budgeting and to build financial capability.
Cash-based bill payment channels	These are payment mechanisms, such as Paypoint, fuel keys or fuel meters which take cash. Typically, these are significantly more expensive than automated electronic payments from bank accounts.
Coping (financially)	For the purposes of this research and the report, being able to largely stay on top of commitments and outgoings and able to afford and fund essentials.
Current account	A standard full service account.
Direct Debit	A fixed 'pull' payment for goods and services of an agreed sum, made at agreed intervals and on an agreed fixed date, with the account holder agreeing with providers of goods and services that they may debit the account holder's bank account directly in accordance with the terms of the agreement. The transmission of funds from the account holder to the service provider is under the control of the service provider and is therefore described as a 'pull' payment.
DWP budgeting account	A hypothetical bank account designed to support budgeting on a low income and developed for the purposes of this research.

Fallen out of banking	Those who were previously banked but are no longer banked.
Financial capability	Is the combination of knowledge, skills, and self-efficacy needed to make and exercise money management decisions that best fit the circumstances of one's life? Financially capable individuals make informed decisions about how to use their money, taking actions that reflect their aims and successfully balance both risk with reward and the short term with the long term.
Financial inclusion	The inclusion within mainstream financial services of those who currently do not have access to these services.
Full service account	A bank account with full banking functionality including checking and overdraft facilities and a wide range of payment services functionality.
'Jam jar'	A means of ring-fencing funds for a specific purpose. When applied to bank accounts, the 'jam jar' is an electronic mechanism. The name is derived from the literal jam jars often used by those on low incomes and managing in cash to aid budgeting by the allocation funds to different classes of expenditure.
Never-banked	Those who have never had a bank account.
New Basic Bank Account	A new variation of the Basic Bank Accounts (see above) which the banks have agreed with the Government to make available to customers who do not qualify for a full service account, which may include those in financial difficulty, the unbanked and account switchers. The distinguishing characteristic of these new accounts is that they do not charge for either going into unauthorised overdraft or for missing Direct Debits and other regular payments set up on the account.
Post Office Card Account	A Post Office-based account which enables account holders to receive benefit payments and to withdraw cash, but which otherwise does not offer banking functionality.
Poverty Premium	The additional cost of using payment mechanisms, goods or services which are used primarily by those on low incomes and which are high cost relative to mainstream channels, goods or services. Examples include the additional costs of fuel paid for using cash payment channels, the costs associated with using high cost credit products, such as payday loans or home credit, and the additional costs associated with bank accounts where account holders are unable to meet fixed payments or incur fees associated with unauthorised overdrafts.

Standing Order	Is a fixed 'push' payment for goods or services, of an agreed sum, made at agreed intervals and on an agreed and fixed date. Unlike a Direct Debit, such payments and the transmission of funds are under the control of the account holder and are therefore described as a 'push' payment.
Struggling (financially)	For the purposes of this research and the report, consistently falling behind on essential commitments and/or facing difficulty in affording essentials.
The banked	Those with a full service current account or a Basic Bank Account.
The unbanked	Those who do not have a full service current account or a Basic Bank Account. Those who have only a Post Office Card Account are considered unbanked.
Vulnerable/Vulnerability	Individuals with various vulnerability indicators including, but not limited to, physical or mental health issues, issues with addiction or a lack of financial capability.
Working age	The adult population aged below State Pension age.

Executive summary

Introduction

Universal Credit will replace a range of current benefits with a single integrated benefit. Unlike existing benefits, paid weekly or fortnightly, it will be paid monthly as a lump sum. Universal Credit will include a sum for rent which historically has largely been paid to landlords. Claimants will thus have to manage larger sums over longer periods. This will require greater use of banking and payment services systems.

Aims

The research, conducted in early 2015, aimed to better understand the barriers to mainstream banking and the facilitators for engaging with banking functionality. In particular, it explored whether the 'jam jar' accounts currently available in the market, or a new notional 'budgeting' account, both of which would allow claimants to ring-fence funds required for commitments from those available for spending, could support the transition to Universal Credit. Alongside this, it considered the potential value for such claimants of New Basic Bank Accounts (NBBA), introduced by the banks in January 2016 by agreement with the Government. Finally, it examined the support needs of different claimant types in relation to banking provision.

Methods

The research was undertaken in two stages. The first stage included depth interviews with both legacy claimants and those on Universal Credit to explore attitudes to banking and money management practice. Subsequent creative focus groups examined claimants' responses to different bank account concepts and their consequent support needs. For the second stage, secondary analysis of existing quantitative data was used to develop a claimant segmentation focused on banking and support needs in the transition to Universal Credit.

Key findings

- Existing banking products are a poor fit with the needs of claimants living on low incomes and will become more so with the transition to Universal Credit and monthly budgeting.
- Claimants require payment mechanisms which allow variation in the timing and amount of payments to enable them to flex payments around cash flow and a pricing structure which is proportionate to flows through accounts and which does not carry the risk of derailing budgets.

- The NBBA was seen by claimants as a major step forward. Removing penalty charges and unauthorised overdraft fees addressed the most important barriers to banking and greater engagement with banking functionality.
- 'Jam jar' and 'budgeting' accounts were seen as going further in that they would facilitate effective budgeting over a month-long budgeting period.
- The jam jar accounts currently in the market were seen as too inflexible, with the high cost of these accounts an absolute barrier to take up.
- Claimants were clear that any new banking product made available to them would be less attractive if it was seen to be targeted at the poor. Products positioned as 'mainstream' were perceived as more attractive.

1 Introduction

1.1 Background

Universal Credit is a transformational reform that simplifies the benefits system by replacing a range of working-age benefits with a single monthly household payment and increasing personal responsibility.

Universal Credit is being introduced safely and securely. Whether an individual can claim Universal Credit depends on where they live and their personal circumstances.

At the time of this research, there were a set of gateway conditions so that only certain types of new claimants were eligible for Universal Credit in those areas where it had been introduced.

1.2 Research scope

As Universal Credit rolled out to more Jobcentres and continued to include a wider claimant base, the Department for Work and Pensions (DWP) commissioned research to understand whether 'jam jar' or budgeting account-type products would effectively support claimants to manage their monthly payments of Universal Credit.

In contrast to existing benefits, which are largely paid weekly and fortnightly, Universal Credit is paid monthly. Housing Benefit (historically paid primarily direct to landlords and frequently the highest value component of all benefit payments) will be paid directly to tenants who will become personally responsible for paying their rent. In both cases the intention is to move benefit claimants' financial management practice closer to that of those in work, and thus enhance 'work-readiness' and make the transition to work easier.

Universal Credit will require benefit claimants to manage larger sums over longer periods than they have been used to historically. This will throw up new challenges and, for some, will require changes to current money management practice which, for a significant proportion of benefit claimants, hinges on weekly and fortnightly budgeting cycles and is often cash-based. The requirement to manage larger sums for longer periods also implies that banking facilities and account-based management of household funds will become more important to those on very low incomes and benefit claimants, requiring greater emphasis on banking and electronic payment services functionality.[1] Therefore claimants will need to have access to banking and to banking products that will support them to manage the transition to Universal Credit, monthly payments and budgeting, to take responsibility for the payment of rent and, ultimately, to move into work.

DWP recognise that greater banking inclusion and new banking products are not the whole solution in the transition to Universal Credit and monthly management of household budgets. For some claimants, particularly the more vulnerable, the challenges associated with the transition to monthly payments may arise primarily from issues around financial capability.

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1 Ellison, A., Whyley, C. and Williams, S. (2014). *Electronic Payments Needs of low income consumers*, Policis and Toynbee Hall for Payments Council. https://policis.com/pdf/Low_Income_Consumers_and_Electronic_Payments_Final_Report.pdf

Therefore, DWP has made provision to exempt some claimants from a combined single monthly payment as well as developing a Personal Budgeting Support Strategy to enable claimants to access money advice that will help them with monthly budgeting.

1.3 Research objectives

The aim of this research was to explore the extent to which 'jam jar' or budgeting accounts might support claimants in their transition to Universal Credit. This research also examined some of the wider issues associated with banking inclusion and the transition to Universal Credit to understand how claimants might most effectively be supported into banking as a means of enhancing their financial resilience and readiness for work in the context of monthly payments of benefits. As the research was conducted in advance of New Basic Bank Accounts (NBBAs) becoming available, research participants were asked to reflect on such accounts alongside budgeting accounts. The research also explored the support needs of claimants in moving into banking, opening new bank accounts or switching to new bank account types and in making greater use of banking functionality to manage funds and household budgets.

Overall, the research aimed to better understand:

- the barriers to mainstream banking;
- the facilitators needed by this group to move into mainstream banking; and
- the likely support needs of different claimant groups in the short, medium and longer terms.

This, in turn, translated into a number of **key research questions**:

- Will the existing 'jam jar' style products currently in the market meet the needs of Universal Credit claimants and those moving into work?
- Could the budgeting account model enhance financial capability, reduce the risks of transition to Universal Credit for vulnerable claimants while also addressing banking exclusion?
- Would such an account make it easier for claimants to make the transition to work?
- Would it be effective for DWP to subsidise more vulnerable claimants to use existing 'jam jar' products on a temporary basis as they made the transition to Universal Credit – with the aim of increasing their financial capability?
- Given forthcoming changes designed to enable greater access to banking, could the NBBAs meet the needs of Universal Credit claimants?

1.4 Research design

The main element of the research was qualitative. Seventy-five depth interviews were conducted with a range of Universal Credit and legacy claimants who were then invited to participate in subsequent focus groups. The depth interviews allowed the researchers to explore sensitive issues, including claimants' relative vulnerability and financial capability, and to understand the detail of their money management practice and banking needs. The focus groups invited respondents to participate in a series of tasks (for example, sentence completions, thought bubbles, card sorting exercises), with the aid of a wide range of stimulus material and creative enabling techniques, to explore their response to several banking product concepts. From this data a typology was developed to illuminate the banking needs of different claimant types.

To provide a sense of scale for the groups identified in the qualitative typology, the project team subsequently developed a quantified segmentation, drawing on secondary analysis of existing Policis data. This exercise was intended to validate some of the qualitative hypotheses and provide an indication of the likely proportion of claimants within the different groups identified[2].

1.4.1 Sample

The qualitative sample was structured to include claimants who were:

- further or closer to banking inclusion;
- more or less financially capable;
- currently coping or currently struggling with financial management;
- managing over different budgeting cycles (weekly, fortnightly and monthly);
- using account-based money management or cash.

The sample also included claimants who had already made the transition to Universal Credit and those yet to do so (legacy claimants). See Figure 1.1. Potential research participants, who were predominantly recruited face-to-face, were asked a short series of screening questions to ensure a diverse mix of respondents with a range of capabilities and at greater or lesser distance from banking. Recruitment was based on a recruitment screener, including attitudinal batteries[3].

1.4.2 Fieldwork

The depth interviews took place in February 2015 in London, Birmingham, Bristol, Liverpool and Manchester and were mainly conducted face-to-face unless participants requested it to be by phone. The six focus groups and four mini-groups were conducted in March and in London, Birmingham, Bristol and Liverpool with 61 of the original 75 respondents successfully recalled for the focus groups.

1.4.3 Analysis

The focus groups and depth interviews were recorded and fully transcribed. The subsequent qualitative material was analysed through a thematic framework designed to support systematic, structured and balanced analysis of a large body of qualitative material.

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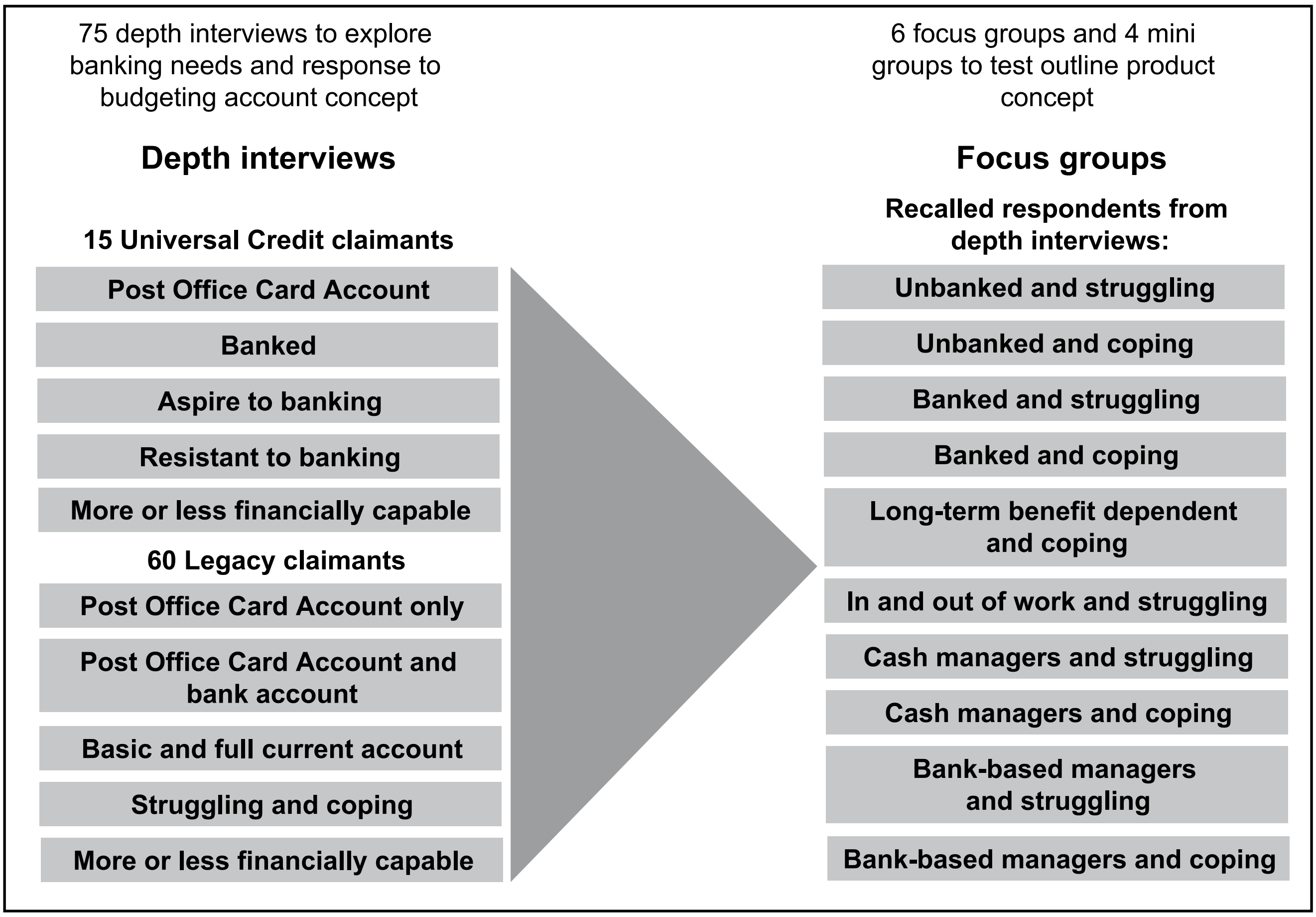
2 The segmentation was derived from an existing data set rather than a designed for purpose survey and is moreover now some years old. Against that background, it should be regarded as indicative.

3 The sample specification and recruitment screen can be found at Appendices A and B.

Figure 1.1 Qualitative sample structure



1.5 The quantitative phase

1.5.1 Sample

The data for the secondary analysis is derived from a nationally representative survey of 1,886 individuals on low incomes of working age, undertaken by GFK NOP for Policis, in November 2011. The resulting database included 1,258 benefit claimants of working age. This was the sample used for the secondary analysis. The source survey focused on banking and credit inclusion and the issues arising for those on low incomes in using banking and a wide range of credit products.

1.5.2 Analysis

The secondary analysis of the quantitative data rested on cluster analysis[4], with the variables selected as drivers of the clustering process informed by the insights arising from the qualitative research. The key drivers selected are described in Chapter 9, which covers the claimant typology and segmentation, with the specific variables used provided in Appendix D.

[4] The segmentation model was developed using K-means cluster analysis. K-means clustering, effectively the industry standard, was chosen in order to allocate individuals to distinct single clusters, with a clear differentiation between segments. A centroid approach was chosen on the basis that these provide more robust segments in research-based segmentations than hierarchal approaches.

2 The context

This chapter sets the context for the research findings by outlining existing banking provision for those on low incomes, including some recent market developments that are relevant to this customer group. Following this, the chapter presents key learning from existing evidence on banking inclusion. Despite this substantial body of research, however, a number of knowledge gaps remain. Some of these unanswered questions, set out at the end of the chapter, are of relevance to the successful transition to Universal Credit.

2.1 Current banking provision for those on low incomes

2.1.1 Current accounts and Basic Bank Accounts

There is currently – at least in theory – a spectrum of banking provision available to low-income customers on a free-if-in-credit basis.

At one end of the spectrum are full service current accounts. These offer an arranged overdraft facility and full payment services functionality, including use of Direct Debits, Standing Orders, debit cards and access to a wide network of ATMs for withdrawing cash, transferring money, paying bills and checking account balances.

At the other end of the spectrum are Basic Bank Accounts (BBAs) which may have limited payment services functionality, limited access to in-branch counter services and restricted access to the ATM network. Such accounts do not offer access to an arranged overdraft facility, although it has been possible to fall into an unauthorised overdraft and incur charges with those accounts predating the introduction of New Basic Bank Accounts (NBBAs) (the latter do not charge for either going into unauthorised overdraft or for missing Direct Debits and other regular payments set up on the account).

Banks offering a full service account may set eligibility criteria which some people on low incomes may be unable to meet. They may be refused such accounts if they are unable to provide adequate identity verification, because they have an adverse credit history or because they have made little or no use of credit in the past and, therefore, have a very ‘thin’ credit file, which does not provide banks with sufficient information to make a judgement about the individual concerned. In addition, access to particular elements of a current account – such as an arranged overdraft, debit card or Direct Debit facilities – may be refused based on factors such as a customer’s banking history or the level and nature of income flows through the account.

BBAs were largely designed to be accessible by people with a limited or adverse credit history and to those without the standard examples of photo-id usually required to open a current account[5]. But even with a lower eligibility criteria there has remained a group of financially excluded individuals unable to access such accounts.

5 Banks may ask to see potential customers’ photo-ID in order to comply with their other obligations, such as those under the Money Laundering Regulations 2007.

2.1.2 'Jam jar' accounts

Alongside current accounts and BBAs, a small number of specialist providers who already target products at people on low-incomes, offer a different form of bank account – loosely termed 'jam jar' accounts[6]. These accounts are designed to offer a much closer fit with the money management needs and practices of people living on low incomes and are specifically targeted at this group. They allow account-holders to allocate funds intended for regular bills and commitments to virtual 'pots', ring-fenced within their account, while diverting surplus funds to a pre-paid card. This enables them to set aside a portion of their income to ensure that key commitments can be met whilst knowing how much remaining money they have to spend without fear of inadvertently overspending.

The lack of access restrictions associated with these products allows them to be used by those who have struggled with existing banking products or who, historically, have managed their finances outside the banking system. These accounts are also open to individuals with adverse credit history and to undischarged bankrupts who often find it difficult, if not impossible, to open a mainstream bank account.

While the design of these accounts might be more attractive to low-income consumers than mainstream banking models they are not widely known about or widely available. Those products that do exist are not currently available on a free-if-in-credit basis and so require account holders to pay a monthly fee and some also include transaction charges. By contrast, BBAs offered by mainstream banks are free to use when individuals are in credit.

2.1.3 Post Office Card Accounts

Benefit claimants who do not have, or prefer not to use, a bank account can have their benefits paid into a Post Office Card Account (POCA). These accounts are designed only to receive benefit income, and do not offer any other banking functionality such as debit cards, Direct Debits, electronic funds transfer facilities and access to ATM networks.[7]

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6 For an example of such an account see https://www.securetrustbank.com/current-account-why-not-apply-today

7 Research has shown that POCA users divide into two groups; those happy with POCA and the Post Office and who have no aspiration to banking (63% of POCA owners) and those who want a bank account and banking functionality but find themselves unable to access it (37%). Ellison, A., Whyley, C. and Forster, C. (2010) *Realising Banking Inclusion: The Achievements and Challenges*, Policis for HM Treasury. Data appendix, Table 41, Appetite for banking.

2.2 Market developments: New Basic Bank Accounts

The introduction of the NBBAs on 1 January 2016 follows an agreement[8] made in late 2014 between the Government and nine mainstream banking providers and aimed to widen banking eligibility to, for example, former bankrupts or those with an adverse credit history, and to address the fact that for some people on low incomes their current financial exclusion is a consequence of previous banking failure, for example, where bank charges have escalated and become unmanageable.

According to this agreement a BBA will be provided to consumers who meet the following financial inclusion criteria:

- Unbanked customers who are ineligible for a full-service account.
- Customers banked elsewhere who want to switch providers and are ineligible for a full-service account.
- Banked customers in financial difficulty who require an additional account but are ineligible for a full-service account (regardless of whether their existing account is with the bank or another provider).

The new accounts will provide key banking functionality, such as Direct Debits and debit cards and will have internet and mobile banking as standard. Account holders will have universal access to the ATM network. Critically, there will be no penalty charges for missed Direct Debits or for unauthorised overdrafts, which the banks will, in any case, take steps to minimise.

The eligibility criteria acknowledge that it's not just the unbanked who require such accounts. An avowed objective is therefore to make accounts available to those with accounts that are not currently meeting their banking needs. The agreement also requires the banks to make BBAs visible alongside their other current accounts.

Until the banks report figures for the number of NBBAs that are opened following the recent agreement[9] it is too early to determine precisely what their take up will be. Wider evidence with respect to switching behaviours suggests that levels of customers switching to new providers may be relatively low[10], but customers may also be able to open an NBBA if they are in financial difficulty and require an additional account. In addition, customers may be eligible for an NBBA if they do not already have a bank account and are ineligible for other types of basic bank accounts.

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8 HM Treasury and Andrea Leadsom, Economic Secretary to the Treasury, first published 15 December 2014. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/386953/141211_basic_accounts_agreement_text.pdf

9 Banks are required to report figures from January to June 2016 to HM Treasury by the end of August 2016.

10 For example, see Personal Financial Research Centre, University of Bristol, *Current Account Switching; why don't more people switch and what would encourage them to do so?,* Kempson *et al*. April 2016.

However, only a small proportion of those in the low-income population are entirely unbanked, with the overwhelming majority of these having a POCA, many of whom may be reluctant to consider a move into banking.[11]

2.3 Wider evidence

To date, fairly extensive research has been conducted relating to banking inclusion, exploring low-income households' money management practices and financial decision-making; the reasons for their use and non-use of financial products; their appetite, drivers and barriers to increased banking inclusion; and the implications of remaining unbanked. The key themes and findings from this body of research are outlined in the sections below.

2.3.1 Benefit claimants' use of bank accounts

In the UK population as a whole the numbers of people without bank accounts has been declining steadily in recent years and it is expected that this trend will continue. However, a small but significant number of benefit claimants are not receiving their payments into a fully functioning bank account. Currently the Department for Work and Pensions (DWP) makes 12 per cent of its payments into a POCA – 58 per cent of recipients are of pension age while 42 per cent are of working age.

According to Birmingham University's Financial Inclusion Monitoring report,[12] some 1.5m individuals were personally unbanked in 2012/2013, down from 1.87m individuals in the previous year, with those on low incomes more likely to be unbanked than their better off counterparts. Some 660,000 individuals in that year did not have an account of any kind. Findings from the Family Resources Survey (FRS) data for the financial years 2014/15 suggests that 14 per cent of workless household did not have a current or any other form of bank or building society account.

2.3.2 Barriers to effective use of bank accounts

As a number of studies have shown,[13] key aspects of bank account pricing structures and payment services features represent a poor fit with the needs of those on low incomes.

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[11] In research undertaken for Her Majesty's Treasury (HMT) by Policis just 17 per cent of unbanked POCA owners 'definitely' wanted a bank account with 21 per cent saying they would 'probably' want a bank account. HMT, 2011, *Banking inclusion, the achievements and challenges*.

[12] University of Birmingham for Friends Provident Foundation, *Financial Inclusion Annual Monitoring Report*, Rowlingson and McKay, 2015.

[13] For example: Ellison, A., Whyley, C. and Forster, R. (2012). *Credit and low income consumers*. Friends Provident Foundation. Ellison, A., Whyley, C. and Williams, S. (2014). *Electronic Payments Needs of low income consumers*, Policis and Toynbee Hall for Payments Council 2014; Payments Council, (2013). Qualitative research on access to cash; Financial Inclusion Commission, (2015). Improving the financial health of the nation.

In particular fixed-date, fixed-sum payment mechanisms, such as Direct Debits,[14] which dominate the collection of regular payments and are required by some service providers, have represented a poor fit with the needs of benefit claimants who frequently need to juggle the timing of payments around competing priorities. Equally, historic pricing structures associated with bank accounts have tended to penalise those on low incomes for behaviours which they find difficult to avoid, such as being unable to make payments on a fixed date.[15]

Those managing on budgets with very tight margins need rather to time payments around cash flow in order to make ends meet. As a result, a significant proportion of the banked on low incomes have historically been exposed to charges for missing Direct Debit payments or going into unauthorised overdraft.

2.3.3 The dynamics of money management practice

Understanding how banking needs will change with the transition to Universal Credit and why current banking products represent a poor fit with the needs of those on low incomes, including claimants, requires an understanding of how they manage their money and the drivers shaping their choices.

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14 Direct Debits represent 87 per cent of all regular bill payments made through bank accounts and with many suppliers of key utilities and services either requiring payment by Direct Debit or strongly encouraging customers to pay by Direct Debit, in part through discounted pricing. Source: Ellison, A., Whyley, C. and Williams, S. (2014) *Electronic Payments Needs of low income consumers*, Policis and Toynbee Hall for Payments Council 2014. Based Consumer payments survey (CPS) previously undertaken by The Payments Council now the National Payments Study (NPS) for Payments UK, a continuous survey ongoing since 1988. http://www.paymentsuk.org.uk/sites/default/files/publication-free/Payments_UK_Contents_UK_Consumer_Payments.pdf

15 Research undertaken for Policis indicated that 45 per cent of those of working age in the lowest 50 per cent of household income have paid penalty charges for missed Direct Debits, with those exposed to charges averaging six such charges in a 12-month period with 28 per cent having been charged fees for going into unauthorised overdraft. For a detailed description of this syndrome and the costs to low income consumers and credit users, see Chapter 6, Ellison, A., Whyley, C. and Forster, R. Credit and low income consumers, Policis for Friends Provident Foundation (2012). https://policis.com/pdf/Credit_and_low-income_consumers_Policis_for_Friends_Provident_Foundation_Jan_2012.pdf and for the role of penalty charges in banking failure and as a barrier to banking see page 5 HMT, 2010, Banking inclusion: the achievements and challenges and Data Appendix Tables 23, 24, 25a and 51a and 51b.
https://policis.com/pdf/banking/HMT_Newly_banked_and_unbanked_research_final_report_090810.pdf
https://policis.com/pdf/banking/HMT_Newly_banked_and_unbanked_research_data_appendix_090810.pdf

Existing evidence shows clearly that, for the most part, claimants living on benefits are, of necessity, highly disciplined and effective money managers. However, these studies have also shown that the money management practice and budgeting strategies of the poor, and benefit claimants in particular, are distinctive and very different from those of the better-off. While there has, historically, been a tendency to view low-income households' budgeting strategies as unsophisticated and indicative of poor financial capability, a large body of existing evidence clearly contradicts this. In fact, detailed research exploring how people on low-incomes manage their money illustrates that it is underpinned by rational and considered choices which maximise their likelihood of ensuring that, often, inadequate incomes can cover essential outgoings.[16] Fundamentally, living on very low, fixed income with tight margins on budgets poses very real challenges and requires specific skills and budgeting strategies, with money management practice having evolved as a response to these challenges.

For benefit claimants it must also be recognised that a large part of money management practice has been shaped by benefit payment cycles and, in particular, payment of a range of different benefits at different times on a weekly and fortnightly payment cycle. As a result, claimants, historically, have managed budgets over short periods between frequent income inflows. Previous research[17] has shown that a little under half of claimants manage their finances on a weekly basis and a similar proportion manage entirely in cash.

The key issue – and the harsh reality of living on a very low income – is that even with the most disciplined budgeting, not all needs can always be accommodated within any one budgeting period. The challenge is greatest for families with dependent children, for whom unanticipated expenses are most likely to arise and who are most likely to have to manage peaks of expenditure at certain times of year, such as return to school or Christmas.

A number of studies[18] have shown that even the most diligent budgeters are often still unable to meet all competing needs in any one budgeting period. As a result, people face more or less frequent and more or less serious cash-flow pressures, even crises, when they may be unable to afford essentials. As a result, some elements of outgoings have to be foregone on some occasions.

But this should not be seen as a failure of financial capability, but rather a key budgeting skill.

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16 Centre for Sustainable Energy and University of Bristol Personal Finance Research Centre. (2010). *You just have to get by, coping with low incomes and cold homes*. Harris, J., Treanor, M. and Sharma, N. *Below the breadline*. Barnardos. (2012). *Keeping the plates spinning*. Consumer Focus. (2010). *Payments Council. Access to cash*. Policis and Toynbee Hall. (2013). *Policis for Consumer Focus*. (2009). *On the margins*. Policis for Save the Children. (2009). *Robbing Peter to pay Paul*. Save the Children. (2010). *The UK poverty rip-off: the poverty premium*.

17 Previous research for Policis undertaken by GFK in 2011 suggests that 47 per cent of claimants manage their budget entirely in cash and 46 per cent manage their funds on a weekly basis. See discussion page 63, Ellison, A., Whyley, C. and Williams, S. *Electronic Payments Needs of low income consumers*. Policis and Toynbee Hall for Payments Council. (2014).

18 See footnote 16.

2.3.4 The Poverty Premium

Research[19] has also shown that it is this need to accommodate both fixed regular payments and the ability to 'juggle' payments around cash flow that underpins the use of cash-based bill-payment methods such as fuel keys, meters and Pay-point.

People who use these services are aware that use of cash based payment channels is significantly more expensive than use of methods such as Direct Debits. Cash payment is also considerably more time-consuming, requiring users to physically visit a payment point, which may be some distance from home. However, critically, cash bill payment methods enable those on very low incomes to flexibly manage competing needs.

Previous research has also shown that it is this need for flexibility that also underpins the use of small sum credit, both formal and informal, and the choice of credit and lender types[20]. While many of those on benefits would, in any case, struggle to access mainstream credit many low-income borrowers actively choose to use high-cost credit types, such as home credit, knowing that it is expensive. This is, on the one hand, because small weekly payments are seen as manageable in the context of cash flow and, on the other, because lenders' tolerance of missed payments provides flexibility in the management of budgets.

Taken together, the use of cash-based bill payment methods and of high cost credit, together with exposure to the bank charges most likely to be paid by those on low incomes, represent a large part of 'The Poverty Premium', the syndrome by which the poorest pay more for basic goods and services than better off consumers.

Given that a proportion of those on low incomes are strongly wedded to cash-based money management, despite being aware that they pay a premium, they will need to feel confident that the banking products they make use of will not involve them incurring disproportionate costs and, therefore, risk leaving them worse off.

2.3.5 Banking exclusion and banking failure

The drivers of banking exclusion are not one dimensional and the evidence is that, for some, the benefits and risks of moving into banking can be finely balanced.

There is a substantial body of evidence both qualitative and quantitative around the drivers of banking and payment services failure.[21] Research with the unbanked has shown that some two-thirds of those who are unbanked have previously been banked and have fallen out of banking.[22] Research evidence also shows that the primary driver of banking failure has been the application of penalty charges for account irregularities and unauthorised overdrafts. Falling out of banking has also been shown to be associated with a hangover of debt, for the

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19 Ellison, A., Whyley, C. and Williams, S. (2014). *Electronic Payments Needs of low income consumers*, Policis and Toynbee Hall for Payments Council.

20 Ellison, A., Whyley, C. and Forster, R. (2012). *Credit and those on low incomes*. Friends Provident Foundation.

21 Ellison, A., Whyley, C. and Forster, R. (2010). *Realising Banking Inclusion: The Achievements and Challenges*, Policis for HM Treasury. Policis for Consumer Focus. (2010). *On the margins*. Ellison, A., Whyley, C and Forster, R. *Credit and low income consumers*. Friends Provident Foundation. (2012).

22 Ellison, A., Whyley, C. and Forster, C. (2010). *Realising Banking Inclusion: The Achievements and Challenges*. Policis for HM Treasury.

most part owed to the bank. Those who have experienced banking failure frequently have then found it difficult to regain access to banking, often because they have acquired adverse credit history in the process or owe money to the banks.

Research has also shown, however, that some of those who move out of banking do so not because of a banking failure but rather because they see banking as difficult or complex and prefer the simplicity of a POCA account and the certainty of managing in cash[23]. In a relatively high proportion of these cases, moving into banking had originally been triggered by the requirement to have an account in to which wages could be paid and individuals had simply withdrawn funds from their account on receipt and managed in cash during the time that they were banked. Indeed, research has shown that fewer than four in ten POCA users aspire to banking, with less than one in five 'definitely' interested in wanting to become banked. Many unbanked individuals' have a strong affinity with the Post Office and the POCA account, with this being in itself one of the key barriers to achieving banking inclusion.

Research with newly-banked people on lower incomes, on the other hand, has shown that the benefits of moving into banking are not always realised and are unevenly distributed.[24] The move into banking can also create risks for those on very tight budgets. While some of the newly-banked benefit from lower costs, make meaningful use of banking functionality and go on to achieve wider financial inclusion, these tend to be the better off and are a minority overall. The same research suggested that a larger group within the newly-banked make very limited use of banking functionality, continuing to manage their budgets on an entirely, or primarily, cash basis. There is also a significant proportion of the newly-banked, who suffer a net loss from the move into banking and use of electronic payment technology, because the savings arising from using cheaper payment channels are outweighed by the scale of the penalty charges to which they are exposed as a result of managing their funds through the bank.[25]

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[23] See Tables 49b and 55. Ellison, A., Whyley, C. and Forster, C. (2010). *Realising Banking Inclusion: The Achievements and Challenges*. Policis for HM Treasury. Data Appendix. More than half (56 per cent) of the unbanked were simply comfortable with a POCA while 46 per cent felt that they had no need for complex banking facilities. Around three-quarters (76 per cent) of the unbanked felt that 'with cash you know exactly where you are'.

[24] Ellison, A., Whyley, C. and Forster, R. (2010). *Realising Banking Inclusion: The Achievements and Challenges*, Policis for HM Treasury. The analysis underpinning this report suggested that although 70 per cent of the newly banked felt that they had benefited from the move into banking, some 27 per cent of the newly banked experienced a net financial gain, that for a third of the newly banked the impact of moving into banking was broadly neutral financially, while 26 per cent had experienced a net financial loss as a result of the move into banking, primarily because of penalty charges levied on their account. The balance had fallen out of banking with almost one in five (19 per cent) had experienced banking failure, either closing accounts or not able to use their account.

[25] Ellison, A., Whyley, C. and Forster, C. (2010). *Realising Banking Inclusion: The Achievements and Challenges*. Policis for HM Treasury.

2.3.6 Key gaps in the existing evidence base

Taken as a whole, the evidence above suggests that banking products based on the ‘jam jar’ principle could assist those on low incomes to ring-fence funds and better manage flows in and out of their accounts. Given the difficulties experienced in the use of bank accounts by those on low incomes, the evidence previously cited suggests that there may be a need for a different type of bank account which would better support budgeting for those living on incomes with very tight margins. Little is known, however, about either the real world impact of the new ‘jam jar’ products currently in the market, the potential appeal and value to claimants of budgeting accounts or whether budgeting accounts would help claimants to manage the transition to Universal Credit and a single monthly payment that will include rent. Equally, little is understood about how far the NBBAs will address the barriers to banking and whether these new accounts will of themselves be helpful for claimants in managing larger sums over longer periods and taking personal responsibility for paying their rent.

It is these gaps that this research project was designed to address.

3 Claimants' money management practice and attitudes to banking

The qualitative research undertaken for this project confirms the broad patterns of money management practice and the difficulties faced by those on very low income in managing banking products described in Chapter 2. It sought, however, to fill gaps in the existing evidence base by exploring what elements of benefit claimants' current money management practice and banking needs could support the transition to monthly payment of benefits and Universal Credit and how budgeting practice and banking needs would be likely to change as Universal Credit is rolled out.

This chapter begins by outlining the money management practices described by benefit claimants during the depth interviews and focus groups and briefly explores the links between money management practices and financial capability among this group. It moves on to illustrate attitudes to banking and account-based money management among benefit claimants using only a Post Office Card Account (POCA) and those without any kind of account, and the barriers they face to becoming banked. The chapter ends by identifying the key levers and barriers to account-based money management among the benefit claimants who took part in the qualitative phase of the research.

3.1 Money management practice

The respondent sample was evenly split by gender and structured to have an equal age split between the under 30s, 30–50-year-olds and those aged 50–65. There was a slight bias towards households with children, with an even split between couples with children and single parents. The sample also included both single person households and couples without children. It was thus structured to enable the researchers to explore money management practice for a range of household types. A detailed sample specification can be found in the technical appendix.

The depth interviews and focus groups illustrated vividly how benefit claimants' budgeting strategies and the effort to meet competing needs on a limited budget rests on iron spending discipline, with budgets managed to the penny and expenditure tightly controlled and closely monitored.

> *'It's usually worked out to the penny, you understand, because, you know, because I can't go overdrawn. I've got to constantly know my limitations, you know, to the penny, about how much I can spend and what's what.'*

Funds were allocated to specific purposes and set aside, often literally, in cash in separate jam jars or envelopes so that money needed for bills, school trips or the payment of 'club' books – from which children's clothes are often purchased – does not get mixed up with spending money.

'I'm very good with money. When I was little my nan taught me that you have five different pots, your gas, your electricity, your rent…And I've always done that. My bills first, what's left see what we can do.'

This sat alongside, careful, savvy shopping (for example, shopping around or waiting until prices had dropped later in the day) to stretch out funds and obtain the best possible value.

The research also confirmed the central role of 'juggling' around cash flow and the need of those on very tight budgets to flex their finances around unanticipated or peaks of expenditure.

'I'm struggling a little bit that week, I probably use a little bit out of that and then I repay it the next week out of the next week's money.'

3.2 Financial capability

The research sought to understand how banking needs and money management practice linked to financial capability as part of the effort to understand budgeting support needs in the transition to money management practice. To enable this the sampling process was designed to ensure the inclusion of claimants with a range of capabilities.[26]

Most benefit claimants are, of necessity, effective and disciplined money managers. However, there is a visible spectrum of financial capability with more vulnerable households more likely to be less adept at money management. It was clear from the depth interviews and focus groups that difficulties in managing money arose both because of less developed financial capability and because individuals were vulnerable due to complicating factors in their lives, such as mental health issues. Benefit claimants in this position appear to be less able to budget or allocate funds effectively, or to prioritise or structure spending. They struggle, therefore, to reserve funds for essentials or to resist temptation to spend money when they have it or 'dip into' funds reserved for priorities. As a result, they were more likely to run out of cash before the end of a budgeting period and to be unable to meet commitments.

Many of those who lacked financial capability were self-aware, admitting to being 'bad with money' or having difficulties in managing their funds. People in this position had adopted a variety of strategies to mitigate this weakness in their ability to manage money. Some younger people simply gave a large proportion of their funds to family members to keep for them to avoid the temptation to spend, with the family member typically then giving back funds in tranches over time. Alternatively, claimants had asked family members to take their money and pay their bills for them.

26 As part of the sample selection process claimants were asked to assess how good they were with money and how far they were on top of their bills and commitments. The recruitment screener can be found at Appendix B.

Others had put all their essential bills on Direct Debit, with the intention of protecting their core security and living on what remained. In the process, however, these individuals had lost the ability to juggle their budget around needs. As a result, these claimants were more likely to run out of funds. Indeed, some had got into a cycle of borrowing small sums from friends and relatives when they ran out of cash. In several cases, repaying these loans on receipt of their benefit had left them with very little left over, triggering a cycle of further borrowing. Others simply had no-one to turn to when they ran out of funds or had exhausted the patience of family members and were no longer able to borrow. The experience of running out of funds and worrying about money was clearly deeply stressful.

Those claimants who lacked financial capability tended to be younger, with some having recently left home, taking on responsibility for budgeting for the first time. Some, however, were pressured family households simply struggling with the discipline required to make ends meet. Those with problematic debt or a history of adverse credit and banking failure were particularly at risk. The least financially capable households were also those that were more vulnerable and mental health was also a factor in some cases.

However, not all those experiencing difficulties had vulnerable characteristics or lacked financial capability. Some individuals were managing the consequence of sanctions for non-compliance with Jobcentre requirements.

3.3 Attitudes to banking and account-based money management

The qualitative sample contained both banked and unbanked claimants. The banked sample included Basic Bank Account (BBA) and full service current account users. It also included those who had been new to banking when they opened their account and those who had a prior history of banking failure. The banked sample included individuals who were managing their account entirely through the bank, those who were paying key bills through their bank account and otherwise managing in cash and those who simply withdrew all their funds from the bank and managed entirely in cash.

There were mixed views even among those managing through the bank about the merits of banking and bank-based management. Those who had the greatest affinity with bank-based management and electronic payment were the better off and those moving in and out of work. This group valued the convenience and functionality of electronic payments. Outside this group, the banked claimants, including many of those who managed primarily or mainly in cash, liked some aspects of banking functionality, in particular remote and card payments, the ability to monitor their balances on the internet and mobile phones, and the ability to make electronic transfer to other accounts and for bill payment.

> *'I'm checking it all the time. I need to know exactly what is in there and what is covered and what I have to spend. I'm on my phone all the time. If I do seven pounds in Aldi, will I be OK?'*

> *'I'm not really one for computers. But just having that there on my phone, it's a big help. You know you know exactly where you are and what's gone out and how much you can spend.'*

At the same time, however, managing funds through the bank and using debit card and payment card functionality was also seen as high risk. Debit cards were perceived as dangerous by many respondents because they could lead to overspending, in contrast to cash. The payment of regular bills by means of Direct Debit was seen as both convenient and as providing the peace of mind that key bills had been paid. But Direct Debits were also viewed as a double-edged sword in that the fixed nature of payments did not allow account holders to juggle finances to fit cash flow or to resolve competing priorities. In addition, people feared the consequences of being unable to meet a Direct Debit, and the associated fees and costs.

As other research has found, here the issue lay with the lack of flexibility associated with Direct Debits and the penalty charges historically associated with missed payments and unauthorised overdrafts. The imperative to flex cash flow around competing needs and the necessity of occasionally 'robbing Peter to pay Paul' meant that those who managed bill payments though their accounts could all too easily be exposed to penalty charges for missed payments or unauthorised overdraft when they had to miss a scheduled payment to cover some more pressing priority.

> *'I try not to let it happen. Make sure the money is in there to cover them bills before anything else. But sometimes it's just not possible. My priority is the roof over our heads, the kids have a hot meal when they come in, we got bus fare (to school) and I've got his subs (for son's football) covered.'*

Penalty charges were seen to be out of scale relative to flows through accounts, with the result that they had the potential to entirely derail budgets, which would then be very difficult to get back on track. Some people who had struggled to manage a bank account and Direct Debits reported exposure to penalty charges had left them without sufficient funds for essentials, and in some cases, no money at all. In some cases where penalty charges had resulted in account breakdown, people reported being left with escalating debt (often to the bank), which had in some cases been impossible to pay down.

The research also confirmed the phenomenon discussed in Chapter 2 whereby those who opted for cash-based management did so in part to avoid the risks seen as associated with bank-based money management. In much the same way, people who used cash-based bill payment methods (such as meters and fuel keys) even though they had access to banking and payment services functionality, reported that they did so because relying on these payment methods allowed them to flex their budgets and their use of utilities to fit around cash flow.

3.4 POCA users' attitudes to moving into banking

The unbanked sample of POCA users included both those who had fallen out of banking, some of whom still had a bank account that they made little or no use of as well as a POCA, and the never-banked. Among those who only had POCAs there were both reluctant users who, having fallen out of banking, were no longer able to access the banking mainstream and those who were wedded to their POCA and the Post Office and had little or no aspiration to banking.

Reluctant POCA users tended to be younger and more likely to have fallen out of banking. Typically, these users found Post Offices inaccessible and inconvenient and disliked POCA accounts for their lack of functionality and limited ATM access. Indeed, they were often highly conscious of the advantages of remote and card payments, and access to internet and mobile banking.

These reluctant POCA users tended to withdraw all of their cash at one time, or to withdraw larger sums than they would like, because of the inconvenience involved in accessing Post Office branches or the ATM. This in turn was felt to make money management more difficult because of the increased tendency to spend. Some incurred considerable inconvenience and costs because of their lack of access to banking functionality.

> *'I have to get a bus to get there (to Post Office) and if I'm skint I have to walk, which I usually am, which takes about three-quarters of an hour to the precinct. So I usually take it all in one go. Which is bad really, because if you have it you spend it. It's (POCA) rubbish really. You can't do anything with it. They need to bring out a payment card and you need to be able to get at your money without you have to take a hike to find a machine you can use when you need it. It's not part of the modern world.'*

By contrast, those wedded to their POCA account were mainly the never-banked with no real desire for any more complex banking functionality. Some however, had struggled with a bank account previously and preferred the relative safety of an account with limited functionality.

Broadly speaking, benefit claimants with a strong affinity with POCA tended to be older, long-term benefit claimants with a preference for cash-based management and long-established routines for managing on a low income. For these POCA users, cash-based management was seen as self-limiting and inherently imposing discipline while also giving both flexibility and control over the budget. The Post Office was moreover a familiar, trusted brand and a convenient one-stop shop for bill payment and receipt of funds. Both Post Offices and local Paypoints were seen as sufficiently accessible, albeit that opening hours were not always seen as convenient. For these consumers, the limited ATM access associated with POCA accounts was not an issue because they typically withdrew all their cash on a weekly or fortnightly basis, subsequently managing cash on a 'jam jar' system.

> *'With my Post Office account I pay that weekly, my electric's on the key, my council tax as well, I pay my telephone bill I do that all on the cards. I pay that and know I've got £40 in my purse and I put that away and I go and do my food shop and I know that has to last me until Wednesday.'*

3.5 Those with neither bank or POCA accounts

All of those in the sample with no account whatsoever were in reality using the account of a relative or partner to receive benefits, withdraw cash or make payments. In some cases, the account was being used as a de facto joint account, based on the informal sharing of cards, PINs and access passwords between partners. In some cases, younger people, particularly if they saw themselves as being poor money managers, could be putting funds into a parent or partner's account as a form of spending discipline. Whether individuals aspired to open an account of their own depended on their reasons for not currently having one. In the majority of cases, using their partner or family member's account was seen as 'safer', with these individuals often being the least financially capable. In some cases, individuals who had fallen out of banking believed that they would not be able to open an account in their name but did not want the restricted functionality of a POCA.

There were also instances among those with mental health issues, where a family member was running an individual's personal account, on either an official or informal basis. This could be experienced as a relief, but also could be much resented.

3.6 The barriers to account-based money management

3.6.1 Reasons for falling out of banking

As other research has shown, exposure to banking charges was a key driver of banking failure. Some claimants had effectively reached a tipping point where, due to charges, their account was becoming effectively unmanageable or unusable. In some cases this was because individuals were not sufficiently on top of their money and commitments while in others an adverse change of circumstances had meant they were no longer able to meet commitments.

For such claimants this banking failure appeared after a relatively long period of deteriorating finances and cumulative bank charges which they were never able to fully address. In some instances this had undermined financial resilience for what could be an extended period after the crisis itself.

This pattern did not apply to all those who had once been banked. Some of those who had previously been banked had not so much fallen out – or been forced out – of banking as had simply stopped using their account, either out of preference for cash or a lack of interest in banking functionality and a preference for the Post Office as friendlier, more familiar and convenient. Some of these claimants still had dormant bank accounts.

3.6.2 Barriers to becoming banked

For some, particularly for older unbanked POCA users, their very strong affinity with cash management, the Post Office brand and their lack of interest in banking functionality was the key barrier to engaging in mainstream banking. Resistance was further entrenched by discomfort with forms, unfamiliar situations and officialdom, in some cases compounded by numeracy and literacy issues. Banks were often seen as both intimidating and potentially judgmental, but also as targeting the more affluent.

Outside this group, those who had fallen out of banking and who aspired to account-based money management, the primary barriers were rather that some are 'shut out' of banking by a history of problematic banking failure, unpaid bank debt or adverse credit history or by a lack of ID acceptable to the banks.

Some of those who had fallen out of banking reported that they had been able to open a BBA elsewhere with little apparent difficulty. However, those who had acquired serious adverse credit history in the course of their banking failure reported that this had acted as an absolute barrier to opening such an account.

In other cases, the barriers identified by claimants were more practical. Money laundering regulations require that banks establish proof of identity, but this can pose problems for some claimants. Claimants may not have had the opportunity, need or means to acquire a passport to travel internationally, and often did not have the means to drive a car or thus the need to have a driving licence.

Despite efforts by the Government and banks to develop alternative forms of ID that can be accepted when opening accounts, it would appear that at branch level, staff responsible for opening new accounts are not always aware of the provisions for alternative identify documents, such as housing association tenancy agreements or proof of benefit claims.

> *'Yes, like they're (passport) over £100, as well. I've got a birth certificate and everything but you need like a picture ID and I haven't got any picture ID at the moment.'*

There are now a number of pre-paid card products which are able to function as quasi bank accounts with payment card and Direct Debit functionality. It would appear, however, that a lack of awareness may be acting as a barrier to use of these products and thus working against the unbanked and those with adverse history gaining access to limited banking functionality as an alternative to either a POCA or opening a BBA. Among the unbanked sample there was little or no awareness of the existence of pre-paid cards as an alternative to mainstream banking.

Figure 3.1 Key barriers and levers for banking inclusion

Barriers to banking

Attitudinal and behavioural
- Wedded to cash management
- Lack of perceived relevance and utility

Perceptual
- Bank-based management high risk

Structural – poor fit with needs
- Lack of flex in payment services (DDs)
- Pricing structures which can derail tight budgets
- Barriers to accessing small sums

Practical
- ID barriers
- Poor credit history

Contextual
- Digital exclusion/low skills

Levers for banking inclusion

Access to services
- Sky
- Contract phones
- Transport

Fit with needs
- Balance checking (control/certainty)
- Internet/mobile banking (access and peach of mind)
- Electronic payment (flex and convenience)

Functionality
- Payment cards/remote payment (choice and convenience)
- ATMs (access and security)

Reduced cost
- Utilities (but not if have to trade off flex)

Convenience

Security

4 New banking needs arising from the transition to monthly payment and Universal Credit

Before considering the specific features of budgeting accounts and Basic Bank Accounts (BBAs) (see Chapters 5 and 6) the research explored in more general terms what a bank account might look like that did meet the needs of benefit claimants and what additional banking needs might arise with the transition to Universal Credit.

4.1 Claimant responses to a monthly payment of Universal Credit

In order to provide them with the necessary context for a more detailed exploration of banking needs in relations to Universal Credit, research participants were told about the key features of Universal Credit and their initial responses were elicited.

The small sample of Universal Credit claimants who participated in the research, and which were recruited directly from job centres, had not found the transition to Universal Credit problematic, albeit that some had some difficulty budgeting in the very early stages. However, in line with the policy for roll out of UC, these claimants were largely young single people, often still living at home with parents. Any cash flow issues that arose in the transition had for the most part been managed by dint of subsidy or borrowings from family. These respondents are unlikely to be typical of the wider mix of claimant types moving onto Universal Credit for the future.

In line with previous research conducted by the Department for Work and Pensions (DWP)[27], this research found a spectrum of responses among claimants on legacy benefits to the prospect of a transition to monthly payment and taking personal responsibility for rent. A minority of respondents, primarily those moving in and out of work and/or already budgeting monthly, welcomed monthly payment as both potentially easier to manage and as closer to their practice when in work.

Most claimants, however, took the view that managing larger sums over longer periods would be more difficult and could create new challenges. Even those currently coping well and budgeting effectively were initially daunted by the prospect of managing larger sums over longer periods, albeit that they were also confident that, if they had to, they could adapt and cope.

27 DWP Research Report 800. (2012). *Work and the welfare system: a survey of benefits and tax credits recipients*. http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep800.pdf

> *'I'd have to work out how to budget it. Because I mean, it's okay going without say, like for two weeks, but to go a whole month, I'd have to work out whether there was enough for everything, you know, the gas, leccy, the TV licence and all that. I'd have to spread the cost out. You're used to doing it a certain way. But once I'd budgeted it all out, I could do it if I had to. We'd manage.'*

However, there was also a significant body of benefit claimants now managing fortnightly or weekly, coping well with money management and largely on top of their bills and commitments who, nevertheless, expressed real concerns about moving to a single monthly payment of benefits. Here the fear was that they would run out of funds towards the end of the month or that they might be tempted to 'dip into' funds needed to cover key expenses in the face of immediate priorities, with the attendant risk of debt or falling behind on key commitments. The biggest concern was around taking personal responsibility for rent, seen as posing a significant risk to budgeting and financial security if they succumbed to the temptation to 'borrow' from the rent[28].

Those who were struggling to stay on top of their finances, and the least financially capable, felt most strongly that managing a larger sum over a longer period would be difficult and to believe that monthly payment would pose a real risk to their ability to cope and thus to their security.

4.2 Perceived banking needs for monthly payments

Amongst some of those with a strong affinity with cash management there was a recognition that a bank account and banking functionality may become more necessary in order to manage a larger sum of money over a longer period if it enabled them to monitor funds and keep track of balances and payments. Here there was a strong sense that Direct Debits, timed to match incoming funds, would be needed to ensure that bills and commitments were paid.

> *'Your rent, that is going to have to be paid through the bank I would have thought. Then at least you can keep track of where you are on your phone.'*

> *'You'll have to set up some of them, what you call it, Direct Debits, so it's gone as soon as your money comes in and then do what you can with the rest. But what happens if anything comes up? Them last two weeks is going to be very hard, I think.'*

Some Post Office Card Account (POCA) users acknowledged that the POCA account was ill-suited to managing monthly payments, because of the lack of functionality and the relative difficulty in accessing cash. Facilities for paying landlords were a particular worry.

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28 Findings from the Direct Payments Demonstration Projects evaluation (2014) provides useful context from actual experience of payment of housing benefit to tenants. https://www.gov.uk/government/publications/the-direct-payment-demonstration-projects-dpdp

> *'It would be a lot easier if you could have a bank because then your Direct Debits can all be took out at once. With the Post Office you can't do that. (set up a Direct Debit) The landlord can take his money straight away…that's the main worry, because I wouldn't want to lose our place because I'm silly enough to spend the money but it's hard not to.'*

But with this recognition a fear remained if commitments were paid by Direct Debit, they would lose the flexibility needed to manage cash flow around pressure points, peaks of expenditure and unanticipated expenses. This, in turn, sat alongside worries about incurring penalty charges and derailing budgets if fixed commitments were not met.

4.3 Required banking products and features

In the depth interviews, claimants' perceived banking needs were elicited in general terms. Subsequent focus group sessions were conducted to explore particular needs in greater detail and how these might change following the transition to UC.

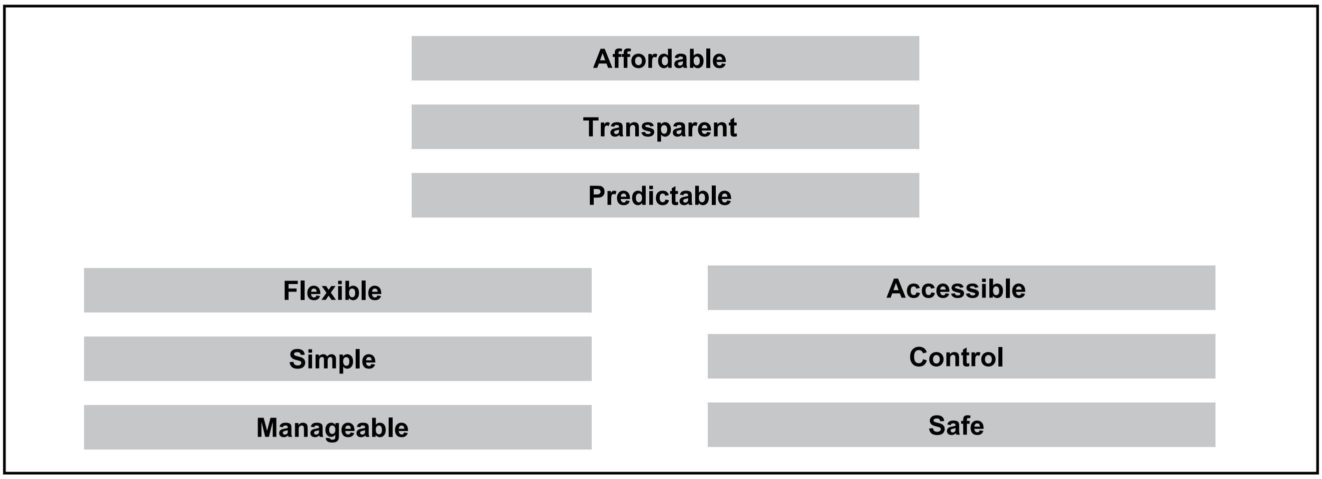
This was achieved via a series of structured exercises. To start with, participants were split into small groups of three or four and asked to sort a series of cards each with a word describing an aspect of banking that might or might not be important to them. The attributes used in the card sorting exercises were drawn from those identified in the depth interviews undertaken for this project and from those identified in previous research for the Payments Council as attributes of bank accounts and payment services that would likely be important to those on low incomes[29].

Claimants were asked to build a 'pyramid', with the most important things they would want out of banking at the apex to produce a 'hierarchy' of banking needs. Respondents were free to discard cards which they thought inappropriate or to introduce new ones of their own choosing.

It was striking that the various 'pyramids' were remarkably consistent. They reflected a desire for banking which was both accessible and affordable and which would allow the account-user to keep on top of their financial position at any time. Equally, however, it was clear that an ideal bank account would; confer flexibility, have predictable and transparent charges and would not put users' control and security at risk. One of the 'pyramids' developed to describe core banking needs is shown in Figure 4.1.

29 Ellison, A., Whyley, C. and Williams, S. (2014). *Electronic Payments Needs of low income consumers*. Policis and Toynbee Hall for Payments Council.

Figure 4.1 High level banking needs



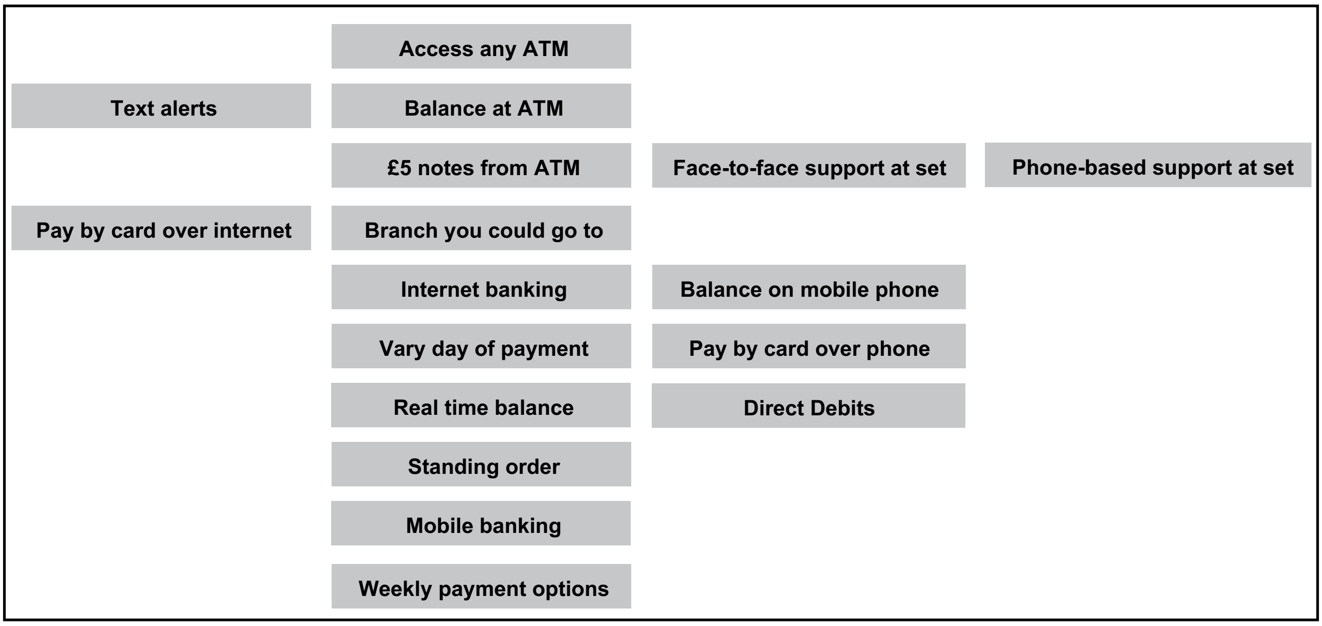
Once participants had considered the high-level characteristics that they would want their ideal bank account to offer, they were asked to consider the specific product features that would be attractive to both themselves and benefit claimants and those on very low incomes more generally. As with the macro-characteristics described above, the product features sought reflected the nature of day-to-day money management practice. In this exercise, the product features featuring in the exercise included both those that are features of existing bank accounts and some features which had been identified in previous research with those on very low incomes as desirable features or product gaps. Examples of the latter included being able to access very small sums from ATMs and being able to vary the timing and amount of payments. A full list of the features used in the card sorting exercise is contained in the section on stimulus material in Appendix C.

Benefit claimants' strong preference for managing small sums of money over very short periods of time was clearly reflected in the focus groups discussions and exercises. Paramount importance was placed both on universal access to ATMs and being able to withdraw sums as small as £5, which currently is not always possible.

Similarly, because financial discipline is underpinned by close monitoring of all expenditure and a careful effort to keep on top of the financial position at all times, the ability to access balances at the ATM, on mobile phones and through internet banking was a priority banking feature, as were text alerts.

The requirement to be able to pay bills by card and by bank transfer over the internet and the desire to be able to vary the timing and amount of payments to fit with available cash and competing priorities, reflects the need for those on tight budgets to flex funds around cash flow.

Figure 4.2 Priorities for banking product features



4.4 Support needs

The evidence from the focus groups clearly indicates, however, that the introduction of products that are better suited to the needs of those on low incomes may form only part of the solution to achieving greater banking inclusion and supporting claimants in the transition to Universal Credit. It is clear that, for many benefit claimants, support will be required if unbanked claimants are to make the transition to banking and to help those who are already banked to fully engage with banking functionality.

The product feature pyramid produced by one group (Figure 4.3) reflects the needs of a less confident and older group and shows the priority given to face-to-face support in relation to the product features and high-level account characteristics outlined above.

Figure 4.3 The role of support within the hierarchy of banking needs

	Face-to-face support at set up		Branch you could go in	
£5 notes from ATM	Access any ATM	Vary value of payments	Vary day of payment	Weekly payment options
	Payment/debit card		Internet transfers	
Internet banking	Mobile banking		Flexible payment options	Prepaid Cash Card
	Pay by card over internet		Pay by card over phone	
	Standing order		Direct Debits	
Balance on internet banking	Real time balance		Balance at ATM	Balance on mobile phone

In order to better define what the support needs may be, participants were asked to reflect on what it would be like to make use of and open a new bank account. It was clear that many claimants, and particularly those who are unbanked, will bring considerable anxiety to account-based money management. They may be intimidated even by the act of entering a branch or applying for an account, fearing judgment or rejection, or not understanding what they are being told. This is illustrated in Figure 4.4.

Figure 4.4 Anticipating opening a new bank account

There was a strong expressed preference for personalised face-to-face support. Claimants were asked to reflect on why and what this should look like (Figure 4.5).

Figure 4.5 Reflections on face-to-face support

4.5 Summary of findings

In the context of the shift to Universal Credit, benefit claimants highlighted the importance of bank accounts that are:

- accessible and affordable;
- have fees that are transparent and proportionate;
- support users to monitor and control their finances; and
- enable them to flex and manage their finances around cash flow and competing needs.

The specific desired features identified included:

- a pricing structure which is proportionate to flows through accounts and which does not carry the risk of derailing budgets;
- payment mechanisms which allow for variation in the timing and amount of payments to enable those on budgets with tight margins to flex payments around cash-flow;
- a means of ring-fencing funds required to cover commitments from funds that can be used for day-to-day spending and to allow claimants to reserve funds for expenditure later in the budgeting cycle;
- being able to access small sums of money; and
- provision of support to open and maintain an account.

Claimants are not a homogenous group and the research identified a clear range of needs in relation to banking, reflecting the differences in money management practice, financial capability and distance from banking. These differences are discussed in more detail in Chapter 9 which sets out a typology of benefit claimants in relation to their financial capability and banking and support needs.

5 Basic Bank Accounts

With the 2014 agreement between the banks and the Government regarding the development of the New Basic Bank Account (NBBA) model, the Department for Work and Pensions (DWP) was keen to understand to what extent, NBBAs addressed the product gaps discussed in the previous chapters and may support claimants in the transition to Universal Credit.

5.1 The Government agreement with the banks on New Basic Bank Accounts

5.1.1 Policy aims

The main providers of Basic Bank Accounts agreed with Government to make the New Basic Bank Accounts available from January 2016. The new accounts are designed to support the Government's policy on banking inclusion and improve provision for those on low incomes by offering a banking product that more closely fits their needs and with a pricing structure that does not charge for unauthorised overdrafts or missed direct debits.

The unbanked, those in financial difficulties who need a new bank account, and those switching accounts from another bank and who would not qualify for a full-service account, will all be eligible for a new basic bank account. However, both wider evidence and the research undertaken for this report suggest that, although claimants greatly welcome the removal of charges for unauthorised overdrafts and missed direct debits, take-up of the new accounts may be limited by a number of factors. These include inertia and low levels of bank account switching[30], especially among those on low incomes[31], a lack of appetite for banking among unbanked POCA users, and by a perception among those in financial difficulties that they will likely be turned down for a new bank account.

5.1.2 Agreed product features

The banks have agreed with the Government that the NBBAs will have the following product features:

- Counter access, for the deposit or withdrawal of funds at any branch of the bank at which the account is held or at any Post Office, on the same terms as all other personal accounts.
- ATM access via the LINK network.
- Direct Debits and Standing Orders.
- Payment card, which can be used in retail outlets and online.
- Arranged overdrafts will not be available on NBBAs and the banks have undertaken to minimise the potential for unarranged overdrafts to arise.

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30 The Competition and Markets Authority (August 2016) suggest that just 3% of bank customers switch accounts in any one year. https://www.gov.uk/government/news/cma-paves-the-way-for-open-banking-revolution

31 http://www.bristol.ac.uk/geography/research/pfrc/themes/banking/current-account-switching/

- Critically, there will be no charges for transactions[32], for a missed payment or for an overdrawn balance. There will also be no set up or standing fee associated with these accounts.
- All the new accounts will come with access to internet and mobile banking as standard.

The banks have agreed that accounts will be distributed via all the distribution channels (phone, online, post, in branch) used by the bank for other current accounts. Information on other accounts will be made available alongside information on full service accounts, being 'visible' to the same degree as information on other types of accounts.

5.2 Claimant responses

Claimants in the focus groups were shown a summary of the key features and pricing of the NBBAs (Figure 5.1).

Figure 5.1 New Basic Bank Account

Features

- Pay in benefits, salary, cash, cheques
- Internet banking as standard
- Mobile banking app
- Direct Debit and Standing Order facilities
- No penalty charges for missed Direct Debits
- A debit card to withdraw cash and make payments in shops or remotely by phone or internet
- Withdraw cash at any ATM
- No overdraft facility and no unauthorised overdraft charges
- Universal access – bad credit, history of banking failure and bankruptcy accepted
- Nine banking groups will offer these accounts

Cost

- £0.00

Overall, the response to the new accounts was strongly positive. In particular the removal of charges for missed Direct Debits and the blocks on entering into unauthorised overdraft were seen as a genuine game-changer.

> *'That's just what we need. None of them charges when you can't make your Direct Debit. You've still got your money and there is food on the table and you're not worried sick and in debt. It's taking the worry out of the bank.'*

32 Provided transactions are in Sterling.

Universal access to the ATM Link network was greatly liked and seen as a key differentiator from both the Post Office Card Account (POCA) account and the existing version of BBAs.[33]

For the unbanked who aspired to banking, the new accounts were seen as having removed the key barriers to becoming banked.

> *'That is like an answer to my prayers. It's almost too good to be true. Now I can be like everyone else and have a bank account and be part of the modern world again.'*

Importantly, the new accounts were also felt to have removed the major risk associated with managing funds and making payments though the bank, making it more likely that account holders would choose to manage through the bank rather than in cash.

> *'The fact that you've got the stability of not…going to be charged for any Direct Debits should they go out late or early before your money goes in or whatever the case may be…you've still got that same amount of money that you can pay the bill, be it a couple of days late.'*

But even without charges for failed Direct Debits some still were concerned about the implications of fixed sums leaving their account on fixed dates. For those who felt that they needed to be able to juggle payments around cash flow, the sense was that, while they might use Direct Debit for major outgoings, using cash-based payment methods for at least some of their bills would be safer and more flexible, albeit that it was recognised that this approach would also be more expensive.

> *'I know they're not going to charge you if you miss, but I'd be a bit worried that I'm not going to have any back up money to dip into if something comes up, which it always does, if I put it all on Direct Debit. I could maybe do the rent on Direct Debit and sort the rest out myself.'*

In the context of widespread distrust of the banks and, often, bitter experience of exposure to penalty charges, there was a strong element of cynicism in response to the proposition, particularly among those who had fallen out of banking.

Closely related to this there was scepticism that the new accounts would genuinely be open to all, again particularly among those with adverse credit history or a background of problematic banking failure.

There was also a consistent fear, voiced by claimants in a range of circumstances, that the new accounts would be perceived as 'banking for the poor', and that these accounts – and by extension the account holder – would be stigmatised as a result.

There was also a group of benefit claimants, however, for whom the new accounts had little appeal – those most wedded to their POCA and cash management. These were typically older, highly disciplined cash budgeters who had often been on benefits for many years. The new accounts were not seen as having sufficient appeal to motivate a change to existing practice.

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33 Although Basic Bank Accounts have had universal access to ATMs in the recent past, historically at various points some banks have restricted access to ATM networks for their BBA customers.

All of this suggests that in order to address concerns and encourage claimants to switch accounts or engage more fully with bank-based management, the NBBAs will need to be strongly promoted if these perceptions and fears are to be overcome.

5.3 Implications for Universal Credit

For the unbanked who aspired to banking and the banked who were struggling to manage their accounts, a lower risk bank account was of itself thought likely to make it easier to manage the transition to monthly payments, in that the consequences of running out of money at month end would be less damaging. Having access to Direct Debits and Standing Orders to pay landlords as soon as funds arrived was also thought an important benefit.

> *'You're going to have to have a way of paying the landlord aren't you? So it'll be good for that. Take it out straight away before you know you've got it.'*

Beyond this, however, even among those most responsive to the concept, the new accounts were not seen as necessarily likely to make it any easier to manage larger sums over a longer period. The core challenges around making money last for longer, striking a balance between covering commitments and necessary day-to-day spending and injecting flexibility into money management still remained, albeit that internet and mobile banking were thought likely to make monitoring balances and expenditure easier.

> *'What it does do is make it less likely you're going to get into trouble because you can't make a payment. That's the good thing. But I don't see that it's going to make it any easier to make your money last the month. It may even be harder if you're going to have your electric and all that taken out when you get paid. You've got no wriggle room then. If something goes wrong, you could still end up with no money and a long wait to get some.'*

5.4 Summary of findings

The findings indicate that:

- Broadly speaking the NBBAs were seen as attractive and in some cases were enthusiastically received.
- Where there were concerns these principally centred on the perceived inflexible nature of Direct Debits and the potential stigma of such accounts.
- In addition NBBAs were not perceived as being an aid to monthly budgeting and to handling larger sums over longer terms per se.
- POCA users who are already successful cash managers may not view these accounts as offering enough benefits to them to prompt widespread take up by this group.

6 Budgeting accounts

Managing a single monthly payment of benefits will demand of some claimants additional money management skills beyond those they already have. With this in mind, the Department for Work and Pensions (DWP) has developed a Personal Budgeting Support Strategy. Therefore, a key driver of this research has been to better understand whether 'jam jar' or budgeting accounts (which would facilitate the marking of certain funds for specific purposes) are an attractive proposition for some claimants, and if so, whether such accounts can add value and enhance financial resilience over and above what could be achieved with the introduction of the New Basic Bank Account (NBBA).

6.1 What was tested

The one-to-one research interviews introduced claimants to the concept of a budgeting account in general terms to gauge their initial responses. How such products might actually work for claimants was then explored in more detail during subsequent focus groups.

In the focus groups, the research team tested:

- **Product concept 1** – The jam jar account (two variations explored).
- **Product concept 2** – The wallet account (three variations explored).
- **Product concept 3** – The (notional) budgeting account.

Product concepts 1 and 2 were each close to an existing market product but presented as unbranded. Product concept 3 was a hypothetical product developed for the purposes of this research (see section 7.2).

The first two product concepts tested involved a facility to ring-fence funds for certain purposes from spending money. Funds intended for bills could be allocated to an electronic 'jam jar' or 'wallet' with the balance of remaining funds available to support day-to-day spending stored in a pre-paid card. Crucially, in both cases, funds, once allocated to the jam jar/wallet could not later be accessed by the account holder.

Both products offered Basic Bank Account (BBA) facilities including Standing Orders and Direct Debits, ATM access and internet and mobile banking. Both also offered universal access and so were open to those without banking history, with previous banking failure, adverse credit history and bankruptcy. Neither of the products allowed unauthorised overdrafts and did not charge for missed payments.

As part of the research DWP was keen to understand claimant tolerance for charges. Therefore the two products while similar in concept, had differing charging structures, with concept 1 (the jam jar account) having a relatively high set up and monthly fee and concept 2 (the wallet account) having a relatively low monthly fee but relying heavily on transaction-based charges.

Another priority area of interest for the Department was likely support needs in setting up such accounts. Therefore, three levels of service and support for the set-up of accounts and ongoing service thereafter were also discussed with respondents in order to understand support needs and the appeal of different models for different claimant types: The support models discussed were:

- Level 1 (low touch) – web-based set up and support as standard with online budgeting and tracking tools provided. But chat and phone options where individuals need additional help.
- Level 2 (high touch) – face-to-face support at set up and lighter touch remote support thereafter.
- Level 3 (intensive) – face-to-face support at set up with ongoing personalised support and additional support available for dealing with problematic debt and financial difficulties.

6.1.1 Product concept 1: The 'jam jar' account

The first 'jam jar' concept was an account that could be managed online or through a branch (of a single high street bank acting as partner to the provider), which allowed for electronic transfers into the account, but also for payment of cash or cheques into bank branches (again of a single high street bank). The account allowed holders to ring fence funds for commitments in a 'jam jar' from funds available for spending. Once funds had been allocated to a jam jar, they could not be accessed by the account holder. Funds available for spending could be stored on a MasterCard badged pre-paid card, which could be used to spend wherever MasterCard is accepted. Electronic tracking and budgeting tools were provided with phone-based support also available both at set up and on an ongoing basis. The pricing structure on the account, which reflected that of other products in the market, rested on a setup fee and a relatively high monthly ongoing charge.

Figure 6.1 shows the key elements of the product concept that were presented to focus group participants.

Figure 6.1 'Jam jar' account

Product features	Managing the account
• Basic Bank Account with an established bank • Internet banking (the facility to manage the account online) • A mobile banking app made available • Pay in directly or at Payzone or Barclays branches • Separates bills from spending money in electronic 'jam jars' with money not allocated to jam jars directed to a pre-paid card • Pre-paid card enables cash withdrawal and acts as debit card • Direct Debit and Standing Order facility • No penalty fees for missed Direct Debits or Standing Orders • No overdraft facility and no unauthorised overdraft charges • Earn up to 4 per cent cash rewards at over 35 high street retailers • Universal access – bad credit, history of banking failure and bankruptcy accepted	**Jam jar account A** • Provides a current account which will accept benefits, salary, cash and cheques • Includes the facility to pay bills by Direct Debit or Standing Order **Jam jar account B** • MasterCard Prepaid Card – Once you have set aside the money in your current account for your Standing Orders or Direct Debits, any money left over can be transferred onto your Prepaid Card • Payment card is accepted in over 30 million outlets worldwide and ATM's displaying the MasterCard Acceptance Mark **Both accounts** • Budgeting support provided • Tracking and budgeting tools • Phone-based support for set up and on an ongoing basis **Cost** • £12.50 setup • £12.50 per month • £5.00 per annum or rewards programme payable 1 year in arrears

6.1.2 Responses

The 'jam jar' concept was quickly and intuitively understood and recognised to mimic existing budgeting practice. The idea of being able to ring-fence funds for bills was greatly liked and seen as likely to be genuinely helpful in managing monthly payment and the need to manage larger sums over a longer period.

> *'Yes, that sounds fantastic…Because once I'd organised everything, what is going in which jam jar, I'd know how much is left for me to spend. Instead of just spending, and thinking, oh, there's expenses I haven't paid, everything would be in them jam jars. I think that would be a fantastic idea.'*

However, concerns surfaced quickly around the need to juggle finances around cash flow and the funds being held within the jam jars being inaccessible. People worried that they might run out of cash for essentials or be unable to address an emergency or unanticipated need. On balance the view was that the concept was too prescriptive and inflexible.

Broadly speaking, it was the most financially capable and those who were most on top of their commitments who felt the greatest need for flexibility and the least capable who were more inclined to take the view that keeping funds inaccessible might be the most effective means of ensuring that their core commitments were covered. This said the likelihood of their being left without funds for potentially a protracted period was recognized by this less capable group.

6.1.3 Response to the charging structure

However, the initial appeal of the concept was greatly undermined by the introduction of the monthly charge of £12.50. This was seen as disproportionately high to the likely flow of funds through the account. The more financially capable and those who were in any case effective budgeters saw the charge as excessive in relation to the value delivered. They also felt that, while the jam jars were useful, they could replicate the concept at home using physical containers or envelopes, as many already did now, at no extra cost for themselves.

> *'Sorry, I think it wouldn't help people who were on benefits. I think it's a good idea, the jam jars, like you allocate money to each one, but I think having to pay per month for it, for what you've already done and what you can do at home, for someone that is really, really tight for money, that £12 could be someone's electric for the month.'*

The less financially capable and those who were struggling to manage their budgets already simply saw the £12 charge as the difference between being able to 'heat or eat'.

The research team also explored whether a temporary subsidy of the account fees for a limited period (terms of 6 months, 12 months and 24 months were tested) would increase the appeal of the account. However, the majority of claimants felt that even if a subsidy was available at the start, they would simply close the account once it was withdrawn. None of the suggested terms for subsidy was regarded as sufficiently attractive to act as an incentive to maintain the account once the subsidy was withdrawn. The view was that a temporary subsidy made it not worthwhile going to the effort of opening and setting up such an account.

6.1.4 Product concept 2: The wallet account

The second product presented to respondents was similar in concept to the jam jar account just described. It differed primarily in offering two types of jam jars, for funds reserved for bills and budgeting respectively, being available as an online product only and in having a charging structure which rested on transaction based fees rather than a single standing monthly fee. As with the first product concept, once funds had been allocated to 'wallets', they were no longer accessible to account holders. Funds available for spending would be loaded onto a pre-payment card, being available to spend in all outlets accepting the card. The service offering included advice around managing money and budgeting and how to deal with financial difficulties.

Figure 6.2 shows how the second product concept was presented to research participants.

Figure 6.2 The wallet account

Product features	Managing the account
Comprises a three-part account which allows user to separate bills from spending money. Includes: • A current account with prepaid card • All cash/salary/benefits paid into current account • Cash withdrawals or payments can be made via the pre-paid card • Two account 'wallets' for bills and budgeting: – Money in bill wallet used for paying bills. Bill wallet can be sub-divided into separate named 'wallets' for individual bills with specified amounts diverted from current account to each bill wallet – Funds not allocated to bills but which you do not want to be mixed in with day-to-day spending money on your pre-paid card can be allocated to a separate 'budget' wallet • You cannot make cash purchases or withdraw cash from the money in either your bills or budgeting 'wallets' • The account has to be managed online	• Direct Debit facility for bill payment • No overdraft facility and no possibility of unauthorised overdrafts • Automatic alerts system (SMS, mobile app or online) for when: – Direct Debit due – New Direct Debit added – Direct Debit failed – Scheduled payment paid – Money paid In – New payee added • Universal access – no credit check, bad credit, bankrupts and history of banking failure accepted • Dedicated budgeting support and advice on managing your money and financial difficulties **Cost** • £4.25 per month • £1.00 per ATM use • £0.50 for each payment made from wallet

6.1.5 Response to the product concept

Response to this variation on the concept, with ring-fenced accounts for bills and savings and a pre-paid card for spending was very similar to that of the 'jam jar' account. The basic concept was liked albeit, in this case, it was thought potentially overly complex. The appeal of the product was, again, compromised by the perception of 'locked' wallets as too restrictive and potentially high risk.

6.1.6 Response to the charging structure

In this case, however, the pricing structure was universally hugely disliked and quickly overwhelmed all other elements of response to the concept. The product was rejected out of hand on the grounds that it was likely to prove very expensive in practice.

> *'Even though those costs look low, how many times do you have something come out of your wallet? So you'll have gas, electric, water, council tax. Then you'll have your rent, so that's five. So that's £2.50 before anything else so, for ATM use. So you go somewhere and you can't pay by card so you take £10 out, that's another pound…'*

The transaction-based charges and, particularly, the £1 ATM withdrawal fee was seen as very much at odds with existing budgeting practices involving frequent trips to the ATM to withdraw small amounts of cash.

The charging structure was seen not only as less than transparent, but also as unjust. Such views were informed by wider attitudes to banks and banking and a broad perception that bank pricing is inherently unfair.

> *'That is outrageous. It's just exploiting the people who got the least money…daylight robbery. Charge you for getting your own money out.'*

6.2 Response to the Universal Credit specific 'budgeting account' concept

In additional to the two market products tested above, a notional 'budgeting account' was developed for the purposes of this research. The particular features of this hypothetical product as presented to claimants in the focus groups are shown below:

Figure 6.3 The (notional) budgeting account

Product features	Managing the account

• Internet banking as standard
• Mobile banking and balance checking
• Facility to 'ring-fence' funds via electronic 'jam jars' to:
  – Allocate to specific purpose (rent, electric)
  – Divide monthly income into weekly expenditure 'jam jars'
  – Choose whether hard or flexible lock on ring-fenced funds in jam jars
• Direct Debit and Standing Order facilities
• Debit card:
  – Does not draw on ring-fenced funds
  – Can draw on funds released from ring-fence by time-lock
• Can be used to withdraw cash from any ATM and to make payments in person remotely and via the internet
	• The account managed online or through mobile app
	• Mobile banking enabling balance checking and providing text alerts when:
	• Close to limit of funds
	  – Funds in and out
	  – Payments due
	  – Funds are available to cover upcoming Direct Debits
	• Remote or face-to-face support at set-up
	Cost
	• Two versions tested:
	  – £6 per month
	  – Free while on benefits, £6 per month when move into work

Initially, the group was shown a version of the product concept with no monthly standing charge.

6.2.1 Response to the product concept

A number of variations on the basic budgeting account concept were explored with claimants, including products featuring both ‘locked’ and ‘flexible’ jam jars, in which funds allocated to a jam jar could be accessed at the account holder’s discretion. Versions of the product were tested with ring-fenced funds allocated for a specific purpose and to a specific time period. Figure 6.4 shows how the various product options were presented to respondents

Figure 6.4 DWP budgeting account product options

Jam jar budgeting account 1

Funds can be allocated to different jam jars determined by the account holder but once funds have been allocated to a jam jars it is ‘locked’ and the funds are no longer accessible to the account holder. Money not allocated to a jam jar is diverted to a pre-paid card and available for spending.

Jam jar budgeting account 2

In option 2 the account holder can decide whether to leave a jam jar ‘locked’ or ‘open’. Funds in a ‘locked’ jam jar cannot be accessed but those allocated to an ‘open’ jam jar can be made available should the account holder decide they need the money for other purposes. Money not allocated to a jam jar is diverted to a pre-paid card and available for spending.

Figure 6.4 Continued

Jam jar budgeting account 3

Instead of allocating funds to a specific purpose, such as rent, jam jars are used to allocate funds to a specific time period, to support weekly budgeting and not running out of funds towards month end. All the jam jars are 'locked' and once allocated to a specific week, cannot be accessed until that week. Money not allocated to a jam jar is diverted to a pre-paid card and available for spending.

Jam jar budgeting account 4

Funds can be allocated to specific time periods but the account holder can decide whether funds allocated to a specific week should be 'locked' and thus be unavailable until that week or 'open' and therefore accessible should the account holder decide they need the funds. Money not allocated to a jam jar is diverted to a pre-paid card and available for spending.

There was a very positive response to the budgeting account concept, with the version of the concept with an NBBA with flexible 'jam jars' and the facility to allocate funds to weekly pots as well as specific purposes seen as the best fit with needs (see accounts 2 and 4). The appeal was sufficiently strong to signal that there would be real motivation to both move into banking, for the unbanked, and to switch accounts, for the banked. The account appealed across the board, both to the more capable, the disciplined and effective budgeters, and to those who were struggling and more vulnerable.

The budgeting account concept was seen as genuinely supportive of managing the challenges inherent in moving to monthly payments and handling larger sums over longer periods and keeping on top of budgeting and outgoings. It was also seen as likely to make it easier to move in and out of work.

> *'It would appeal to me because if they've done something like that, if you couldn't break into that week two, three or four's money than you could only budget for the money that you've got for that week. Yes I think that would be quite a good idea.'*

A large part of the appeal was that, at its core, it represented a bank-based, electronic version of existing budgeting practice while offering new tools to help claimants stay in control of their finances and budget more effectively.

It was clear that to utilise a product such as this, claimants would need to understand how much they were personally in control of allocating funds and specifying how the jam jars would be set up and how much this was controlled by the bank.

6.2.2 Response to the charging structure

As with the two jam jar accounts (product concept 1) that were presented to focus group participants, however, once the idea of even a relatively low monthly fee of £6 was introduced, the appeal of the account fell away. There was little or no tolerance of fees even set at a low level and very little appetite for paying a charge even if people were in work.

> *'I'd think that £6 that could buy my granddaughter something rather than give it to the bank for me to be able to have a bank account.'*

6.3 The requirement for support

It would appear that one of the most important – and, potentially, most transformational – elements of the introduction of a budgeting account of this notional model would be the provision of support at set up. Even among the most financially capable and organised, there was a concern that the account could be potentially difficult to set up with, again, a strongly felt requirement for support.

Claimants across the spectrum of financial capability and distance from banking would value personalised support to set up a new budgeting account, work through their budget and allocate funds. This would be most important for the more vulnerable and least financially capable who would seem likely to benefit the most. Such claimants are also, however, those who are most likely to be intimidated even by the idea of entering a bank to set up a new account and most likely to struggle to map out their budget, understand and use budgeting tools.

6.4 Distribution

There was a very strong sense across the board that the budgeting account concept would only be attractive if it was available to all and not specifically targeted at benefit claimants or those on very low incomes. Among those who were more vulnerable or less financially capable, there was a very strong feeling that any visible positioning of either the budgeting account or associated support as being targeted, whether by the banks, DWP or any other party, at benefit claimants who are financially incapable or in financial difficulties would be highly stigmatising and would so destroy their appeal. For this reason there was a strong preference that support – whether for setting up the account or ongoing – should be mainstreamed and delivered by a mainstream bank. New banking products would need to be presented as one of a range of banking options available to all.

> *'You would want to go into the bank and have them explain it all to you, take you through the ins and outs so you can satisfy yourself. You don't want something that's just for people who haven't got a lot of money, you want it like they would do for anybody that wanted one'.*

Findings suggest that DWP should play a fairly hands-off role with regard to setting up such accounts. The possibility that DWP staff might play a role in providing support for account set up was greatly disliked, and particularly by the least financially capable. Too much involvement from DWP tended to be interpreted as intrusive rather than enabling. Concerns were raised that DWP staff would seek to impose their own priorities in allocating funds or, alternatively, to police expenditure.

6.5 Summary of findings

- Jam jar-style accounts have clear appeal to claimants across the board and are felt to add value and utility for both effective budgeters and more vulnerable claimants.
- Jam jar-style accounts fill a banking needs gap and appear likely to support money management and financial resilience in a way that the NBBA will not (see Chapter 6).
- Such accounts appear likely to be effective in supporting claimants through the transition to Universal Credit and to manage larger sums over longer periods.
- Existing jam jar-style accounts, however, were seen as too inflexible and prescriptive and as posing too great a risk to the ability to maintain cash flow, particularly in the context of managing on a monthly basis.
- There is no appetite for fees even where these are set at relatively low levels, with transaction fees particularly likely to be viewed as exploitative.
- The pricing on both the existing market accounts tested entirely negated any appeal that the accounts held for claimants. The prospect of a temporary subsidy did not make these accounts any more attractive.
- For optimal fit with needs, payment flexibility is also required alongside the ability to ring-fence funds to enable claimants to ‘juggle’ funds around cash flow.
- The notional ‘budgeting account’ was clearly preferred to existing jam jar accounts because it incorporated a degree of flexibility that current accounts currently do not offer.
- There was no tolerance for even the much lower fees proposed for the budgeting account and it is clear that any kind of fee would severely inhibit take up.
- The budgeting account offer will also need to include support (for some quite intensive support) if they are to be set up effectively and benefits fully realised.

7 Marketing banking products for Universal Credit claimants

It was very clear from the qualitative research that the presentation and market positioning of any new bank accounts, whether budgeting accounts or the New Basic Bank Accounts (NBBAs), would be critical. A broad spectrum of respondents, from the most vulnerable to the most financially capable and engaged with banking, volunteered unprompted that they would not want to have a bank account that was more widely perceived to be specifically for the poor, even where they liked the product features and functionality.

Against this background, the research team explored a series of hypothetical ideas with claimants in the focus groups around how most effectively to frame, position and brand a new bank account for optimal appeal and take up.

7.1 Branding

To understand what claimants may positively or negatively associate with banks accounts targeted at themselves, focus group participants were shown a variety of retail brands (see Figure 7.1) and were asked to imagine which of these they would most prefer the budgeting account or NBBA to resemble. They were also asked to visualise what kind of car or animal they would like the budgeting account or NBBA to be.

Figure 7.1 Retail brands presented to respondents

The responses were revealing and reflected the earlier discussions around the need for the new bank account to be inclusive and accessible but, critically, also mainstream and open to everyone. There was an unequivocal preference across the board and among all claimant types for branding that was seen as 'mainstream', 'middle-of-the road', 'everyman', accessible, approachable and non-judgmental. The most commonly selected retail brand was Asda, with the brand also visualised as a Ford Fiesta and a 'faithful dog'.

> *'Yes Asda/Tesco, not too low, not too high.'*
>
> *'It's got to be, like an average car, hasn't it? Like a Focus. Like Ford.'*
>
> *'A Ford Fiesta. Tried and tested, reliable, cheap to run, does what it says on the tin, put a key in it every day and it works.'*

Focus group participants were also shown mocked-up branded bank cards (see Figure 7.2), with the brands including both mainstream banks (Barclays and NatWest); Provident Personal Credit, the high-cost lender targeting those on low and modest incomes, DWP and Jobcentre Plus, plus two entirely fictional brands – one 'Premier' intended to be aspirational and upmarket; and the other 'Future' intended to be neutral, positive and forward looking. Here there was an equally strong sense that branding and positioning should not target 'the poor', those on benefits or those in financial difficulties.

Figure 7.2 Mocked-up bank cards presented to respondents

7.2 Framing and positioning

The team also tested out a series of framing and positioning statements. Here, again, any statements which were interpreted as patronizing or stigmatizing were roundly rejected, while those that emphasised meaningful end-benefits of the new account – such as control and flexibility – were greatly liked. A full list of the positioning statements and a summary of respondents' response to each is contained in the technical appendix to this report. Figure 7.3 illustrates responses to positioning statements.

Figure 7.3 Positioning statements

Positively received by claimants
Peace of mind because you know it's all covered
The flexible account that puts you in control

Rejected by claimants
Supporting you to budget well
Changing financial behaviour

7.3 Summary of findings

- Any banking product concept that is perceived by potential beneficiaries as being for those on low incomes, benefit claimants or people in financial difficulties will be rejected as stigmatising by the target market.
- It is mainstream, middle-of-the -road, accessible branding which is attractive to this audience.
- Similarly, positioning statements which overtly seek to change behaviour or which could be interpreted as patronising will be rejected.
- Framing and positioning statements which cover meaningful end-benefits or which offer a non-judgmental inclusive ethos and values have greater appeal and will be more likely to stimulate interest and take up.

8 Claimant typology and segmentation

This chapter presents findings from both qualitative research and quantitative analysis undertaken for this project in order to draw out more systematically the differences between different groups of claimants. This was intended to inform thinking about how best to support different groups in the move into banking and the transition to Universal Credit.

The qualitative data was based on a sample that was recruited specifically to include less financially capable respondents and those who were at some distance from banking. The quantitative data used for the secondary analysis was, by contrast, based on a nationally representative sample of benefit claimants. Based on findings from the interviews and focus groups a preliminary typology was developed, based on claimants' current banking behaviours, degree of banking inclusion/exclusion and level of financial capability. Subsequently, some secondary analysis of existing survey data available was conducted in order to:

- determine whether claimant groups described in the initial typology would read across to a larger and more representative data set of benefit claimants; and, if so,
- provide the Department for Work and Pensions (DWP) with a sense of the scale of likely banking support needs for different groups of future Universal Credit claimants

8.1 Claimant typology derived from the qualitative research

A typology of claimants developed from the insights arising from the qualitative data, indicated that different groups of claimants will face very different challenges and risks in making the transition to Universal Credit. They will also need differing degrees and types of support to manage larger sums over longer periods and to move towards greater financial inclusion or more meaningful engagement with banking and payment functionality. The typology illustrates the extent to which the different banking solutions explored earlier in this report might meet the needs of particular groups of claimants.

This exercise produced a seven-group typology with four groups of banked claimants, two groups of claimants who had fallen out of banking and one group of never-banked Post Office Card Account (POCA) users.

The core characteristics of claimants in the different groups of the typology are as follows:

Claimant type 1: 'Better-off monthly managers'

These banked claimants are predominantly low paid workers moving in and out of work, typically budgeting on a monthly cycle and managing their money primarily through the bank, with spending primarily on payment cards and bills more likely to be paid by Direct Debit.

Claimant type 2: 'Functionality-supported weekly copers'

These banked claimants are also moving in and out of work. They are for the most part weekly money managers, managing their funds entirely or primarily through the bank and using banking functionality to monitor and control their finances. They are largely on top of their bills and commitments and budgeting effectively. These claimants are heavily dependent on checking balances and their financial position via mobile phones and internet banking.

Claimant type 3: 'Wedded to cash POCA users'

These claimants tend to be older and often have been on benefits for a considerable time, frequently recipients of disability-related benefits or carers. They tend to be weekly cash budgeters working within a long established and highly disciplined routine which they know works for them. They have a strong affinity with POCA and the Post Office and are often resistant to change. Additionally, being at a distance from the labour market and having little expectation of a return to work, this segment do not expect to be managing earned income or the transition to work.

Claimant type 4: Minimal-use cash managers

These claimants are moving in and out of work. While banked, they tend to take all or most of their funds out of the bank on receipt and to manage entirely or predominantly in cash, using cash-based bill payment methods. These are predominantly weekly budgeters, managing cash flow over short periods between weekly/fortnightly payment cycles

Claimant type 5: Charges-exposed banking strugglers

These claimants are moving in and out of work. They are banked and managing primarily through the bank and often on a monthly basis. They are, however, struggling to manage banking and are relatively frequently exposed to charges, with those incurring charges tending to do so multiple times. These claimants may have a history of problematic debt and can be heavy credit users.

Claimant type 6: Circumstances-driven, locked-out of banking

This group has fallen out of banking with many aspiring to return to banking, but are unable to do so due to adverse credit history. The trigger for their banking difficulties has often been an adverse shift in circumstances, such as the onset of disability, marital breakdown or redundancy. They may have a history of problematic debt, including overdraft debt to the bank.

Claimant type 7: Vulnerable, financially incapable strugglers

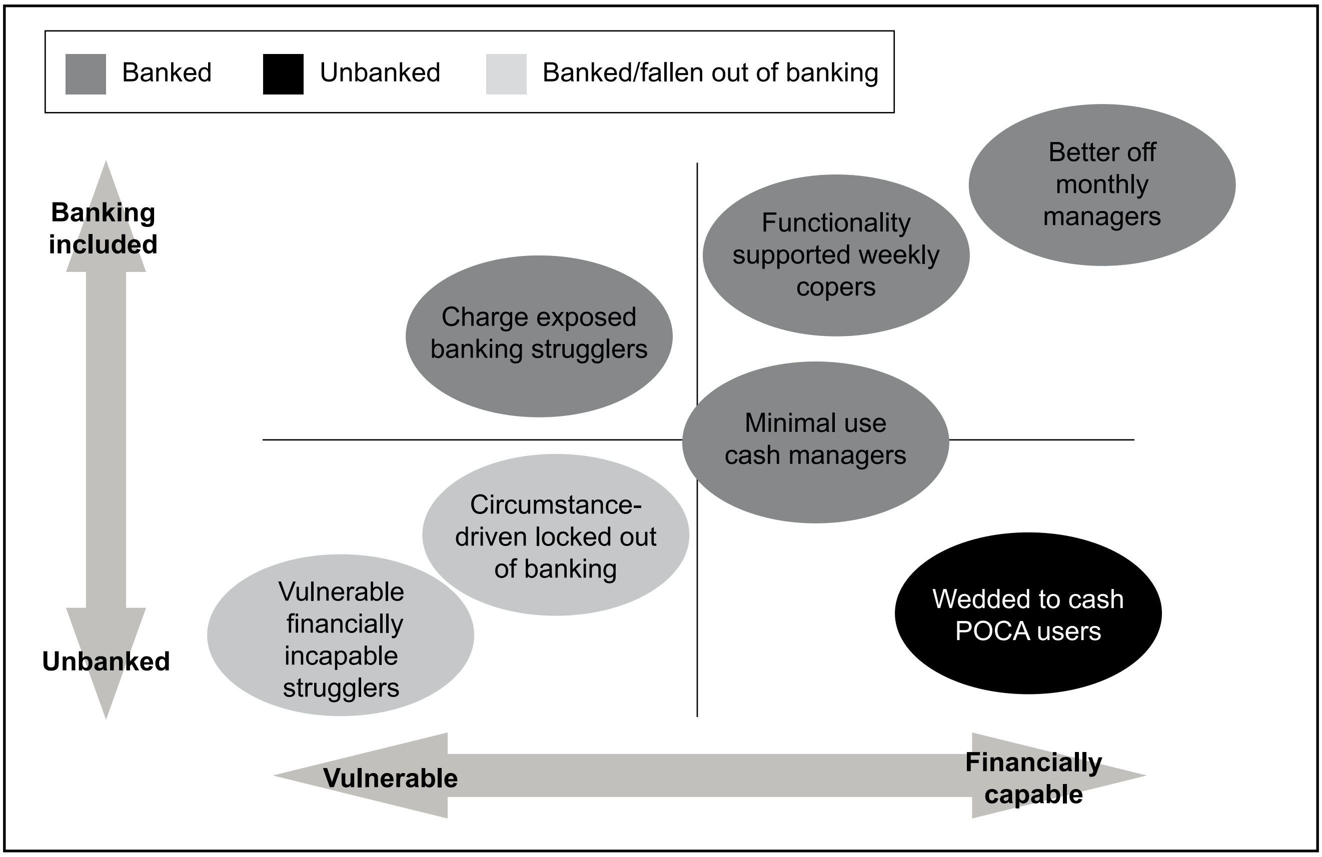
These claimants are often long-term benefit-dependent. This group has also fallen out of banking, typically due to a lack of financial capability, itself often underpinned by a range of vulnerability factors such as mental health, drug or alcohol issues or issues with numeracy or literacy.

The relative position of these groups with regard to banking inclusion/exclusion and financial capability is illustrated in Figure 8.1.

Table 8.1 Summary claimant typology profiles

	Segment 1 **Better off monthly managers**	Segment 2 **Functionality supported weekly copers**	Segment 3 **Wedded to cash POCA users**	Segment 4 **Minimal use cash managers**	Segment 5 **Charge-exposed banking strugglers**	Segment 6 **Circumstance-driven locked out of banking**	Segment 7 **Vulnerable financially incapable strugglers**
	Banked	Banked	Unbanked	Banked	Banked	Fallen out of banking	Fallen out of banking
Profile	Low paid workers moving in and out of work, budgeting on monthly basis through bank	Weekly managers using bank to manage finances and heavily dependent on balance checking and internet functionality	Older highly disciplined weekly cash budgeters, strong affinity with POCA and resistant to change.	Minimal engagement with banking or use of banking functionality, managing in cash on weekly basis.	Monthly bank-based managers relatively frequently exposed to charges because of poor fit with bank product and charging structure	Adverse event-driven banking failure with history of poor credit, escalating card and OD debt now unable to access banking.	Vulnerable individuals with poor financial capability who lacked skills to cope with banking products that in any case a poor fit with needs
Distance from labour market	In and out of work	In and out of work	Long term benefit dependent/ disability	In and out of work	In and out of work	In and out of work	Long-term benefit dependent/ disability

Figure 8.1 Claimant typology: Banking needs and money management practice



8.2 Claimant segmentation derived from the quantitative data

The project team then moved on to develop a quantitative segmentation, informed by the qualitative typology, using K-means cluster analysis of a nationally representative sample of 1,258 working-age benefit claimants from an existing Policis survey. The data was collected in November 2011, and was focused in large part on banking and credit inclusion issues. Details of the sample and survey content are available in the technical appendix. Since the objective was to produce a sense of scale for the qualitative typology, the selection of the number of clusters to be generated mirrored the number in the typology.

The aim was not to reproduce the claimant typology, but rather to develop a robust segmentation that generated discrete segments with distinctive banking and support needs. The intention was to make meaningful use of the insights derived from the qualitative data and typology while enabling DWP to understand the relative size of the different claimant-group segments and their banking and support needs. As with the qualitative typology, the key parameters of the quantitative segmentation are determined by relative distance from banking, banking needs and experience and degree of financial capability.

8.2.1 Analysis

The first stage in the analysis was to identify the key variables within the quantitative data set to act as drivers of the cluster analysis. The insights arising from the qualitative work suggested a number of factors that would be important in determining the nature of the working-age claimant segments and their banking and support needs. These high-level factors were matched to variables in the quantitative data set which were then selected to drive the cluster analysis. A list of the variables used to drive the cluster analysis is contained in the technical appendix together with the associated survey questions.

In the event the quantitative segmentation derived from the cluster analysis mapped closely to the earlier claimant typology. There was clear and direct read-across from the qualitative claimant typology to the quantified segments for six of the seven claimant types/segments and, therefore, the claimant typology names and numbers were retained (or slightly adapted where appropriate) and applied to the six quantitative segments. In the case of the seventh quantitative segment, although there were a number of common characteristics, there was less direct read across to the claimant typology (the vulnerable financially incapable strugglers). This reflects the overrepresentation in the qualitative sample of vulnerable and financially less capable respondents, which the research team recruited specifically to understand the needs of this claimant type. The quantitative segmentation using a nationally representative sample of working-age claimants therefore worked to mitigate the design bias effects in the typology arising from the qualitative sampling strategy.

The seventh quantitative segment included vulnerable individuals and those lacking financial capability, as was the case with the vulnerable group in the initial claimant typology. However, the quantitative data provided a deeper insight into this group, exposing both some who were coping financially, despite their difficulties, alongside those who were struggling and failing to cope. In addition, while struggling, not all had actually fallen out of banking, as was surmised from the qualitative findings. Instead, some were in the process of falling out of banking or had become effectively functionally unbanked while others had been able to use banking functionality to gain control of their finances despite the challenges they faced in managing their account. Consequently, two sub segments emerged from the survey data and are reflected in the segments presented below.

8.2.2 Segment profiles and size

The segments identified were represented in the following proportions. The percentage of working-age claimants falling into each segment rest on the DWP National Statistics estimates as of November 2014[34]. Therefore, it is not analogous to the final Universal Credit so should be treated as indicative only.

34 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/433130/dwp-stats-summary-may-2015.pdf

Segment 1: Better off monthly managers

Claimants in this segment (16 per cent of working-age claimants) are relatively better off, banked, and are all managing their finances through their account, primarily on a monthly basis. Individuals use a wide range of banking functionality and 92 per cent use Direct Debits to pay a wide range of bills. This is a highly financially capable segment, largely on top of their commitments, with low affordability stretch, lower than average use of credit and low levels of problematic debt. They are digitally capable with high levels of digital inclusion. They have relatively low levels of exposure to penalty charges, albeit that these remain a feature of banking experience for 25 per cent of even this relatively better off and financially capable segment.

Segment 2: Banked, functionality-supported copers

This segment (17 per cent of working-age claimants) is 96 per cent banked with 80 per cent having a BBA. The segment splits between those whose money management is primarily bank-based (42 per cent) and cash managers (58 per cent). Almost half (46 per cent) have Direct Debits to pay bills, with wide use of banking functionality to monitor and stay on top finances. They include both the digitally included and excluded and those with and without digital skills. This segment has a relatively high level of financial capability, is a little more likely than average to be on top of commitments and less likely than average to be in arrears on commitments. They have slightly lower levels of affordability stretch than average and low levels of missed payments on bills, in part explained by relatively low levels of credit use, in turn reflected in low levels of both adverse credit and problematic debt.

Segment 3: Wedded to POCA cash managers

Claimants in this segment (18 per cent of working-age claimants) of predominantly POCA users have a distinctive profile, being older, largely long-term benefit dependent, with a high incidence of health and disability issues. None have a bank account they are currently using, although more than half (53 per cent) were previously banked. Where they have stopped using a bank account, they are most likely to have done so though choice – because they no longer had a need for an account or prefer managing in cash. They are highly financially capable, disciplined cash managers with low affordability stretch and are largely on top of their financial commitments. They have little aspiration to banking inclusion, are comfortable with their POCA account and prefer cash-based payment channels. Where there is interest in moving into banking, it is driven by the potential for cost savings. They display a low level credit use, and what little there is involves borrowing for Christmas. These claimants have high levels of digital exclusion, and a relatively high incidence of numeracy and literacy issues. This is a group which is not comfortable with offices, officials and unfamiliar situations.

Segment 4: Banked, unengaged cash managers

This segment (17 per cent of working-age claimants), are almost entirely banked (95 per cent), with 77 per cent of these having a BBA. Although paid into their bank account, these claimants are almost entirely unengaged with banking in any meaningful sense, with all managing their funds entirely or primarily in cash. They make some use of Direct Debits, typically for Sky and mobile phones, but cash-based payment channels are their preferred method for bill payment. As a result, they have relatively little exposure to penalty charges. They make limited use of banking functionality. Within the context of cash management, they are financially capable and largely on top of commitments, albeit that finances feel very tight and managing can be a struggle. They make relatively little use of credit.

Segment 5: Charges-exposed banking strugglers

This segment (12 per cent of working-age claimants) is younger than some other segments, with almost two-thirds households with children and 41 per cent single parents. Some 92 per cent are banked, with 71 per cent having a BBA. These claimants are largely digitally included and digitally skilled. They have an affinity with banking functionality and make extensive use of it, with 78 per cent having Direct Debits. Their use of banking is, however, highly problematic, with most struggling to manage their account. Some 92 per cent have been exposed to penalty charges, 62 per cent in the last 12 months. Half of these have had more than five penalty charges in the last 12 months. The group are also relatively heavy credit users, with credit cards and overdrafts the most important sources of credit. There are high levels of minimum payments on credit cards (56 per cent of card users in the segment, with three in ten having made minimum payments for three years or more). This group also finds it difficult to cover basic necessities with 42 per cent struggling to afford fuel and 21 per cent to afford food. Many in the segment are struggling to stay on top of commitments and some are beginning to fall behind, 53 per cent are in arrears on at least one commitment, 12 per cent saying they have serious arrears problems and financial difficulties to the point where they cannot see their way to ever catching up. There are high levels of problematic debt and adverse credit. A high proportion (around two-thirds) have found managing on a day-to-day basis through the bank so high risk that they now manage primarily in cash.

Segment 6: Locked out of banking strugglers

This segment (8 per cent of working-age claimants) have fallen out of banking. Almost a quarter have an account which is still open but which they are unable to use. All have a highly problematic banking history and very high exposure to penalty charges. Six in ten (61 per cent) had stopped using their account because penalty charges had left them with insufficient money, three in ten had stopped because they feared penalty charges and getting into debt and almost a third (32 per cent) because they found their account ‘too difficult to manage’. More than half said they had just kept on getting into trouble with the bank. A third had their account closed by the bank and almost one in five (18 per cent) had at various times been asked not to use their account by the bank. Some 12 per cent had experienced more than 25 penalty charges in the previous 12 months and three in ten had experienced between 10 and 15 of such charges in the same period. Nonetheless, this segment, which has high levels of digital inclusion, aspires to banking and want banking functionality, albeit that they also fear managing through the bank because of the potential of penalty charges to derail their budget and create a build-up of debt. This segment has relatively low financial capability. There are high levels of affordability stress and many are struggling with a hangover of problematic debt. Three in ten have had a county court judgement for debt.

Segment 7a: Low financial capability struggling and failing

This segment (4 per cent of working-age claimants) is among the most vulnerable, troubled and least financially capable of all claimants. These claimants are nominally banked, with a mix of those trying but largely failing to manage effectively through the bank and those managing in cash. Some eight in ten (82 per cent) are in process of falling out of banking, having become effectively unbanked because they are either unable to use their account, because they have stopped using their account to avoid penalty charges or because they have been asked by the bank not to use their account. There is a very high level of exposure to penalty charges. These claimants are suffering a high level of affordability stress (55 per cent are struggling to afford heating and fuel, 45 per cent are struggling to afford food, 63 per cent to afford shoes and clothing) and 78 per cent are in arrears on commitments. Two-thirds admit to an adverse credit record and one-third to a county court judgement. Almost a quarter have made an arrangement with creditors through free or paid-for debt advice. Nine in ten have used some form of credit in the last year, with 6 per cent resorting to a loan shark.

Segment 7b: Vulnerable, charges-exposed just coping

This segment (8 per cent of working-age claimants) are also highly vulnerable but have greater financial capability than segment 7a just described. They have high levels of disability (29 per cent) and mental health issues (24 per cent). While they are struggling to manage their bank account and are very heavily exposed to penalty charges and experiencing relatively high levels of affordability stress, their difficulties are less extreme than the previous segment and their banking position, although precarious in the light of exposure to penalty charges, is more tenable. That said, almost four in ten (39 per cent) struggle to afford heating and fuel, 16 per cent to afford food and 36 per cent to afford shoes and clothing. Although finances feel very tight for most (58 per cent) and 27 per cent find staying on top of commitments a real struggle, these claimants are not falling behind to any significant extent and none are in serious financial difficulty from which they cannot see a way to recover. Most are trying to engage with banking functionality to at least some extent (78 per cent have Direct Debits). Nonetheless, banking is not working for a significant minority in this segment, with a third not using their account to avoid penalty charges. There are also relatively high levels of problematic debt in the financial history of these claimants, with almost a quarter having a county court judgement.

Table 8.2 Summary segment profiles

	Segment 1 **Better off monthly managers**	Segment 2 **Banked, functionality supported weekly copers**	Segment 3 **Wedded to cash POCA users**	Segment 4 **Banked unengaged cash managers**	Segment 5 **Charge-exposed banking strugglers**	Segment 6 **Locked out of banking strugglers**	Segment 7a **Low financial capability strugglers**	Segment 7b **Vulnerable, charges-exposed just copers**
	Banked	Banked	Happily unbanked	Banked	Banked	Fallen out of banking	Precariously banked	Banked
Profile	Low paid workers moving and out of work managing through bank and on monthly basis	Mix of weekly cash and bank-based managers, heavily dependent on balance checking, mobile, internet banking to monitor and manage finances	Older disciplined, weekly cash-based managers with strong affinity with POCA and resistant to change	Minimal engagement with banking or use of banking functionality, cash-based managers on weekly basis.	Strugglers with affinity with banking functionality but heavily exposed to bank charges because of poor fit with product features and charging structure.	Unbanked with aspiration to banking and deeply problematic banking and credit history, debt over-hang.	Deeply vulnerable segment with low financial capability in process of falling out of banking.	Vulnerable but capable segment struggling to manage banking
Distance from labour market	In and out of work	Medium In and out of work	Long-term benefit dependent	In and out of work	In and out of work	In and out of work	Mix in and out of work/long-term benefit dependent	Mix in and out of work/long-term benefit dependent

8.3 The impact of the transition to Universal Credit by segment

Both the qualitative and quantitative research suggests that different claimant types will face different challenges in making the transition to monthly payments and Universal Credit. Current financial management practice will be impacted to a greater or lesser extent and different groups will face differing degrees of risk to their financial wellbeing. Some segments which are most dependent on weekly, cash management will need significant support to budget monthly and allocate funds effectively.

At one end of the spectrum, **segment 1, 'Better off monthly managers'** who are in any case moving in and out of work and who already manage funds monthly, primarily through their bank, would seem likely to be positively impacted by the move to monthly payment with the transition to Universal Credit representing very low risk.

The transition to monthly payment and Universal credit will present more of a challenge for **segment 2, the banked, 'functionality-supported copers'** who will need to adapt budgeting practice to handle larger sums over longer periods.

For this claimant type who currently rely heavily on managing small sums over short periods and frequent balance-checking to control expenditure and keep on top of their financial position, change could be disruptive and make it difficult to stay on top of budgets. Large inflows to accounts may make it more difficult for them to understand the real financial position, and to distinguish between funds required for commitments and those that can be spent. A high proportion of the segment are cash managers who may struggle to transition to greater reliance on bank-based management. Those relying to a greater extent on bank-based management in the future and making greater use of Direct Debits than in the past may find themselves more exposed to bank charges than has been the case in the past.

For **segment 3**, the unbanked **'Wedded-to-POCA cash managers'** the transition to monthly payment will require some adaptation to current practice, which may take some time to get used to, but is unlikely to present major difficulties, albeit that many in the segment would welcome support for the transition. Given the high level of digital exclusion, such support would need to be face-to-face, this claimant type's iron budgeting discipline and practiced allocation of funds to bills on receipt of income means that they are likely to adapt to monthly payment cycles without any great risk to their financial stability and wellbeing. Transition to Universal Credit would not seem likely to greatly stimulate appetite for bank accounts or encourage meaningful engagement with banking functionality, however, given that more than half the segment has chosen to walk away from banking. Some may open accounts simply to accommodate one or two major payments, such as rent.

Segment 4 'Banked, unengaged cash managers', who, though banked, manage budgets in cash on a weekly basis with little engagement with banking face much greater challenges in making greater use of banking functionality and making the transition to monthly payment cycles and Universal Credit. These claimants lack the skills and mindset to manage larger sums over longer periods and do not have either the digital skills or banking experience to use electronic budgeting tools and banking functionality to manage budgets and minimise the risks around monthly payment cycles. This claimant type would seem among the most likely to struggle with managing monthly payments. This may pose some risks to their current relative financial stability, given their finely-balanced finances.

Because many in **segment 5, 'the charges-exposed banking strugglers**', already manage monthly and have typically struggled to stay on top of commitments, in part because of difficulties arising with managing fixed payments, monthly payment cycles may go some way to ensuring that outgoings can be better matched to income inflows. This group is, however, also the most likely to be struggling with problematic debt and arrears and to be juggling cash-flow around competing priorities. If outgoings are more closely aligned to income inflows, this will also reduce their ability to flex payments to avoid cash-flow crises, which may become more frequent and potentially more serious as a result.

Segment 6, 'the locked-out of banking strugglers' have fallen out of banking, with this often having been preceded – or followed – by a period of sometimes extended financial crisis. A significant minority are struggling with escalating debt and serious adverse credit. The finances of such claimants are often particularly precarious, with low financial capability having in some cases played a role in their history of financial difficulty. This claimant type appears particularly prone to financial crisis and the move to monthly payment would seem likely to throw up greater challenges and risks than for many other claimant types.

Segment 7a, 'the vulnerable, highly financially incapable strugglers', will need the most support in the transition to Universal Credit. This is the group which is likely to find the transition to monthly payment most problematic and which is most likely to be at risk of significant damage to their financial health and wider wellbeing. These claimants are already in significant financial difficulty and are struggling to afford essentials. This group would seem highly likely to suffer further damage to their financial resilience in moving to monthly payments and will need a substantial amount of intensive support if their situation is to be stabilised and they are not to experience real hardship.

Claimant **segment 7b, 'the vulnerable, charges-exposed just coping'** will also be at risk in the transition to monthly payment and Universal Credit but, if effectively managed and supported, may potentially find the move to monthly payments reinforces their ability to keep on top of commitments. They are likely to need support to plan their budget and allocate their funds effectively and to set up payments to coincide with income inflows or they may otherwise be at risk of even greater exposure to the penalty charges which are already compromising budgets which are for most uncomfortably tight.

Table 8.3 summarises the likely impact of the move to monthly payment on claimants' money management practice and the risks posed to different claimant groups' financial wellbeing in the transition to Universal Credit.

Table 8.3 Impact of monthly payment and potential risk to financial wellbeing in transition to Universal Credit by segment

	Segment 1 **Better off monthly managers**	Segment 2 **Banked, functionality supported weekly copers**	Segment 3 **Wedded to cash POCA users**	Segment 4 **Banked unengaged cash managers**	Segment 5 **Charge-exposed banking strugglers**	Segment 6 **Locked out of banking strugglers**	Segment 7a **Low financial capability strugglers**	Segment 7b **Vulnerable, charges-exposed just copers**
	Banked	Banked	Happily unbanked	Banked	Banked	Fallen out of banking	Precariously banked	Banked
Impact of shift to monthly payment	Positive. Improved fit with existing budgeting patterns and preferences	Disruptive and potentially difficult to manage in context of budgeting practice shaped by managing over very short periods. Some risk of greater exposure to penalty charges. Cash managers may struggle to utilise banking functionality to manage cash flow	Challenging in initial phase but likely to cope and adapt current practice but unlikely to look to bank for solutions	Disruptive and potentially difficult to manage in context of budgeting practice shaped by managing over very short periods. Lack the skills, experience and motivation to use banking functionality to help manage transition.	Move to monthly could be better match between income flows and timing of outgoings but need to juggle finances around cash flow may create more frequent or more serious cash crises.	Move to monthly could exacerbate the cash flow crises to which this segment is already exposed	Move to monthly could exacerbate the cash flow crises to which this segment is already exposed. Likelihood is that will be forced out of banking system as account becomes unmanageable. Real prospects of hardship	Move to monthly could lead to better fit between income flows and outgoings, potentially ameliorating current very high exposure to charges. High degree of vulnerability combined with lack of flexibility once outgoings covered may increase pressure on budgets and give rise to hardship
Risk to financial well being	Very low	Medium	Low	Medium	High	High	Very high	High

8.3.1 Banking solutions and support needs

Both the NBBAs and the notional budgeting account concept represent a much better fit with the needs of claimants on tight budgets than existing banking products in the market. For some segments the NBBAs will be a close fit with needs while other segments would benefit from the budgeting tools and support implicit in the budgeting account.

At one end of the spectrum, **for claimant segment 1, 'The Better off monthly managers'** the NBBAs will represent an excellent fit with their banking needs should they seek to access them. These claimants may be able to open an NBBA if they choose to switch providers and are not eligible for another current account with the new provider. If these claimants already have a BBA, opened prior to the implementation of the 2014 agreement, they may also wish to ask their bank whether they may open an NBBA.

The transition to monthly payment and Universal Credit will present more of a challenge for claimant **segment 2, 'The banked functionality-supported copers'**. For these claimants, the NBBA goes some way to address new banking needs, but does not offer the functionality to ring-fence funds for specific purposes or time periods and so does not of itself necessarily support the need to manage larger sums over longer periods which represents the key challenge for this group in the move to Universal Credit. The hypothetical budgeting account developed for the purposes of the research would represent an excellent fit with needs and will provide the budgeting tools which this digitally literate segment engaged with banking functionality are likely to value. This is a segment that will likely be comfortable with web-based delivery and remote support.

For claimant **segment 3**, the unbanked **'wedded-to-POCA cash managers'**, none of the BBAs or budgeting accounts that were tested are likely to impact banking behaviour or be sufficient to motivate these claimants to move into banking in any numbers. Being unbanked and unlikely to qualify for a full service account, these claimants would qualify for an NBBA and would likely be offered one should they apply for a new bank account. They are unlikely to volunteer to do so, particularly without encouragement and support. Those who do open an account to facilitate one or two major payments are unlikely to engage fully with banking functionality, in any case. Those who could be encouraged to move into banking will require face-to-face support to do so.

Claimant **segment 4 'the banked unengaged cash managers'**. The NBBA would seem unlikely to have significant appeal to a segment which has low exposure to penalty charges or unauthorised overdraft fees because making minimal use of banking functionality or payment services. Budgeting accounts represent a strong fit with their banking needs and will support capacity building for managing on a monthly basis. This will need to be allied to effective, personalised and face to face support both to set up budgeting accounts and to manage the transition to Universal Credit.

For claimant **segment 5, 'the charges-exposed banking strugglers'**, who historically have been most frequently subject to disproportionate and damaging penalty charges on their bank accounts, the NBBA of itself represents a significant breakthrough and has the potential to bring meaningful relief, strengthening their financial resilience and bringing real benefits in terms of improved standards of living and reduced tendency to financial crisis, provided that claimants in this group are eligible for the NBBA. Budgeting accounts would however build on the advantages of the NBBA by providing the tools to manage larger sums over longer periods effectively and to build financial capability in a segment that has struggled to stay on top of their finances. This segment includes a mix of those comfortable with digital channels and remote support and those who would need face-to-face support.

Claimants in **segment 6, 'the locked out of banking strugglers**, aspire strongly to banking and are relatively comfortable with banking functionality. This group, being unbanked, are likely to qualify for the NBBA and, given their adverse history, are unlikely to be offered a full service account. The issue may rather be that without proactive promotion of the accounts and, in particular, effective communication of the message that these accounts are open to those with adverse credit, these claimants may be unlikely to risk applying for an account, on the basis that by default they will expect to be declined on the basis of their history. However, promotion of the account as open to those with adverse history may deter those (both within this segment and outside it) from opening an account perceived to be for the financially troubled. This is unfortunate because the NBBAs will not only provide access to banking, but also address those aspects of banking which have proved most problematic for this group historically (notably penalty charges for missed payments and unauthorised overdraft). These new accounts could therefore minimise the risk of further debilitating banking failure. The new charging structures for the NBBAs will also minimise the risk previously associated with use of Direct Debits and Standing Orders, which in turn will support these claimants to manage and budget for bill payments. However, access to budgeting accounts would further increase these claimants ability to manage larger sums over a longer period by providing budgeting tools and the means to ring-fence funds for commitments. As with claimant segment 5, this group includes those who prefer both face-to-face and remote channels, so that a choice of delivery channels will be required for setting up budgeting accounts, albeit that the group will thereafter be comfortable with remote service.

Segment 7a, 'the vulnerable, highly financially incapable strugglers' would seem to be among those with the greatest need for budgeting account type facility but will need intensive support both to set up the account and to manage the transition to monthly payment and on an ongoing basis. The majority of these claimants would seem likely to fall out of banking or have effectively already done so and would qualify also as being in financial difficulty so would seem likely to qualify for an NBBA if they sought to open an account. The removal of penalty charges would bring immediate relief for those still trying to use their account. Therefore, the NBBA represent a major step forward for this segment by offering universal access and removing the most damaging features of existing bank accounts. But again, this group may continue to require support to manage the move into banking effectively or to make the transition to a monthly payment cycle.

Claimant **segment 7b, 'The charges-exposed just coping'** would seem more likely to be able to manage their finances effectively through the bank if they were relieved of the burden of their heavy exposure to penalty charges. This in turn would seem likely to take some of the pressure off very tight budgets and enhance financial resilience. It is possible that a proportion in this segment may not qualify for a BBA being neither in sufficient financial difficulty nor yet fallen out of banking, albeit that a third have stopped using their account to avoid penalty charges[35]. Access to a budgeting account would, however, build financial capability and resilience and make it more likely that a highly vulnerable and pressured group would make a successful transition to Universal Credit. This segment is likely to need some budgeting support at set up stage.

Table 8.4 summarises the unmet banking needs and the product gaps as these arise for different claimant segments.

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35 However, if customers in this claimant group did want an NBBA, they may be able to open one by discussing their financial difficulty with either their existing provider or a new provider. In addition, if a customer already had a BBA opened prior to the implementation of the 2014 agreement, they may wish to ask their bank whether they could open an NBBA.

Table 8.4 Unmet banking needs and support needs

	Segment 1 **Better off monthly managers**	Segment 2 **Banked, functionality supported weekly copers**	Segment 3 **Wedded to cash POCA users**	Segment 4 **Banked unengaged cash managers**	Segment 5 **Charge-exposed banking strugglers**	Segment 6 **Locked out of banking strugglers**	Segment 7a **Low financial capability strugglers**	Segment 7b **Vulnerable, charges-exposed just copers**
	Banked	Banked	Happily unbanked	Banked	Banked	Fallen out of banking	Precariously banked	Banked
Product gap	Degree of flexibility in payment systems and charging structure that is proportionate to flows through accounts	Affordable and simple means of allocating and ring-fencing funds with degree of flexibility and charging structure that is proportionate to flows through accounts	Continuity, familiarity and simplicity. Little desire for banking functionality. Some appetite for increased convenience is and access.	Affordable and simple means of allocating and ring-fencing funds with degree of flexibility and charging structure that is proportionate to flows through accounts	Affordable and simple means of allocating and ring-fencing funds with degree of flexibility and charging structure that is proportionate to flows through accounts	Affordable and simple means of allocating and ring-fencing funds with degree of flexibility and charging structure that is proportionate to flows through accounts	Structured and ring-fenced bill payment with surplus funds distributed on weekly basis. Debt advice. Crisis management facility	Affordable and simple means of allocating and ring-fencing funds with degree of flexibility and charging structure that is proportionate to flows through accounts
Support needs	Minimal support required	Remote support at set up and internet-based support thereafter	F2F support at transition to monthly	F2F at set up and choice of remote or F2F thereafter	F2F at set up and choice of remote or F2F thereafter	Choice of F2F or remote at set up with remote service thereafter	Intensive F2F support at set up and ongoing	High

Table 8.5 New banking solutions and fit with needs by segment

	Segment 1 Better off monthly managers	Segment 2 Functionality supported weekly copers	Segment 3 Wedded to cash POCA users	Segment 4 Minimal use cash managers	Segment 5 Charge-exposed banking strugglers	Segment 6 Circumstance-driven locked out of banking	Segment 7a The vulnerable, highly financially incapable strugglers	Segment 7b The changes-exposed just coping
	Banked	Banked	Unbanked	Banked	Banked	Fallen out of banking	Fallen out of banking	Banked
New Basic Bank Account and fit with banking needs	*****	***	*	**	****	***	*	**
Fit with eligibility for New Basic Bank Account	*	*	*****	*	**	*****	***	**
Budgeting Account and fit with banking need	*	*****	*	*****	****	****	*****	*****

* Little fit with banking need/account eligibility.
***** Close fit with banking need/account eligibility.

Taken together it is striking that the removal of penalty charges and unauthorised overdraft fees within the NBBA concept would substantially benefit four out of the eight segments, with nine in ten or more in each of these segments having been exposed to penalty charges. These four segments (5, 6, 7a and 7b) are likely to represent about a third of working-age claimants.

Other, less troubled, segments would also benefit from the NBBA, but, being less exposed to penalty charges and unauthorised overdraft fees, to a lesser extent.

Table 8.5 summarises the fit between the various segments and the NBBAs and the proposed budgeting account and shows also the relative eligibility of each segment for the NBBA under the current agreement with the banks.

The extent to which segments identified as a good fit with NBBAs will actually benefit from them will depend on whether banks choose to restrict offering the new accounts to the relatively narrow range of consumer groups that they have undertaken to offer the new accounts to under the agreement with the Government. In the event that banks, or different banks, choose to offer the accounts more widely, take up could be much higher. Similarly take up will be influenced by how banks, or different banks, choose to interpret the definition of ‘not eligible for a full service account’ referred to in the eligibility criteria within the agreement. Just as importantly, take up will depend on how far consumers become aware of the protections from unauthorised overdraft fees and penalty charges offered by the new accounts and, with this knowledge seek to access them.

Whilst the core objective of this research was to explore claimant views via qualitative means, this additional quantitative segmentation is a helpful exploration of the relative scale of different claimant types and their likely support needs. It should, however, be treated as indicative as the secondary analysis draws on survey data which is a few years old which, while it covered money management practice and the reasons for it and much of the banking and banking inclusion issues, did not directly address the issues around the transition to Universal Credit nor the detail of support needs. A fully realised segmentation that could support planning for operationalisation would require dedicated original research and analysis.

Table 8.6 Overview claimant segmentation – profile, impact of shift to Universal Credit, banking and support needs

	Segment 1 Better off monthly managers	Segment 2 Banked, functionality supported weekly copers	Segment 3 Wedded to cash POCA users	Segment 4 Banked unengaged cash managers	Segment 5 Charge-exposed banking strugglers	Segment 6 Locked out of banking strugglers	Segment 7a Low financial capability strugglers	Segment 7b Vulnerable, charges-exposed just copers
	Banked	Banked	Happily unbanked	Banked	Banked	Fallen out of banking	Precariously banked	Banked
Profile	Low paid workers moving and out of work managing through bank and on monthly basis	Mix of weekly cash and bank-based managers, heavily dependent on balance checking, mobile, internet banking to monitor and manage finances	Older disciplined, weekly cash-based managers with strong affinity with POCA and resistant to change	Minimal engagement with banking or use of banking functionality, cash-based managers on weekly basis	Strugglers with affinity with banking functionality but heavily exposed to bank charges because of poor fit with product features and charging structure	Unbanked with aspiration to banking and deeply problematic banking and credit history, debt overhang	Deeply vulnerable segment with low financial capability in process of falling out of banking	Vulnerable but capable segment struggling to manage banking
Distance from labour market	In and out of work	In and out of work	Long-term benefit dependent	In and out of work	In and out of work	In and out of work	Mix in and out of work/long-term benefit dependent	Mix in and out of work/long-term benefit dependent

Continued

Table 8.6 Continued

	Segment 1 **Better off monthly managers**	Segment 2 **Banked, functionality supported weekly copers**	Segment 3 **Wedded to cash POCA users**	Segment 4 **Banked unengaged cash managers**	Segment 5 **Charge-exposed banking strugglers**	Segment 6 **Locked out of banking strugglers**	Segment 7a **Low financial capability strugglers**	Segment 7b **Vulnerable, charges-exposed just copers**
Impact of shift to monthly payment	Positive. Improved fit with existing budgeting patterns and preferences	Disruptive and potentially difficult to manage in context of budgeting practice shaped by managing over very short periods. Some risk of greater exposure to penalty charges. Cash managers may struggle to utilise banking functionality to manage cash flow	Challenging in initial phase but likely to cope and adapt current practice but unlikely to look to bank for solutions	Disruptive and potentially difficult to manage in context of budgeting practice shaped by managing over very short periods. Lack the skills, experience and motivation to use banking functionality to help manage transition	Move to monthly could be better match between income flows and timing of outgoings but need to juggle finances around cash flow may create more frequent or more serious cash crises.	Move to monthly could exacerbate the cash flow crises to which this segment already exposed.	Move to monthly could exacerbate the cash flow crises to which this segment already exposed. Likelihood is that will be forced out of banking system as account becomes unmanageable. Real prospects of hardship	Move to monthly could lead to better fit between income flows and outgoings, potentially ameliorating current very high exposure to charges. High degree of vulnerability combined with lack of flexibility once outgoings covered may increase pressure on budgets and give rise to hardship

Continued

Table 8.6 Continued

	Segment 1 **Better off monthly managers**	**Segment 2** **Banked, functionality supported weekly copers**	**Segment 3** **Wedded to cash POCA users**	**Segment 4** **Banked unengaged cash managers**	**Segment 5** **Charge-exposed banking strugglers**	**Segment 6** **Locked out of banking strugglers**	**Segment 7a** **Low financial capability strugglers**	**Segment 7b** **Vulnerable, charges-exposed just copers**
Risk to financial well being	Very low	Medium	Low	Medium	High	High	Very high	High
Product gap	Degree of flexibility in payment systems and charging structure that is proportionate to flows through accounts	Affordable and simple means of allocating and ring-fencing funds with degree of flexibility and charging structure that is proportionate to flows through accounts	Continuity, familiarity and simplicity. Little desire for banking functionality. Some appetite for increased convenience and access	Affordable and simple means of allocating and ring-fencing funds with degree of flexibility and charging structure that is proportionate to flows through accounts	Affordable and simple means of allocating and ring-fencing funds with degree of flexibility and charging structure that is proportionate to flows through accounts	Affordable and simple means of allocating and ring-fencing funds with degree of flexibility and charging structure that is proportionate to flows through accounts	Structured and ring fenced bill payment with surplus funds distributed on weekly basis. Debt advice. Crisis management facility	Affordable and simple means of allocating and ring-fencing funds with degree of flexibility and charging structure that is proportionate to flows through accounts

8.4 Summary

- Claimants are not a homogenous group and will bring very different needs and face very different challenges in the transition to Universal Credit and monthly budgeting. Some segments of more vulnerable or less financially capable individuals will be much more likely than others to struggle with the transition.
- Some segments will face risks to their financial wellbeing in the transition to Universal Credit while for others the move to monthly budgeting will reinforce their financial capability.
- Some segments will require significant support to manage the transition to Universal Credit while others will cope effectively with little support. Different segments will also require different delivery models for support, with some groups comfortable with light-touch, remote and electronic support with others requiring face-to-face delivery and intensive support. It would appear that the numbers of high risk and vulnerable claimants requiring very intensive support is relatively small. Nonetheless a significant proportion of claimants will need some form of support.
- Different segments will also face differing challenges in moving into banking or making greater use of banking functionality and stand to benefit or face risk to differing degrees.
- There are clearly a range of different banking needs. Across the board there is a need for greater flexibility in banking and payment services products and a requirement for a charging structure that is more equitable and a better fit with the needs of those on low incomes. However, some segments and claimant types are relatively well placed to manage existing banking products effectively, other segments face a series of product gaps and unmet banking needs.
- The NBBAs represent a major step forward for those that will be eligible for them and represent an excellent fit with the needs of some segments. Other segments would, however, benefit from the greater support, enhanced functionality and budgeting tools inherent in the notional budgeting account concept. For these segments, access to budgeting tools and the means to ring-fence funds while retaining sufficient flexibility to manage around cash flow would greatly enhance financial resilience and claimants' ability to manage larger sums over a longer period.
- The segmentation indicates that accessing an NBBA could bring important benefits to, and increase the financial resilience of, a significant minority of claimants, including four of the eight segments described in this chapter, together representing almost a third (32 per cent) of claimants overall.
- Budgeting accounts on the lines of the notional account developed for this research would seem likely to be both attractive to claimants and to be an effective budgeting and money management tool, supporting some of those most likely to struggle with monthly budgeting or moving in and out of work.

9 Conclusions and implications for future strategy

9.1 Conclusions

Understanding the impact of the transition to Universal Credit and monthly payment of benefits on claimants' budgeting and banking needs requires an understanding of the drivers of current money management practice and the way in which the risks and challenges of living on a very low income are managed.

Claimants' money management practice has been only partly shaped by the timing of benefit payment cycles and the historic pattern of a series of fragmented benefits being paid at differing intervals. More fundamentally it has evolved to manage the risks and challenges of living on a very low income and of budgets with the tightest of margins.

Most benefit claimants are, per force, highly effective money managers. The harsh reality of living on a very low income, however, for even the most disciplined budgeters, is that the available funds are not always sufficient for all needs in any one budgeting period. Iron discipline in spending, the timing of major expenditure to match income flows, the practice of managing small sums over very short periods, careful monitoring of expenditure and of juggling available funds around competing priorities represent proven and successful strategies for coping with peaks of expenditure or unanticipated expense and managing the risks of running out of money and not being able to cover essentials.

In thinking through how money management practice may need to adapt to monthly payment and how this will impact banking and budgeting support needs, it is important to acknowledge the financial capability of the poor and the proven money management strategies that have developed to manage the risks of living on a very low income and budgets with very tight margins. This may require recognition that managing small sums over short periods is not necessarily a behaviour to be discarded in favour of monthly budgeting strategies that work for the better off (who differ fundamentally from those on very low incomes in that they have at least some slack in their budgets).

Similarly, it is essential to understand that occasional missed or late payments on commitments are a fact of life when income cannot cover all needs at any one time. The ability to juggle finite funds around cash flow is not a failure of financial capability, but rather a key budgeting skill for those on very low incomes. A move to monthly payment cycles will undoubtedly require that claimants adapt the timing of the payment of major commitments to new patterns of income inflow. It will not, however, remove the necessity to juggle funds around cash flow nor necessarily make the practice of managing small sums over short periods any less effective as a strategy for managing risk.

At present, many claimants, although banked, choose to manage their funds in cash and choose high cost cash-based bill payment methods in favour of bank-based management and cheaper, electronic bill payment services such as Direct Debits. This is, in part, driven by the view that dealing cash is by nature self-limiting and underpins spending discipline. However, as fundamental (as this research and other studies have shown) is that the practice of cash-based money management is also shaped by existing banking products and key aspects of payment services functionality being a poor fit with the needs of those on low incomes.

Many claimants, and indeed people on low incomes more widely, regard bank-based money management as high risk. This is because the combination of fixed-date, fixed-sum payment mechanisms (which can be difficult for those on very low incomes to meet reliably) and a pricing structure on bank accounts which has historically heavily penalised such missed payments has the potential to derail budgets with charges that are disproportionate to flows through the accounts of benefit claimants. This syndrome has acted as a major barrier to full engagement with bank-based management. Penalty charges have also been the primary driver of banking failure. Account breakdown is often associated with problematic debt, frequently owed to the bank, which in turn acts as one of the key barriers to returning to banking.

The transition to Universal Credit, monthly payment cycles and taking personal responsibility for payment of rent and, with it, the need to handle larger sums over longer periods, will clearly throw up new challenges and risks for benefit claimants. Claimants worry particularly about the risk of running out of funds and the temptation to dip into funds required to meet other commitments. Banking and greater use of banking functionality and budgeting and monitoring tools will clearly need to become more central to claimants' money management practice.

Amongst claimants there is clearly a spectrum of both financial capability and of distance from banking. Differing groups of claimants also differ considerably in the way that they manage their money. Some groups of claimants will likely find it very much more difficult than others to manage the transition to monthly payment and handling larger sums effectively. However, this research has shown that the differences between these groups are not clear cut. The unbanked and cash managers will not necessarily be less well placed to manage the transition to Universal Credit. Nor is it the case that those most engaged with banking will face less risk to their financial wellbeing in the move to monthly payments. Indeed, some of those most engaged with banking will be among those most at risk of damage to their financial wellbeing in line with their increased exposure to the risk of penalty charges and thus to the potential for cash flow crises.

The relatively poor fit between existing banking products and the needs of those on low incomes may exacerbate the risks associated with managing larger sums over longer periods, and will militate against, the move to monthly payment driving greater use of banking functionality. It will also undermine the potential for a move into banking or greater banking engagement to address the poverty premium, whereby the poor pay more for a range of essential goods and services. As long as Direct Debits and bank-based management are seen as high risk, claimants are likely to continue to manage in cash and to use high-cost cash-based channels for bill payments.

Against this background, the Government agreement with the banks to introduce NBBAs which offer banking functionality, new budgeting and monitoring tools, and which, critically, do not charge for missed payments or going overdrawn, would seem an important step forward. Indeed, the evidence from this study is that claimants saw these new bank accounts as potentially a game-changer, in one step removing both the major barriers to banking and taking the most pernicious risk out of bank-based money management.

It's not yet clear what the take up of these accounts will be. The research findings presented in this report have shown that claimants would be more likely to take up such accounts if they perceive them as mainstream and not identified with the poor. Take up may also be affected by the anxiety many bring to the idea of opening a new account or their experience of previous accounts, which, as discussed, have been a poor fit with needs. More broadly willingness to take up the new accounts will be influenced by levels of consumer awareness of the benefits of the new accounts, and in particular the protection from unauthorised overdraft fees and penalty charges which is a major feature of NBBAs.

However, from the perspective of benefit claimants, and indeed of low-income consumers more widely, a number of key banking product gaps remain. These are:

- Payment mechanisms which allow for variation in the timing and amount of payments to enable those on budgets with tight margins to flex payments around cash flow.
- A means of ring-fencing funds:
  - required to cover commitments from that available for day-to-day expenditure; and
  - to allow funds needed for future spending (later in the monthly budgeting cycle, for example) to be kept separate from funds available for immediate spending.

The existing 'jam jar' style products on the market go some way to addressing this need but would ultimately appear not be sufficiently attractive to claimants to achieve significant scale. It appears also that these products will not necessarily be helpful in supporting management of larger sums over a longer period. There would appear to be little or no tolerance for the high-cost pricing structure associated with these products. The products are also seen to lack the flexibility seen as essential to the effective management of cash-flow. Indeed, locking funds away in inaccessible 'jam jars' has the potential to create cash flow crises and undermine the ability to provide essentials or address unexpected needs. The research suggests that a temporary subsidy for the costs of such an account would do little to increase take up.

The notional 'budgeting account' concept, developed purely for the purposes of this research comes much closer to meeting claimants' banking needs in that it mimics existing budgeting practice while incorporating the degree of flexibility which is so essential to the effective management of claimants' finances. The concept would genuinely appear to have the potential to support a range of claimant types in budgeting over a monthly cycle and in making a successful transition to Universal Credit. It is clear, however, that such an account would only be attractive to claimants if it was free to use.

The research suggests that the budgeting account would need to be introduced in tandem with support at set up, possibly at the point of transition to Universal Credit, to enable claimants to work through their budgets and outgoings on a monthly basis and allocate funds to specific purposes or time periods. This may, indeed, be the most transformative element of the budgeting account package in terms of behaviour change and enhancing financial capability.

Clearly banking and support needs vary considerably between claimant types. A smart, cost-effective and efficient use of available resource would seek to match both new banking solutions and associated support packages to the needs of specific claimant groups.

The banking needs of Universal Credit Claimants: the potential role of budgeting accounts

The Department had wished to explore whether a temporary subsidy for an existing market 'jam jar' style product for targeted vulnerable individuals could support these claimants to cope with monthly payments, while also increasing financial capability and banking inclusion. However, the evidence from this research indicates that products targeted at the most problematic claimants are unlikely to be well-received and that there would no appetite for ongoing fees once the subsidy was withdrawn so that any behaviour-change effects may not be sustainable. Moreover, the existing specialist accounts in the market do not appear to have sufficient appeal to claimants nor do they necessarily appear likely to be effective in reducing the risks associated with claimants handling larger sums for longer periods.

There would, however, appear to be an appetite for an affordable, mainstream 'jam jar' account that meets the needs of those on tight budgets, both benefit claimants and indeed those on low incomes more widely. Such a product, allied to appropriate support, may indeed finally enable low-income households, who have been disadvantage within the banking system for so long, to fully participate in banking and electronic payment systems and realise the benefits enjoyed by their better-off counterparts. In the process it may also go so some way to addressing the poverty premium.

Developing such an account is an ambitious undertaking and is likely to require a market solution, albeit that the Department for Work and Pensions (DWP) or the Government may have a role to play as facilitator. From a supply-side perspective, however, the systems' development costs of a flexible 'jam jar' account may be considerable and the development process is likely to be lengthy and complex. Clearly there will be no market appetite for such development unless the proposition is commercially viable.

Government and the banks, however, are not the only potential parties with an interest in such a development. Clearly the Government will benefit from any move that increases the financial resilience of claimants and increases the efficiency of claimants' spend on essentials. The diversion of benefit funds to high-cost cash-based payment channels or to penalty charges associated with bank account delinquency cannot be a good use of public funds. There are, however, other potential beneficiaries who would also gain from any mechanism which would increase the likelihood that funds owed to them would be paid reliably. Obvious examples include private and social landlords, whose revenue streams will now depend on tenants' willingness and ability to pay their rent. Others might include utility providers and providers of telecoms and entertainment services.

Any such development will require significant commitment and resource and will undoubtedly require extensive partnership working between policymakers, the banks, potential beneficiaries and other stakeholders. The development of a fully realised budgeting account is unlikely, however, to come together in the time-scales required to support the transition to Universal Credit. It may be, therefore, that the best way forward may be to regard the development of budgeting accounts as a long-term banking and payment services inclusion goal. In the short term, resource and effort might best be focused on formulating interim solutions to support benefit claimants in the transition to Universal Credit and thus the effective execution of welfare reform.

9.2 Implications for future strategy

Subsidising existing market 'jam jar' products on a temporary basis would not seem likely to deliver the sustained behaviour change and enhanced financial capability effects which the Department is seeking nor would it necessarily deliver increased financial resilience, particularly for the more vulnerable claimant types.

There may, however, be some potential for facilitating partnerships between social landlords and other providers to fund the cost of existing market 'jam jar' accounts, albeit that the lack of flexibility in such accounts may limit take-up. Longer term, it would seem important to establish partnerships with such third parties with a view to create new banking products that meet the needs of those on low incomes while providing a degree of protection for the revenue streams of potential funders.

The development of budgeting accounts on the model envisaged in this research could be regarded as a long-term banking inclusion and financial capability goal, with the Department seeking to engage as appropriate with the commercial market development of budgeting account products that are affordable and genuinely meet the banking needs of those on low incomes. This may be the opportunity also to stimulate competition and work with new challenger banks and banking models alongside the established banking mainstream.

As an interim solution for benefit claimants, the combination of intensive budgeting support at the point of transition to Universal Credit together with sign-posting to the NBBAs and visible marketing of these accounts could, of itself, deliver both transformational benefits and cost savings for claimants. If there is to be a subsidy for claimants to make the transition into banking and into new banking solutions, such as the NBBAs, this may be better directed to budgeting support, potentially even delivered by the banks at the point of opening an NBBA.

Appendix A
Depth interview sample specification

Table A.1 Depth interview sample specification

Claimant type	No	Characteristics	Minimum required
Universal Credit sample	15		15
		Banking status	
		Post Office Card Account (POCA)	5
		Basic Bank Account	5
		Money management	
		Mainly or partly though bank account	5
		Manage money wholly or primarily in cash	5
Legacy claimants	60		60
		Banking status	
		POCA only	15
		POCA and bank account	5
		Basic Bank Account	15
		Bank account and struggling	15
		Money management	
		Mainly or partly though bank account	20
		Manage money wholly or primarily in cash	20
		Banking aspiration	
		Resistant to banking	8
		Aspire to banking	8
		Banking history	
		Never banked	8
		Fallen out of banking	8

Continued

Table A.1 Continued

Claimant type	No	Characteristics	Minimum required
		Financial capability	
		More capable	15
		Less capable	15
		Digital inclusion	
		No broadband at home which use yourself	10
		Broadband at home which use yourself	30
		Demographics	
		Single	10
		Cohabiting couples no children	10
		Couples with children	15
		Lone parents	15
		Age	
		Under 30	15
		30–50	15
		50 plus (no 65+)	15

Appendix B
Depth interview screener

Good morning/afternoon

My name is (INSERT NAME) from Policis, a market research company. We are undertaking research for the Department for Work and Pensions and we are trying to understand how people feel about bank and Post Office Card accounts in order to help make them work better.

We are looking to talk to people about their feelings about and experiences of accounts. The interview would be completely anonymous and confidential and we would be happy to pay you for your time.

CONTINUE IF INTERESTED, IF NOT THANK AND CLOSE.

SHOW/EMAIL DWP LETTER TO POTENTIAL RESPONDENTS

May I ask you a few questions just to check that you fit the description of people we need to talk to. Is that OK? Great, thanks

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Q1. Which of the following would best describe your household?

a. Single person no children

b. Couple living together no children

c. Couple with children

d. Lone parent

CHECK HOUSEHOLD PROFILE AGAINST OVERALL SAMPLE SPECIFICATION

Q2. May I ask which of the following age range you fall into?

a. Under 30

b. 30 – 50

c. 51 – 65

d. More than 65

CLOSE IF OLDER THAN 65

Q3. Please may I ask whether you currently get any of the following benefits?

a. Universal Credit

b. Jobseeker’s Allowance

c. Employment and Support Allowance

d. Income Support

e. Incapacity Benefit

f. Severe Disablement Allowance

g. Housing Benefit

RECRUIT FOR A) UNIVERSAL CREDIT SAMPLE ONLY IF RESPONSE A

RECRUIT FOR B) LEGACY SAMPLE ALL OTHER RESPONSES

Q4. And may I ask if you currently have any of the following types of account?

a. Post Office Card Account

b. Basic Bank Account

c. Full Current Account

RECRUIT FOR C) POCA-ONLY SAMPLE IF RESPONSE A ONLY

ASK ALL EXCEPT THOSE WHO HAVE POST OFFICE CARD ACCOUNT ONLY. POCA ONLY GO TO Q7

Q5. And are you using your bank account at the moment?

a. Yes

b. No

RECRUIT FOR D) BASIC BANK ACCOUNT SAMPLE IF ANSWER B AT Q4 (HAVE BASIC BANK ACCOUNT) AND USING BANK ACCOUNT CURRENTLY RA AT Q5

Q6. It’s not always easy to keep on top of your bank account these days. Which of the following, if any, have happened to you in the last 12 months

a. Not had enough funds in your account to pay a Direct Debit and incurred a penalty charge

b. Gone into unauthorised overdraft and incurred charges

c. Not been able to use your payment card because of not having enough money in the account

d. Not wanting to use your payment card because you weren’t sure how much money you had in your account

e. Had payments declined or Direct Debits returned by your bank

f. Stopped using or closed your account because of charges/difficulties in managing the account

g. Had your bank tell you to stop using your account/close your account

h. None of these

i. Any of these

RECRUIT THOSE WITH EITHER BASIC OR CURRENT ACCOUNT AND WHO ANSWER ANY COMBINATION OF RA TO RF FOR E) HAVE BANK ACCOUNT AND STRUGGLING WITH IT SAMPLE

ASK ALL WITH POCA ONLY. OTHERS GO TO Q9

Q7. Have you ever had a bank account?

a. Yes

b. No

RECRUIT RA AS 'NEVER BANKED'

RECRUIT RB AS 'FALLEN OUT OF BANKING'

Q8. And would you like to have a bank account?

a. Definitely not

b. Maybe

c. Definitely yes

RECRUIT RA AS 'DO NOT ASPIRE TO BANKING'

RECRUIT RB AS 'ASPIRE TO BANKING'

Q9. And thinking now of how you manage your money, which of the following would apply to you?

a. I take all of my money out of my account in cash and manage in cash

b. I take some of my money in cash but I also pay for things through my bank account using payment cards or Direct Debits

c. I manage my money mainly through my bank account using payment cards and/or Direct Debits

RECRUIT RA AS 'CASH MANAGERS'

RECRUIT RB OR RC AS 'PARTLY OR PREDOMINANTLY BANK-BASED MANAGERS'

Q10. Lots of people struggle to stay on top of bills and managing their money these days. Which of the following would be closest to your own circumstances? I'm going to read out some statements and you choose only and just tell me the letter that applies.

a. Keeping up with all bills and commitments without any difficulties

b. Keeping up with all bills and commitments, but it is a struggle from time to time

c. Keeping up with all bills and commitments, but it is a constant struggle

d. Falling behind with some bills or credit commitments

e. Having real financial problems and have fallen behind with many bills or credit commitments

f. ~ Don't know

g. ~ Refused

h. ~ Don't have any bills or credit commitments

RECRUIT RA RB RC AS 'MORE FINANCIALLY CAPABLE'

RECRUIT RD OR RE AS 'LESS FINANCIALLY CAPABLE'

Q11. Do you have any of the following?

a. A smart phone

b. Broadband at home which you use yourself

c. Access to broadband not at home which you use yourself

d. Internet banking

e. Mobile banking

f. None of these

RECRUIT RB AS 'DIGITALLY INCLUDED'

RECRUIT ALL WHO ARE NO AT RB AND NONE OF THESE AS 'DIGITALLY EXCLUDED'

Q12. Respondent name and contact details

Name:

Telephone:

Email address:

Address:

Q13. Declaration by recruiter:

I confirm that the respondent has been recruited according to your instructions and that the respondent is now known to me

Signed:

Print name:

Date:

OFFICE USE ONLY	
Time and date of interview:	
Mode:	**Telephone/F2F**
Confirmation letter	**Given to respondent/Email/Post** **Date:**
Copy DWP letter provided to respondent	**Email/Post** **Date:**
Email thank you and reminder	**Yes/No** **Date:**
Telephone reminder	**Date:**
Requires additionally:	**Babysitting/transport**

Appendix C
Stimulus materials

All of the stimulus materials provided were used in the creative focus groups rather than the depth interviews. The stimulus materials are here provided in the order in which they were presented to the focus groups.

Card sorting exercise 1: Hierarchy of core banking needs

Predictable

Control

Safe

Affordable

Accessible

Flexible

Transparent

Simple

Manageable

Liberating

Card sorting exercise 2: Pyramid of product features

Payment/debit card

Remote purchase over internet

ATM access

Access any ATM

£10 notes from ATM

£5 notes from ATM

Real time balance

Balance on mobile phone

Balance on internet banking

Balance at ATM

Mobile banking

Internet banking

Direct Debits

Standing Order

Internet transfers

Pay by card over phone

Pay by card over internet

Branch you could go to

Internet and/or mobile banking only

Internet/chat-based support at set up

Phone-based support at set up

Flexible payment options

Weekly payment options

Vary value of payments

Vary day of payment

Text alerts

Face-to-face support at set up

Prepaid Cash Card

PayPal

Card sorting exercise 3:
Descriptive words around how respondents feel about opening a new bank account/managing larger sums over longer periods/taking responsibility for payment of rent

Worried

Anxious

Frightened

Insecure

Empowered

Confident

Like everyone else

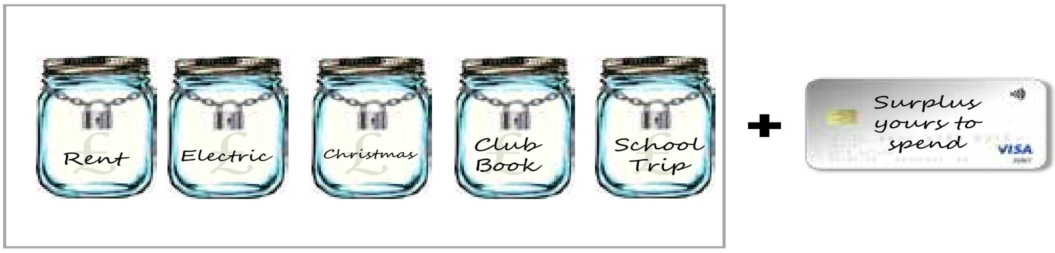
Optimistic

Excited

Stimulus material 4:
Jam jar accounts

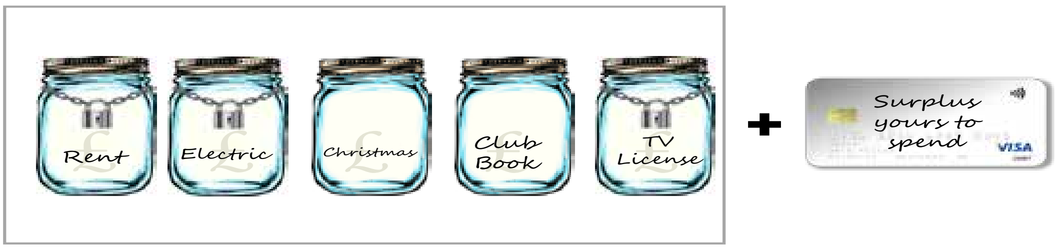
Jam jar accounts budgeting account 1

Jam Jar Budgeting Account 1



Jam jar accounts budgeting account 2

Jam Jar Budgeting Account 2



Jam jar accounts budgeting account 3

Jam Jar Budgeting Account 3

Jam jar accounts budgeting account 4

Jam Jar Budgeting Account 4

Stimulus material 5:
Alternative positioning and framing statements presented to respondents around new banking accounts

Supporting you to budget well

Making your money go further

Taking control of your finances

Peace of mind because you know it's all covered

Saving you money every day

Supporting you in and out of work

The flexible account that puts you in control

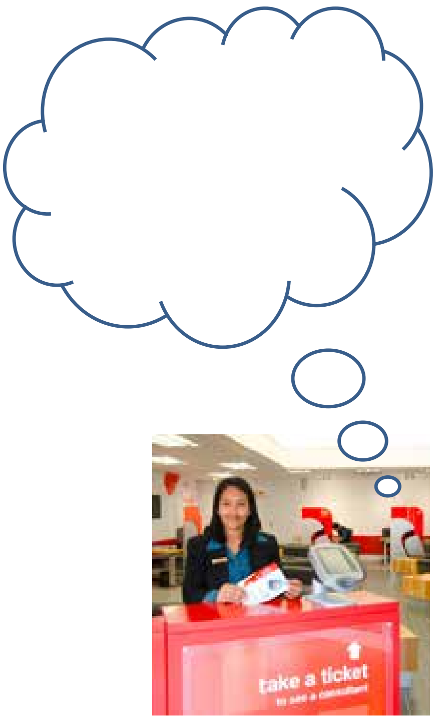
Changing financial behaviour

Supporting you to get on top of your finances

Stimulus material 6:
Scenario thought bubbles

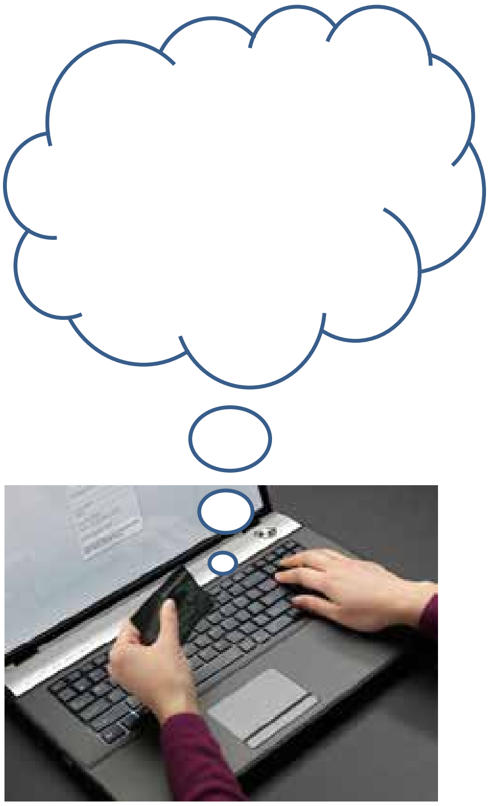
How do you feel about walking into a bank and opening a new account?

How do you feel about face-to-face support to open a new account?



How do you feel about taking money from the cash machine?

How do you feel about Internet banking?



How do you feel about using your payment card?

Stimulus material 7: Sentence completion exercises

"Receiving my rent money in my account makes me feel…………"

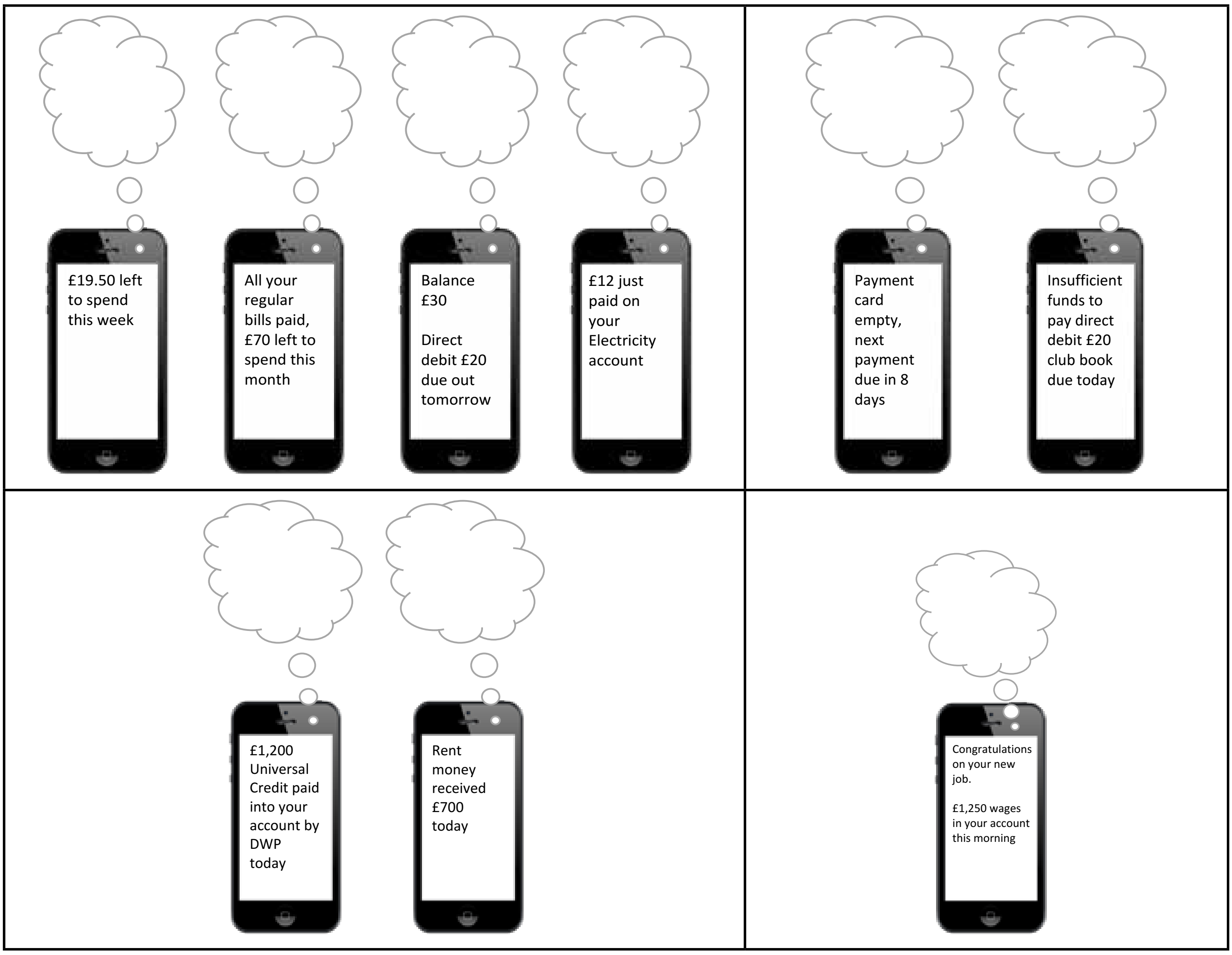
"Getting paid monthly makes me feel…………"

"Thinking about going back to work makes me feel…………"

"Opening a new bank account makes me feel…………"

"Having to pay my rent myself makes me feel…………"

Stimulus material 8:
Response to smart phones text messages



Appendix D
Quantitative secondary analysis

List of variables that drove cluster analysis

They included:

- Income and types of benefit received
- Distance from labour market
- Distance from banking
- Extent of vulnerability (across a range of dimensions)
- Degree of financial capability
- Relative confidence with dealing with officials and banks
- Extent of financial pressure experiencing
- Money management practice (and extent to which cash and bank based)
- Attitudes to cash/ bank based management
- Whether weekly / monthly managers
- Aspiration to / lack of aspiration to banking and POCA
- Engagement with banking
- Use of banking functionality
- Degree of exposure to penalty charges
- Banking history (including banking failure)
- Barriers to banking
- Digital capability

Survey question content used in cluster analysis and profiling

Q1. Age

Less than 18

18-25

26-45

46-65

65+

Q2. Sex

Male

Female

Q3. And which of the following best describes your household?

No-one working in paid employment

One person working part-time or occasionally

Two or more persons working part-time or occasionally

*One person working full-time, with no-one else working

**One person working full-time, with at least one other person working part time or occasionally

*Two or more persons working full-time

Other

Don't know

Refused

Q6 Banking facilities

Bank account I am using

Bank account not using

Cheque book

Cheque guarantee card

Cash card

Overdraft facility (used)

Overdraft I don't use

Bank card (not a credit card) to pay for goods or services in shops or over internet

MasterCard / Visa card

Solo card

Switch card

Post Office Card Account

Credit union current account

None of these

Q7. And have you opened this bank account within the last five years?

Yes

No

Q8. And was it your first account?

Yes

No

Q9 Banking facilities

I moved away from home for the first time

I started my first proper job and became financially independent

I became old enough to have a bank account of my own

Didn’t have a bank account before I opened this account because I didn’t need one

*Didn’t have a bank account before I opened this account because I couldn’t get one

I opened the new bank account as a student account

Had another bank account which I had been using previously

Had a bank account but not one I could use

Had a Post Office Card Account but not a bank account

Had a savings account but not a bank account

I had previously used someone else’s bank account

Had bank account(s) previously but closed / not used because of problems with account

Q10 Benefits/Credits

Disability Living Allowance (DLA)

Disabled Person’s Tax Credit

Working Family Tax Credit

Housing Benefit

Incapacity Benefit

Income support

Job Seekers Allowance

None of these

Refused

Q13. Q.9 And which of the following applies to you?

Single, no children

Married or cohabiting with a partner, no children

*Married or cohabiting with a partner, children at home

Single parent with children at home

**Married or cohabiting with a partner, children left home

Single, children left home

Refused

Q15 Disabilities/Impairments

Mobility impairment or other physical disability

Major health condition such as diabetes or heart disease

Learning disability

Mental health problems

Problems with drug or alcohol abuse

None of these

Q16 Dealing with bureaucracy

I have difficulties with filling out forms

I'm not very good with numbers

I find reading and writing difficult

I feel intimidated going into offices or institutions I'm not familiar with

I'm not very confident with officials or staff I don't know

None of these

Q20. And which of the following statements would best describe your bank account? Choose only one:

It's a basic bank account. You can set up direct debits, take out cash and pay for things with a bank card but it doesn't have overdraft or credit facilities

It's a full current account with overdraft and credit facilities

Student account

Q21. Which of the following would best describe the way you use your bank account? Choose the one which is closest to your own behaviour?

I take my money out of my account and manage in cash

I keep enough in my account to cover my bills and then spend the rest in cash

I keep my money in the bank and pay most things through my account

Q26 Reason account not used

I use another account as my main bank account

I had to open an account to get my money paid into it but I no longer have a need for it

I don't really have much use for my account as I manage mainly in cash

I don't use it because I'm worried about getting penalty charges

*I don't use it because I'm worried about not knowing where I am with my money

I've run into trouble with my account so I can't use it at the minute

The bank has told me not to use it

Other

Don't know

Refused

Q27 Reason no account

Do not feel a need for a bank account so haven't applied for one

Had a need for an account in the past but don't any longer

Closed my account myself

Haven't applied for an account because I don't think I would be accepted

Tried to open a bank account but bank turned me down

Have had trouble with a previous bank account

Have been told by my bank to stop using my bank account

I just haven't got round to opening an account

Don't know

Refused

Q28. And have you ever had a bank account?

Yes

No

Q29 Reason trouble opening account

Don’t / didn’t have the right paperwork

Can’t / couldn’t give a proper address

*Don’t / didn’t have enough money to open an account

**Don’t / didn’t have a steady income

Bad credit history

Don’t like filling in forms

Banks / bank staff make / made me feel uncomfortable

Other

Q30 Reason stopped using account

Just didn’t like using the account - I’d rather just manage in cash

I found it more difficult to know where I was

I had penalty charges when I didn’t have enough money in the account

I was worried about charges / getting into debt with my account

I found my account too difficult to manage

I was spending more money than when I was managing in cash

I didn’t always have my money when I needed it

I just kept on getting into trouble with the bank

You don’t have the flexibility you do when you pay everything in cash

It worked out more expensive than managing in cash

Q31. Would you like to have a bank account you could use?

Definitely yes

Possibly yes

Probably not

Definitely not

Q32 Reason do not want account

Don’t have a need for more complex banking facilities

Not interested in paying bills with direct debits

*Not interested in paying for things with a card

I don’t want overdraft or credit facilities

I’m worried about getting penalty charges

It's easy to get into trouble with a bank account

I only want an account to have my benefits paid into

I'm just comfortable with the Post Office account

I just like to keep things simple

You don't always know where you are with a bank account

Q33 Reason would like account

I'd feel more like everyone else with a bank account

It'd give me confidence to have an bank account

I'm be more independent with my own account

My money would be more secure if I didn't carry as much cash

It'd be more convenient to use a payment card

I'd save money on my bills

It'd be easier to get access to services like phones, entertainment and the internet

I could borrow more cheaply by paying through the bank

To get better value by shopping on the internet

To have more choice of where to shop

To be able to get insurance

Q34. And which of these would be most important to you? Choose up to three:

I'd feel more like everyone else with a bank account

It'd give me confidence to have an bank account

I'm be more independent with my own account

My money would be more secure if I didn't carry as much cash

It'd be more convenient to use a payment card

I'd save money on my bills

It'd be easier to get access to services like phones, entertainment and the internet

I could borrow more cheaply by paying through the bank

To get better value by shopping on the internet

To have more choice of where to shop

To be able to get insurance

Q40. And how do you usually manage your money?

Mainly in cash

Mainly through my bank account

Q41 Why cash based

With cash you know exactly where you are

With cash, it is easier to juggle your finances

You spend less if you manage your money in cash

*With cash you know that once you've paid your bills, you know how much you've got left to spend

With cash you can only spend what you have - you're not tempted to overspend

I'd worry about incurring charges if I didn't have enough money in my account

I would find it difficult to manage a bank account

I don't think I would get a bank account

I've had difficulties with bank accounts in the past

You get more for your money if you pay cash

Other

Don't know

Refused

Q42. Q.49 And do you have any direct debits or standing orders on your account?

Yes

No

Don't know

Refused

Q43. Q.50 And how many direct debits do you have?

1

2

3

4

5

More than 5

Don’t know

Refused

Q44 Uses for direct debits

Rent or mortgage payments

Council tax

Utility bills such as gas, electricity or telephone

Entertainment services such as SKY TV

A cash loan

A credit agreement relating to a major purchase

A credit card

Repayments of arrears on credit or bills

Other

Don’t know

Refused

Q45. Q.52 You say you have no direct debits. Which of the following best describes why you don’t use direct debits? Choose up to three

I prefer to manage all my money in cash

I avoid direct debits so I can juggle payments to fit the funds I have available

Direct debits can be more expensive than other methods if you can’t always meet payments as they fall due

I would find it difficult to know where I am with direct debits

I’ve got into trouble with direct debits in the past

I’ve always managed my money this way

Other

Don’t know

Refused

Q46 Payment methods for bills etc

Direct debit

Personal cheque

Cash paid in at a branch or office

Electricity / fuel key

Payment meter for utilities

*Payment meter for equipment (such as TV, washing machines etc)

Savings or payment stamps (e.g. TV licence or Christmas club)

Paypoint

Pay by debit / credit card at the counter

*Pay by debit / credit card over phone

**Pay by debit / credit card over internet

Pre-loaded payment card (not connected to a bank account)

Cash payment to home credit agents or catalogue agents at your home

Cheques to home credit or catalogue agents

Direct deduction from my benefits

Other

Don't know

Refused

Q47 Most comfortable payment methods

Direct debit

Personal cheque

Cash paid in at a branch or office

Electricity / fuel key

Payment meter for utilities

*Payment meter for equipment (such as TV, washing machines etc)

Savings or payment stamps (e.g. TV licence or Christmas club)

Paypoint

Pay by debit / credit card at the counter

*Pay by debit / credit card over phone

**Pay by debit / credit card over internet

Pre-loaded payment card (not connected to a bank account)

Cash payment to home credit agents or catalogue agents at your home

Cheques to home credit or catalogue agents

Direct deduction from my benefits

Other

Don't know

Refused

Q48 Penalties

Been charged penalty charges for not having enough money in your account to meet payments due

Gone over your overdraft limit and been charged a fee for it

Stopped using the account to avoid penalty charges

Been asked by the bank not to use your account

Had your account closed by the bank

None of these

Don't know

Q49. And have you been charged penalty charges in the last 12 months?

Yes

No

Q50. Thinking back to the time when you were having difficulty with covering payments due or keeping within your overdraft limit, how many times in the course of a year would you say that you were charged penalty charges of administrative fees by your bank for account irregularity?

1

2

3

4

5-9

10-14

15-24

25 or more times

Q62. Q.66 could I ask you whether you have any cash savings?

No cash savings

Less than GBP100

GBP100 - GBP199

GBP200 - GBP299

GBP300 - GBP499

GBP500 - GBP999

GBP1,000 - GBP2,499

GBP2,500 or more

Don’t know

Refused

Q63 Attitudes to saving

I don’t have any spare money after I’ve paid for essentials

I always try to put a little by for a rainy day after I’ve paid for essentials

I prefer to spend the money I have left after I have paid for essentials

I save for extras and special occasions

I try to save but something always turns up you need the money for

It’s easier to borrow or buy off the catalogue than to save up for something

You can’t save enough so you need to borrow to buy the big things

I just don’t have the discipline to save

None of these

Q64. Which of these best describes your feelings about managing your outgoings and commitments?

I can manage outgoings and commitments comfortably

*I can manage outgoings and commitments but sometimes finances feel a little tight

I am not falling behind but I am finding it a real struggle keeping up with outgoings and commitments

I’m falling behind on commitments but think I’ll be able to catch up

*I’m falling behind with commitments and can’t see a way to catch up

None of these

Q65 Payment problems experienced

Paying for electricity, gas or heating

Providing food for the family

Buying shoes or clothing

Paying for petrol or transport

Finding rent or mortgage payments

Replacing or repairing equipment

Finding money for essential major purchases such as washing machines or furniture

Repaying credit or loan agreements

*Finding money for medical or dental treatment

Finding the funds for Christmas or birthday presents

Affording entertainment, days out or holidays

None of these

Q66. Q.15 These days it’s not always easy to manage everything you have to pay for. Are you currently in arrears or do you still owe money on previous bills, household utilities, rent etc? Don’t include money owed on credit cards, loans, credit cards or mortgages

Yes

No

Don’t know

Refused

Q71 Types of credit used in past 1 year

Overdraft finance

Storecard with credit facility

Car loan arranged through a car dealer

Log book loan secured on vehicle registration document

Personal loan from a bank

*Personal loan from a consumer finance company

HP finance

Used a credit card to buy goods and services

Raised cash on a credit card

Borrowed cash against goods deposited with pawnbrokers

Used sale and buy-back (such as Cash Converters)

Home credit loan

Shopping voucher from a home credit company

Bought goods from catalogues for which I pay my agent weekly

*Bought goods from a rent to own retailer (such as BrightHouse)

Pay day loan

Social Fund loan

Credit union loan

Borrowed from friends and family

Unlicensed lender (loan shark)

None of these

Don’t know

Refused

Q72 Types of credit used most recently

Overdraft finance

Storecard with credit facility

Car loan arranged through a car dealer

Log book loan secured on vehicle registration document

Personal loan from a bank

*Personal loan from a consumer finance company

HP finance

Used a credit card to buy goods and services

Raised cash on a credit card

Borrowed cash against goods deposited with pawnbrokers

Used sale and buy-back (such as Cash Converters)

Home credit loan

Shopping voucher from a home credit company

Bought goods from catalogues for which I pay my agent weekly

*Bought goods from a rent to own retailer (such as BrightHouse)

Pay day loan

Social Fund loan

Credit union loan

Borrowed from friends and family

Unlicensed lender (loan shark)

None of these

Don't know

Refused

Q82 Reason for mainstream loan

Making ends meet when I ran out of cash

A cash emergency such as an urgent bill or unexpected expense

A purchase of something I really needed but I couldn't afford to pay for all at once

To spread the cost of something I wanted such as entertainment, holidays or Christmas

To consolidate other borrowing into a single more manageable loan

Spending on something which would help me with work or studies, such as a computer or buying a car or car repairs:Q8

To meet regular commitments such as mortgage, rent or utility payments

Other reason

Q83 Reason for credit card use

Making ends meet when I ran out of cash

A cash emergency such as an urgent bill or unexpected expense

A purchase of something I really needed but I couldn't afford to pay for all at once

To spread the cost of something I wanted such as entertainment, holidays or Christmas

To consolidate other borrowing into a single more manageable loan

Spending on something which would help me with work or studies, such as a computer or buying a car or car repairs:Q8

To meet regular commitments such as mortgage, rent or utility payments

Other reason

Q84 Reason for cash advance on credit

Making ends meet when I ran out of cash

A cash emergency such as an urgent bill or unexpected expense

A purchase of something I really needed but I couldn't afford to pay for all at once

To spread the cost of something I wanted such as entertainment, holidays or Christmas

To consolidate other borrowing into a single more manageable loan

Spending on something which would help me with work or studies, such as a computer or buying a car or car repairs:Q8

To meet regular commitments such as mortgage, rent or utility payments

Other reason

Q85. And thinking now of your credit card balance on your main credit card do you usually?

Pay the balance off each month

Make a partial payment of the outstanding balance

Make the minimum payment

Q86. And how long have you been making minimum or partial payments for?

6 months - 12 months

More than 12 months to 18 months

More than 18 months to 24 months

24 months to 36 months

36+ months

Longer

Q89. And thinking of your credit card balance on the card on which you owe the most, is it?

Well below your credit limit

Fairly close to your limit

At or over limit

Q95 Missed payments on utilities, child maintenance, mortgages

Rent

Electricity or gas bills

Phone bill (including mobile phone)

Child care or maintenance

Mortgage payments

None of these

Q96 Missed or late payments on credit card or loan agreements

Personal loan or credit agreement:Q96. And have you missed or made late payments on any of the following?

Credit card:Q96. And have you missed or made late payments on any of the following?

Mortgage / home loan:Q96. And have you missed or made late payments on any of the following?

None of these:Q96. And have you missed or made late payments on any of the following?

Q97. And have you ever been more than three months or more behind on any of the following?

Personal loan or credit agreement

Credit card

Mortgage / home loan

Q99 Financial problems experienced

Bad credit rating with agencies

County court judgement

Paid bills on credit card

Paid mortgage payments on credit card

Maxed out a credit card

Made minimum payments on a credit card for an extended period

Threats of repossession or seizure of assets

Visits from debt collectors / bailiffs

Seizure of goods by bailiff

Loss of home or eviction

Had utilities cut off for non-payment of bills

Made an agreement with creditors through a free debt advice service

*Made an agreement with creditors through a paid for debt management service

Made an IVA with creditors

Been made bankrupt

Pressure or threats from Illegal lender (loan shark)

None of these

Don’t know

Refused