



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

By Anna Ellison, Claire Whyley and Martin Coates

## Policy 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. There are currently a set of gateway conditions so that only certain types of new claimants are eligible for Universal Credit in areas where Universal Credit has been introduced.

## Research scope

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 their monthly payments of Universal Credit.

Claimants receiving Universal Credit will have to manage larger sums over longer periods and those in receipt of a housing allowance will be required to make provision themselves for paying housing costs directly to their landlords. To achieve this many claimants will need to

make greater use of banking and payment services.

Alongside this, and to reflect recent market developments, the research also considered how the New Basic Bank Accounts (NBBAs) might address existing barriers to banking and so meet Universal Credit claimants' needs.

## Methodology

The research was undertaken in two stages. In the first qualitative stage, 75 depth interviews were conducted with both legacy and Universal Credit claimants at greater or lesser distance from banking and with varying degrees of financial capability. The same respondents 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.

## Key findings

### Money management practice

To enable them to reflect on their future banking needs, claimants were asked to consider their current money management practices. The

research confirmed patterns observed in other studies with claimants, in the main, describing themselves as disciplined money managers. They relied on managing small sums, often in cash, over short periods, to minimise the risk of overspending or running out of funds.

### **The barriers to bank-based money management**

Claimants that were better off – principally those moving in and out of work – were more inclined to manage their finances through the bank and make payments electronically. But many respondents, including those who were highly financially capable, perceived bank-based money management as high risk. The fixed nature of payment mechanisms such as Direct Debits was difficult to accommodate and the charges and fees that could arise from unpaid Direct Debits had the potential to derail budgets. Opting for costly cash-based payment channels was understood as both expensive and inconvenient, but nonetheless regarded as lower risk.

Some unbanked claimants managing through a Post Office Card Account (POCA) had no interest in increasing their banking functionality, preferring to manage in cash and deal with the Post Office as a familiar, trusted brand.

### **The drivers of banking failure**

Those who had fallen out of banking or who were in the process of doing so reported that the primary driver of their banking failure had been penalty charges and unauthorised overdraft fees, which had in some cases led to debts which had become very difficult to pay down. Nonetheless, many of those who had fallen out of banking, or who were temporarily unable to use their account, valued banking functionality. These claimants, generally younger and more likely to be moving in and out of work, aspired to return to banking.

There were also claimants who had left banking of their own accord in favour of the Post Office and cash-based weekly management as an

easier, simpler and a better fit with their own budgeting practice. These claimants tended to be older and long-term benefit-dependent.

### **New banking needs arising from the transition to Universal Credit**

With the transition to a single monthly payment, claimants recognised that banking might need to become more central to them managing budgets over a longer period and for paying rents. They highlighted a need for bank accounts that were accessible and affordable, with fees that were transparent and proportionate to their income and which supported account users to monitor and control their finances and manage their money around cash flow and competing priorities. Particular requirements were:

- Payment mechanisms which allow for variation in timing and amount to enable those on tight budgets to flex payments around cash flow.
- A means of ring-fencing funds required for bills and commitments from that available for spending.
- Being able to access small sums of money.
- Provision of support to open and maintain an account.

### **Response to the New Basic Bank Accounts**

The NBBA will offer a range of standard banking features and will be made available to those who may previously have been excluded from opening accounts. Significantly, there will be no charges for missed payments or an overdrawn balance, set up or standing fees.

Claimants' response was strongly positive. The NBBA was seen to have removed both the key barriers to banking and the main risks associated with managing through an account.

However, respondents did not feel that the NBBA would make it any easier per se to manage monthly and concerns remained that

Direct Debits at fixed times would be difficult to accommodate. In the main, POCA users did not find the account sufficiently attractive to motivate a move into banking.

## **Response to the jam jar and budgeting account concept**

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. However, with a strong desire for flexibility there were concerns about not being able to access cash once allocated to jam jars.

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.

The research team also tested a notional 'budgeting account', which offered the option to leave different jam jars 'locked' or 'open' (and thus available to dip into where necessary). This concept was enthusiastically received as being a close fit with needs. However, the introduction of even a relatively low monthly proposed fee (£6 per month) removed any appeal of the account.

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'. There was a deeply felt view that the accounts needed to be mainstream and accessible to all.

## **Claimant segmentation**

Drawing on these qualitative findings and to inform the Department for Work and Pensions' (DWP's) Personal Budgeting Support Strategy for Universal Credit claimants the research team developed a quantitative segmentation. This identified and described seven claimant groups, their relative sizes, current position with regard to financial capability and banking inclusion/exclusion, the extent to which the NBBAs and

budgeting accounts will be attractive and deliver to their requirements and their likely support needs to access them and so support the transition to Universal Credit.

## **Conclusions and implications for strategy**

Findings confirm that banking products with more flexible regular payment mechanisms will be required by Universal Credit claimants.

Whilst the jam jar accounts concept was attractive to claimants, short-term subsidy by DWP of existing market products to support claimants moving onto Universal Credit is unlikely to deliver a sustainable step change in financial capability or banking inclusion as claimants would appear unlikely to retain these accounts when the subsidy ends.

With findings showing claimants to be broadly positive towards NBBAs, promoting these accounts, at least in the short term, may help to achieve greater engagement with banking functionality for some Universal Credit claimants.

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.

© Crown copyright 2016.

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk)

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 911003 47 2. Research Report 930. September 2016).

You can download the full report free from: <https://www.gov.uk/government/organisations/department-for-work-pensions/about/research#research-publications>

Other report summaries in the research series are also available from the website above.

If you would like to know more about DWP research, please email: [Socialresearch@dwp.gsi.gov.uk](mailto:Socialresearch@dwp.gsi.gov.uk)