FINANCIAL INCLUSION TASKFORCE

Mainstreaming financial inclusion: Managing money and access to banking

March 2010

Introduction

1. The key intervention to help low-income households reduce the costs they face in managing their money effectively, securely and confidently has been the Government’s efforts to ensure universal access to a bank account. Research suggests that banking inclusion continues to be a key factor in achieving broader financial inclusion and that access to banking can mitigate some of the worst effects of being financially excluded.

2. This paper considers how to build on the achievements so far in this field by providing ministers with evidence on the people who still lack access to an account or who do not use their account effectively; assessing the scope for further reductions in exclusion; and putting forward a number of recommendations for ministers to consider.

Summary of key points

3. The key findings and conclusions from our analysis are as follows:

- There is now significant diversity among the remaining ‘unbanked’, though most of them are relatively disadvantaged.
- Six out of ten of the remaining ‘unbanked’ have held a bank account in the past.
- Poorer households prefer to manage their money in cash and often struggle to make the transition to managing through an account.
- Not having access to, and not making use of, banking services continues to carry financial and social costs for poorer households.
- The basic bank account meets many of the banking needs of low-income households.
- However, the Post Office Card Account is also perceived to meet consumer needs, even though it reinforces cash-budgeting habits.
- The Post Office could play a significantly greater role in providing banking services to people on low incomes.
- We recommend Government action to ensure continued access to banking services for poorer households after March 2011.
- Specifically, we urge the Government, the banks and other organisations to consider the design and delivery of banking services; the monitoring and regulation of access to banking; and the support available to low-income households in making the transition to full banking.

Consumer Issues

What do we know about the remaining unbanked?

4. Family Resources Survey data for 2007/08 show that approximately 0.89m people, in 0.69m households do not have access to a bank account of any kind. The data also show that 1.75 million people in 1.28 million households have no access to a transactional bank account (i.e. an account with the ability to make and receive payments).

5. Our analysis of the Family Resources Survey allowed us to announce, in October 2009, that the Shared Goal, between the Government and the banks, to halve the number of adults without access to a bank account had been met. Since 2002/03 the number of adults living in households without access to a bank account fell from 2 million to 890,000. Over that time the number of adults without access to a transactional bank account also fell from 3.57 million to 1.75 million.

6. The Family Resources Survey data allows us to make the following observations about unbanked households:

   - Unbanked households are concentrated at the bottom of the income distribution, with half (51%) of them being found in the lower two deciles. 80 per cent are in the bottom four deciles[1].
   - Single households are over-represented among the unbanked (comprising 64 per cent of unbanked households compared with 36 per cent of the general population) as are lone parent households (comprising 17 per cent of the unbanked compared with 7 per cent of the general population).
   - The retired comprise 33 per cent of unbanked households, compared with 25 per cent of the general population, and the 'unoccupied'/unemployed comprise 46 per cent of unbanked households, compared to 12 per cent of the general population.
   - The majority of unbanked households are social renters, with 67 per cent of the unbanked in this category (compared to 18 per cent of the general population).
   - Whereas a significantly greater proportion of unbanked households were female in 2002/03, the balance is now more even.

7. A more detailed breakdown of unbanked households can be found in our fourth annual banking report[2].

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[1] A regression analysis of Family Resources Survey data for 2006/07 also showed that the likelihood of being unbanked was 12 times higher in households with the lowest incomes (less than £100 per week) than for those with the highest incomes (£500 or more per week). See here for the full analysis: http://www.hm-treasury.gov.uk/d/fitf_regression_analysis_unbanked

[2] Available here: http://www.hm-treasury.gov.uk/d/fourth_annual_banking_report.pdf

8. Since the announcement that the Shared Goal had been met, we have commissioned complementary qualitative and quantitative research on low-income households in collaboration with Barclays Bank and the Friends Provident Foundation. This research has investigated attitudes and behaviours towards banking and financial management among low-income households, including those who are unbanked and those who have recently opened an account. We refer to emerging findings from this research[3] throughout our evidence as well as to a number of other research sources.

9. Our quantitative research found that more than half of those who had opened a bank account in the past five years (the newly banked) were in the lowest income quintile, suggesting that the drive to increase the take up of banking has succeeded in reaching some of the poorest households. However, average monthly incomes for unbanked respondents were significantly lower (£635) than for newly banked respondents (£955).

10. The research found further indicators of relative disadvantage among the unbanked. The findings complement our analysis of the Family Resources Survey data and show that: 8 out of 10 of the unbanked are in receipt of income-related benefits; more than a third (36%) have major health conditions; a quarter (26%) have numeracy or literacy problems; and 1 in 10 (11%) live in ethnic minority households.

11. One of the most important findings from the quantitative research is that a significant majority of unbanked individuals (six out of ten) have previously held a bank account. By contrast, six out of ten newly banked respondents said that they were opening a first account.

12. Unbanked participants in our qualitative research were mainly long-term benefit claimants, many of whom had experienced crises during their lives, including homelessness, drug and alcohol misuse, mental illness, severe debt and the breakdown of family relationships.

Financial behaviour and attitudes among unbanked households

13. Unbanked consumers have little choice but to budget in cash. Many express a preference for managing their finances this way. Low-income households employ a number of strategies to ensure that money is available for essential living expenses, including not withdrawing all their benefit payments at once, leaving a small amount of benefits as a buffer, cash ("jam jar") saving towards quarterly bills and overpaying towards bills or on prepaid meters. The key feature of each of these strategies is having direct control over spending.

14. Our qualitative research found that unbanked respondents were most comfortable dealing with financial issues on a face-to-face basis (including

[3] Available here: http://www.hm-treasury.gov.uk/fit_research.htm

at their Post Office, at housing association or local authority offices and in JobCentre Plus).

Costs of being unbanked

15. Evidence on the costs of being unbanked shows considerable disadvantages and financial costs of being without an account or of holding an account but not using it for money management.

16. Some of these costs are related to money management, where unbanked households bear extra costs in order to pay bills, and to make and receive other payments. Unbanked households are also less able to smooth expenditure over time and to cope with unexpected financial pressures and consequently can face the dilemma of going without essentials or either failing into arrears with bills or borrowing at a high cost. Lack of access to banking can also leave low-income households more vulnerable to the theft or loss of cash.

17. Unbanked consumers also suffer restricted access to a range of other goods and services. Survey evidence has established a clear pattern of credit use linked to banking status, with the unbanked far less likely to use mainstream credit sources (though causality is not clear here)[4]. Research confirms a link between being unbanked and being without formal savings and also the near impossibility of accessing mainstream insurance products without a bank account[5]. Our qualitative research showed that some unbanked consumers use accounts belonging to friends or relatives to pay for services including their TV Licence and satellite television subscriptions.

18. People who are excluded from banking have also been found to have relatively low levels of financial capability. The FSA Baseline Survey of Financial Capability[6] found that not having, or not using, a current account was associated with lower levels of capability on: making ends meet; planning ahead; choosing products; and staying informed. The survey found that this group had higher levels of capability in keeping track of money.

Benefits of Banking to low income households

Confidence and Aspiration

19. For more vulnerable and excluded groups, obtaining a bank account can be perceived to be life changing. A number of studies have found that becoming included in the banking system had psychological benefits,

[4] BMRB 2006

[5] Andrew Irving Associates, 2006

[6] Available here: http://www.fsa.gov.uk/pubs/other/fincap_baseline.pdf

boosting self-esteem and building people's confidence as money managers[7].

20. Our quantitative research showed that newly banked respondents saw the benefits of banking primarily in terms of security and convenience. The poorest households felt that greater independence was the most important benefit of being banked. Our qualitative research confirmed that opening a bank account was seen as an affirming, legitimising event, making people feel that they were part of society.

Money management and account usage

21. Opening a bank account does not in itself amount to financial inclusion. True banking inclusion comes when an account holder is able to make the transition to using their account for day-to-day money management.

22. Research has shown a clear link between income level and the method used to pay bills, with those on lower incomes less likely to use direct debits and more likely to use more expensive cash payment options including prepayment meters[8].

23. Our quantitative research found that very few newly banked respondents (4%) had opened an account specifically to save money on their bills. Over half of the newly banked went on to use their accounts to pay bills, primarily utility bills and for phone and entertainment services. The ability to access entertainment services (particularly satellite television) was seen as a key benefit of owning an account.

24. Our qualitative research showed a spectrum of usage and attitudes among banked households. Some used multiple direct debits to support their budgeting. Others preferred to manage in cash in spite of the potential savings from cheaper tariffs because of the risks associated with direct debits.

25. Although the majority of newly banked consumers made use of their accounts, a significant minority (44%, including 54% of those in the lowest income quintile) withdraw all their funds and manage entirely in cash, continuing the habits they had before they opened an account.

26. A substantial minority of newly banked respondents (including 33% of those on the lowest incomes) felt that their move into banking had made little difference to their lives and finances. Furthermore, a significant minority of newly banked respondents (15%, including 19% of those on the lowest incomes) had stopped using their accounts altogether.

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[7] Farrel and O'Connor, 2003

[8] BMRB 2006

Market Issues

27. Two main banking services have been designed with the needs of low-income households in mind: the basic bank account and the Post Office card account. A number of other services exist that can enable low-income households to manage their money without an account, including cheque cashing services and prepaid cards. In this section we provide an overview of both of the main services and consider the extent to which they meet the needs of low-income consumers.

Basic Bank Account

28. Shortly after HM Treasury's Policy Action Team 14 (PAT 14) made its report on access to financial services, taking a comprehensive look at the causes and consequences of financial exclusion, the major banks agreed that each of them would offer a basic bank account alongside their other retail current accounts. No formal standards were set for basic accounts and each bank was able to set the specific features of its account. However, the recommendations of PAT 14 for core features were incorporated into the design of each account, including:

- Income paid in by automated credit transfer
- Cheques and cash paid in by the account holder
- Cash out at convenient access points
- Bill payment by direct debit, credit transfer or budget account, linked to the account
- No cost to the customer for everyday transactions
- No risk of unauthorised overdraft

29. The FSA publishes a full list of basic bank accounts and their features in its Moneymadeclear booklet[9]. This list is included as Annex A.

30. In May 2001 the major banks agreed publicly that their basic bank accounts would all be accessible through the Post Office network.

31. Our qualitative research found that basic bank accounts continue to be a good match for the money management requirements of low-income consumers. Banked respondents showed a strong aversion to getting into debt through overdrafts. Access to cash and mini-statements at ATMs, and the ability to make small payments on a debit card were highly valued as a means of keeping control over account balances. Our quantitative research found that almost 80% of newly banked consumers had opened a basic bank account, rather than a full current account. However, participants in our qualitative research all showed a low level of awareness of the different kinds of bank account available and of different account features.

[9] Available here: http://www.moneymadeclear.fsa.gov.uk/pdfs/bank_accounts.pdf

Post Office Card Account

32. In 2001 the banks also agreed to contribute £180 million over five years to the costs of developing and running the Post Office Card Account (POCA). The Government currently provides access to welfare benefits and state pension through Direct Payment or automated credit transfer (ACT) into bank accounts and the POCA. The POCA's functionality is extremely limited and holding a POCA does not amount to being financially included. It can only be used to receive Central Government benefit, pension and tax credit payments (i.e. housing benefit and local housing allowance are not paid into a POCA). Recipients may currently only withdraw in cash at the Post Office. They can, however, take out any amount held in the account and make as many withdrawals as they choose from the account until funds are depleted. The account does not allow any other kind of deposit or withdrawals from anywhere other than a Post Office; nor does it offer any payment or credit facilities. There is no possibility of getting into debt. The POCA therefore supports those who prefer to manage solely in cash.

33. There are 6.5 million customer visits a week to Post Office branches to carry out POCA transactions and 20% of all visits to Post Offices are POCA related. £2 billion of the £27bn paid out through the POCA each year is estimated to be spent in Post Office retail businesses. Approximately half of all POCA customers clear their accounts to a zero balance each week in a single transaction, suggesting that these customers still prefer to budget in cash.

34. A regression analysis of the FRS data found that, among adults living in unbanked households below state pension age, the likelihood of being unbanked was almost 23 times higher among those with a POCA than for those in households without[10].

35. Our quantitative research found that 71% of unbanked respondents had a POCA. Our qualitative research (and recent research by Consumer Focus) suggests that the POCA is meeting many of the perceived financial needs of low-income consumers. The satisfaction levels of unbanked POCA holders were relatively high, compared with bank account holders on low incomes. These respondents gave high scores for how the POCA met their needs, for branch convenience and for the simplicity of the account[11].

Geographic access to financial services

36. The Taskforce notes that bank branch numbers continue to reduce, following recent rationalizations by the main retail banks. This reduction seems likely to continue in the medium term. The Campaign for Community Banking estimates that over 1000 communities in the UK now have only one local bank branch.

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[10] Op cit at footnote 1

[11] Consumer Focus, 2010

37. Mapping work undertaken by Experian has sought to identify communities with relatively high expected levels of financial exclusion and relatively low levels of access to bank branches, free-to-use ATMs and Post Offices. Annex B shows this analysis, in the form of a map showing local authority areas by quintile, according to their relative need for financial inclusion and relative access to financial services.

38. This analysis identifies areas of the country at greatest risk of exclusion from financial services. The areas identified correspond significantly with areas identified previously through our affordable credit mapping exercise[12].

39. We believe that this analysis highlights the important role of Post Office branches as gateways to other providers' financial services. Following a programme of branch closures, the number of Post Office branches is set at around 11,500. 93.3% of the population live within one mile, and 99.7% of the population still live within three miles, of their nearest Post Office outlet.

40. All 17 basic bank accounts are currently accessible through the Post Office through commercial arrangements. A number of banks also have contracts with the Post Office to enable their current account customers to access banking services (including free cash withdrawal) at the Post Office. These include Lloyds TSB, Barclays, Alliance & Leicester, Co-operative Bank, Bank of Ireland, Clydesdale Bank, First Direct (in Scotland only), Nationwide, smile, Cahoot and (in Northern Ireland) Northern Bank. Each bank has a separate contract. Some allow withdrawals, deposits and balance enquiries, while others are more limited. Santander, HSBC and Royal Bank of Scotland Group do not have contracts to allow their current account customers access through the Post Office.

<u>The scope to increase access to banking</u>

<u>The Shared Goal</u>

41. The Taskforce believes that setting and meeting the shared goal to halve the number of adults without access to bank accounts has been a significant success as an element of the Government's financial inclusion strategy.

42. Setting a goal has helped to ensure that both the Government and the major banks were ready to focus effort on meeting and measuring the target. It has also helped significantly to compensate for the reduced commercial power of excluded consumers by ensuring that they have the opportunity to choose an appropriate basic bank account from among 17 providers.

[12] Available here: http://www.hm-treasury.gov.uk/fit_research.htm

43. An additional benefit of the goal was that it enabled a wide range of intermediary and advice organisations, together with public information providers (such as the FSA), to lend their support in meeting it. These organisations have helped to promote basic bank accounts, helped individuals to open accounts and, in some cases, have worked directly with banks to influence them to improve their ability to serve basic banking customers.

44. We would like to see more people able to benefit from access to transactional banking and a further reduction in the number of adults without access would be a welcome sign of progress towards this aim. However, we believe that a new goal set in the same way as the previous one will have less scope to deliver this objective unless the Government can ensure that a wider range of organisations have a stake in achieving it.

<u>Future reductions in the 'unbanked'</u>

45. The rate at which further reductions in the unbanked can be made may now be more limited, with FRS figures for the last two years suggesting that progress is slowing down. The Taskforce's Fourth Annual Banking report noted that it is hard to distinguish, based on the FRS data, those who would benefit from using an account from those who would not.

46. However, using the results of several recent surveys it is possible to gain an indication of how many of those who currently have no access to transactional banking could open and use an account.

47. Consumer Focus asked respondents living on low-incomes to choose between a POCA and either a basic bank account or a fictional, customised account, which was designed with the needs of low income consumers in mind. They found that 30% of unbanked respondents said that the POCA was their preference. This suggests that there may still be scope to migrate 70% of those without a transactional account (or 1.23 million people) into full banking.

48. By comparison, our recent quantitative research found that 52% of unbanked respondents would definitely or probably like a bank account, suggesting that approximately 900,000 more people would be ready to move.

49. We therefore believe that there is further scope to reduce the number of adults who do not have access to a bank account. We also note that if the rate of reduction in the unbanked between 2006/07 and 2007/08 continues into the future, then the unbanked would reduce by 50% in 5 years time (i.e. down from 1.75 million to around 850,000).

50. Given the diversity of the remaining unbanked, there is likely to be a substantial number people for whom a bank account would not be suitable. This could include people who are terminally ill and those incapable of using an account because of severe learning difficulties,

dementia and some other mental health conditions, severe physical disability or drug addiction. It may be appropriate to consider other services that could offer appropriate financial support to these groups. Indeed, the level of dissatisfaction with banking noted later in this paper suggests that further steps may be needed to consider how banking services can be made more useful to low-income households.

51. In the following sections we set out the evidence we have found on barriers and motivators for low income households to take up and use banking services.

<u>Barriers to take-up and usage of banking services</u>

52. Progress towards the shared goal has, to date, been measured purely in terms of reducing the number of adults who do not have access to transactional banking. This has been helpful; however, it is only the first step towards financial inclusion. We believe that it is important for access to banking to be shown to deliver clear benefits to poorer households, especially greater security in managing money and the opportunity to access cheaper and more convenient forms of direct payment.

Preference for cash budgeting

53. Our quantitative research has found a continued preference for cash budgeting among unbanked consumers. The payment channels used by unbanked households are primarily weekly and cash-based. More than half (52%) cite prepaid keys for energy as their most used and most preferred payment channel. By contrast only 8% of the unbanked and 3% of unbanked POCA holders cite direct debits as a payment channel they would prefer to use.

Comfort with the POCA

54. Our quantitative research found that 50% of unbanked POCA holders did not feel they needed a bank account and 60% probably or definitely do not want an account. The most frequently cited reason for not wanting an account was comfort with the POCA. Almost half of those who did not want an account (47%) claimed that they did not need complex facilities. The data suggest that many of those on the lowest incomes are more likely only to want a vehicle to receive income and are less interested in the increased functionality offered by a basic bank account. Furthermore, the availability of the POCA seems to be a barrier to access to banking, in that people perceive it meets their financial needs and, as a result, their aspiration to fuller engagement with the financial system is curbed.

Fears of debt and bank charges

55. Through their experience of cash budgeting, unbanked consumers are accustomed to a very high degree of visibility and control over their budget. A number of unbanked respondents to our qualitative research said they did not want the increased responsibility of managing their finances through an account and avoiding debt. They showed an

entrenched attitude that having a bank account would increase the risk of getting into debt.

56. Our quantitative research found that almost half of the unbanked cited "too many penalty charges" as a reason for closing or not using their previous account, with four in ten claiming to have got into frequent trouble. 30% claimed that they preferred to manage in cash and 22% said that charges had been a continual worry when they had held an account.

57. The impact of bank charges on money management habits for low-income households is also reflected in our findings on the newly banked. Where newly banked respondents have stopped using their accounts, the main reasons appear to be account delinquency and penalty charges for insufficient funds. 10% of all newly banked respondents had stopped using their account because of bank charges. 9% had had their account closed by the bank. Overall, four in ten of the newly banked had incurred bank charges, and two out of ten had incurred them in the past year. These respondents tended to incur multiple charges, with the average number being 5.3 charges per year. Our qualitative research confirmed that keeping control of the balance in their account was important to banked respondents. This meant that many preferred to pay bills in cash rather than using direct debit payments.

58. The level of bank charges incurred shown in quantitative research suggests that low income consumers are right to be wary of taking on the increased risk of a transactional account. Existing arrangements for direct debit payments are clearly not suitable for all poorer households, particularly those on low or unstable incomes who rely on cash budgeting.

Poor previous experience

59. Consumer Focus found that 54% of the completely unbanked and 32% of those who only had a POCA claimed to have had previous negative experiences of banking. This is consistent with our finding that six out of ten of the unbanked have previously held a bank account. Our qualitative research found that negative attitudes towards banks among the unbanked were reinforced by stories from friends and family or previous personal experience. Our quantitative research suggests that many of these poor previous experiences were related to incurring bank charges (see previous section).

Identify and address verification requirements

60. Consumer Focus research sought to investigate the extent to which identity and address verification requirements could be a barrier to take-up for the unbanked. Overall, 19% of unbanked respondents believed that they would not be able to provide appropriate ID to open a bank account. There was a significant difference between POCA holders (where 11% felt they had no ID) and the respondents who were completely unbanked (38%). Consumer Focus found that for the completely unbanked respondents this belief was true for four out of ten. For unbanked

respondents who held a POCA the figure was much lower (less than one in thirty).

Knowledge and understanding of retail banking

61. Unbanked respondents in our qualitative research also showed a number of mistaken beliefs that contributed towards their unwillingness to open a bank account. These included beliefs that you had to be employed to open an account, and that there was a regular charge for transactional banking.

<u>Motivators to opening an account</u>

Triggers to account opening

62. Both our qualitative and quantitative research confirm that low-income consumers often require a clear prompt or trigger to overcome their inertia and take up a bank account. Often the trigger to account opening was taking up employment or moving into new accommodation where the landlord required payment through an account. One of the key triggers driving the take up of bank accounts since the Shared Goal was set is likely to have been the move to direct payment of benefits.

Security and convenience

63. The most important practical reasons for wanting to move into banking, cited by 25% of unbanked respondents who wanted an account, was that money would be more secure and that debit cards would be more convenient. Our qualitative research also found that accessibility of cash was a key benefit to opening an account, particularly compared with holding a POCA. The research also found that avoiding the necessity to carry and store cash was a major benefit to having a bank account.

Independence and personal confidence

64. Our qualitative research found that having a bank account (and a debit card with your name printed on it) was seen as a status symbol and that bank accounts were often associated with freedom, self-determination and aspiration. These psychological benefits are confirmed in earlier research[13]. In our quantitative research 23% of newly banked respondents said that they just liked the idea of a proper account. 32% of unbanked respondents who reported wanting an account cited independence as a reason. 24% cited wanting to feel more like everyone else and 17% claimed that holding an account would increase their confidence.

Access to credit

65. Some respondents to our qualitative research said that the ability to develop a credit rating had been a positive outcome of getting a bank account. This was seen as more important by participants who had previously been in debt. Our quantitative research found that very few

[13] Farrel and O'Connor, 2003

(less than 5%) of the unbanked who wanted an account were motivated by the desire to access more affordable credit. Only one study has found that people who become banked have a wider range of mainstream credit facilities available to them[14].

Taskforce Recommendations

Role of the banks and the regulators

66. The progress in extending access to banking that we have noted since the Taskforce was first set up in 2005 has been significant. The basic bank account, as recommended by Policy Action Team 14, appears to have been particularly successful in providing low-income consumers with an appropriate banking product and enabling them to access financial services from trusted mainstream brands. The evidence suggests that the increase in account holding since 2004 has had a positive impact on a large number of low-income households.

67. However, it is important not to take recent gains in financial inclusion for granted. In the current economic climate, some banks may come under commercial pressure to provide fewer services to low-income households. A shift away from low-income consumers could happen unnoticed, unless financial inclusion continues to have a high profile on the government and regulatory agenda.

68. Any increase in financial exclusion will continue to contribute to social exclusion by reinforcing the alienation of poor households from mainstream services. We therefore believe that it is essential for Government and the banks to continue to work together to promote, monitor and deliver satisfactory levels of access.

69. The Financial Services Authority's Banking Conduct of Business rules require banks to communicate appropriate information to their customers, including information, where relevant, on basic bank accounts. We believe that access to bank accounts should be an important part of the FSA's future compliance monitoring for retail banking.

70. If access to banking is not suitably reflected in monitoring and compliance priorities, then it may lose profile and priority to other consumer issues. It is therefore important that banks continue to support branch staff to ensure they are encouraged to welcome all potential customers, to support customers who are new to banking and to help them to meet ID requirements. There should be continuing scrutiny/mystery shopping to check the banks' application of industry guidance including good practice on identity and address verification when opening basic bank accounts for new customers.

[14] Farrel and O'Connor, 2003

Access for undischarged bankrupts

71. Only two basic bank accounts are currently open to undischarged bankrupts, offered by Barclays and by the Cooperative Bank. We would like to see greater provision for undischarged bankrupts. Bankruptcies are likely to rise this year as a result of the recession. This could result in an increasing number of people having a very limited choice of accounts. It could also bring greater pressure on the two providers who currently offer access.

72. We have previously asked for a best practice recommendation in industry guidance on basic bank accounts that undischarged bankrupts should not automatically be refused access to a basic bank account unless they have a record of fraud. Banking industry representatives have said that the reason that the majority of banks decline undischarged bankrupts is legal uncertainty. This could result in the bank being liable for any activity on the account not permitted under the terms of the bankruptcy. In addition it is not clear that banks would not be responsible for 'monitoring' of account activity or subject to onerous terms of operations required under the bankruptcy.

73. We encourage the Government to speak with those banks who do not currently offer access to see whether their concerns can be overcome and access extended.

Bank Fees

74. The key, continuing product-related barrier to take-up is an understandable aversion on the part of low-income households to risk exposing themselves to bank fees. In many cases this aversion is based on previous experience. We have noted recent changes by a number of high street banks to their charging structures for current accounts. However fees for missed payments and unauthorised overdrafts are likely to remain a strong barrier, particularly for some of the poorest households.

75. We therefore believe that there will continue to be a need for a relatively simple, free-to-client service in which consumers do not run the risk of bank fees. At the moment, the POCA has characteristics that meet some of these demands but falls short of offering transactional banking facilities.

Addressing attitudinal and educational barriers to inclusion

76. The continuing barriers to account holding among the unbanked and improved account usage by low-income households are mainly to do with attitudes and behaviours, including a preference for cash budgeting, a level of comfort with the POCA, fear of incurring charges or running up debts and misunderstandings of bank account features.

77. We believe it should be a key priority of the Money Guidance programme to seek to address these consumer issues and to offer guidance and support to encourage low-income consumers to make the transition to full

banking. This means not just opening an account, but also supporting the transition from managing in cash to using an account

The role of intermediaries

78. Where identity and address verification continues to be a barrier, we believe this can be effectively addressed by specialist intermediary organisations such as advice agencies and social landlords working with individuals to support them in finding appropriate forms of ID. Credit Unions and CDFIs can also play a useful role in helping their customers to access banking services, in many cases for the first time.

79. Subject to the findings of a forthcoming evaluation, we believe there may be a good case for continuing the strategic role currently played by the Financial Inclusion Champions. The Champions have responsibility for coordinating a range of intermediary organisations and other service providers at the local level to ensure that financial inclusion issues are identified and addressed through partnerships.

80. Social landlords can be expected to be in contact with a significant majority of unbanked people. Recent changes to the delivery of housing benefit have made it more important to landlords and their tenants to establish a secure way to receive benefits and to make payments towards their rent. Many social landlords currently offer financial inclusion support to new tenants. We believe there is further scope for them to work in partnership with the banks to support new tenants in opening and using a bank account. We think there may be scope for banks to make ‘trusted partner’ arrangements enabling staff at social landlords to open accounts directly on behalf of tenants or, more simply, to support staff in guiding tenants through the account opening process

Role of Government

81. The Taskforce’s terms of reference are due to come to an end in March 2011. We believe that HM Treasury should retain a team with policy responsibility for financial inclusion after this time. We recommend that, from March 2011, HM Treasury undertakes an annual monitoring role for levels of financial inclusion and consults with stakeholders including the banks, consumer groups and the FSA annually to consider whether further measures are needed to promote access to banking.

82. We believe that in future it will be important for Government to monitor the usage of transactional services and poorer households’ ability to use those services confidently. We also recommend that Government seeks to assess levels of account dormancy, particularly for basic bank accounts.

83. We also believe it will be important to continue to measure levels of financial capability to help to understand whether low-income households are making rational decisions not to use transactional banking services such as automated payments, recognising that in some cases it will be rational not to use them.

84. The Government has set out its own vision for digital inclusion[15]. We believe that access to financial services should be considered an important issue in the future delivery of such a vision. As retail banks seek to improve and expand their online services, we would encourage them to work with Government on how these services can efficiently reach the poorest households.

Scope to encourage and promote new banking products for excluded people through the Post Office

85. Having access to financial services depends very much upon services being available from convenient locations. Evidence shows that the Post Office currently plays a key role in the financial management of many low-income households, attracting weekly visits to collect benefit payments and for bill payment services. We know that Post Office branches are popular and accessible outlets for financial services[16], and that Post Office access for basic bank accounts has helped to boost their popularity with low-income households.

86. Significant numbers of the 1.75 million people without access to transactional banking are in possession of a Post Office Card Account (POCA). Many of these customers have made an active choice to receive their benefits through the Post Office, rather than opening a bank account. We believe that introducing additional features to the POCA, such as the ability to receive payments and deposit cash, would be the single most effective way to widen access to transactional banking because it would fit with people's existing preferences and behaviour.

87. We believe there is significant scope for the Post Office to identify opportunities for offering innovative, risk-free payment services that support low-income households with money management and help them to bring down costs. Utility and other service providers could be asked to contribute towards the cost of new payment services, where these provided a direct benefit to them, through reduced arrears and collections activity.

88. We would urge the Government to use this opportunity to fulfil the Prime Minister's promise in October 2009 that the Post Office should "play a much bigger role, bringing banking services back to the heart of people's communities."

Conclusion

89. We continue to believe that access to transactional banking is a foundation for full financial inclusion. We are encouraged by the progress seen so far to bring more low-income households into banking. We believe that future

[15] See here: http://www.communities.gov.uk/communities/digitalinclusion/

[16] See for example Taskforce research delivered by Opinion Leader: http://www.hm-treasury.gov.uk/d/opinion_leader_deliberative_workshops.pdf

efforts to increase access and usage for transactional banking should engage a greater number of stakeholders than the previous shared goal. We also feel that future measurements of banking inclusion should also consider levels of capability, account dormancy and account usage alongside some measurement of whether poorer households are able to reduce the cost of vital services.

90. Meeting the shared goal has shown that real progress in combating financial exclusion can be delivered. However, there is considerably more that could and should be done to extend the benefits of financial inclusion. Going forward, the Taskforce would like to see the Government deliver a new a shared strategy (rather than simply a pure numerical goal). This will require strong and clear leadership, a collaborative approach to developing and implementing the strategy, and engagement of a wide range of actors who can make a difference to the lives of financially excluded people.

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