findings

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Assessing financial products for people on the margins of financial services

A range of new financial products aims to meet the needs of people on the margins of financial services. This project assessed some of the main developments in four areas: banking needs of homeless people; bill payment; financial information and advice services; and savings and asset accumulation. The research, by the Personal Finance Research Centre, used a 'community select committee' approach. Modelled on the parliamentary select committee, these are designed to capture grass-roots opinion on particular topics, with groups of users investigating a specific issue in-depth. The project found:

- Homeless people have a real need for somewhere safe to deposit money. Of the three products presented to these committee members, they preferred The Co-operative Bank *Cashminder Account* because it offered the widest access, did not involve a credit check and handled difficulties proving identity sympathetically.

- For people without a bank account, paying bills can be both costly and time-consuming. Most committee members, however, preferred to continue using tried and trusted methods of payment through local post offices or PayPoint outlets rather than any of the new bill-payment services, despite some of their other advantages.

- Committee members considered three different initiatives dealing with financial advice and money management. They particularly liked the Community Finance and Learning Initiative being piloted by *Bootstrap Enterprises* in Hackney as it combined both one-to-one advice and workshops on money management and financial advice.

- Of a range of new products offering very different incentives to save, committee members thought the *Saving Gateway* offered the greatest incentive; this offers to match savings pound-for-pound (subject to limits on time and amount).

- Broadly, committee members preferred dealing with locally based organisations, partly because of easier access but also because they mistrusted the involvement of both financial service providers and government. But they also wanted products and services to be delivered by established providers with well-trained staff. Consequently, all the initiatives they liked most were ones offered as a partnership between community organisations and either a financial service provider or government.

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There is mounting interest in finding ways of overcoming financial exclusion – fuelled largely by the Treasury-led Policy Action Team 14 report. In the wake of this report there have been important developments in a number of areas. This research focused on: access to banking; bill-payment services; financial information and advice; and savings and assets. In each of these areas, a number of new or proposed services have been designed to meet the needs of people on the margins of financial service provision.

There has, however, been little systematic consultation with the intended beneficiaries about the very different approaches to meeting the same basic need.

This study had two main aims:

- To assess current and proposed initiatives to assist people on low incomes with day-to-day money management and saving, and identify those that most closely match their aspirations and needs; and
- To test and refine the 'community select committee' technique and produce practical guidelines for its use.

Community select committees

The project used a new research technique, 'community select committees', designed to carry out this form of consultation. These are based on the evidence sessions of parliamentary departmental select committees, which investigate a specific issue in depth – for example, the Social Security Select Committee inquiry into the Social Fund.

The research included four community select committees with people on low or modest incomes, who were selected to reflect the range of beneficiaries of the initiatives being assessed. Two of the committees focused on money management: one comprised householders on the margins of financial services, and looked at bill payment and financial information and advice; the other was made up of homeless people who sell the Big Issue, and looked at basic banking. The other two committees considered initiatives relating to saving and asset accumulation: one involved parents; the other young people under 26. All of the participants in the savings committees were either local authority or housing association tenants. Each committee lasted between four and six hours and was facilitated by staff from the Personal Finance Research Centre.

Committee members began the hearing with a general discussion of the topic, which explored their needs, how these were met at present and any that remained unmet. Participants then listened to presentations on three to five initiatives, with each presentation followed by a short cross-examination of the presenter. Before each presentation members were briefed about the distinctive features of the initiative and the sorts of questions they might want to raise, given their earlier discussion of needs. At the end of the day, committee members had a general discussion of all the presentations, weighing up their pros and cons and assessing them against their own needs.

Money management

In general, people on low incomes make little use of bank accounts for day-to-day money management. This is largely because they feel that a cash budget gives them more financial control. Inappropriate bank products and lack of knowledge and trust of financial providers also play a part. The Treasury-led Policy Action Team 14 drew attention to the problems people face in a cash economy. This has led to a number of important initiatives, including the development of basic bank accounts, with no credit facilities; new bill-payment services; and services offering free and impartial financial information and advice.

Banking for homeless people

Very few homeless people have a bank account and they face considerable security risks carrying all their money in cash. This problem is especially acute for *Big Issue* vendors who can be seen collecting relatively large amounts of cash and are frequently mugged. They inevitably need a bank account when they move into paid employment or into rented accommodation, but getting an account can be problematic as they often have inadequate documentation to prove their identity and impaired credit histories.

The Big Issue has been playing a leading role in opening up access to banking for homeless people. The select committee assessed three initiatives in which The Big Issue has been involved:

- *Grand Central Savings,* a simple savings account currently available to homeless people in Glasgow, operated by The Big Issue in Scotland from its Glasgow premises in co-operation with the Bank of Scotland.
- *The Co-operative Bank Cashminder Account,* a basic account that offers many of the facilities of a current account, but cannot be overdrawn as the balance in the account is checked before all transactions are processed. It can be accessed through all post offices and branches of The Co-op Bank as well as any cash machine. This is a joint initiative between the bank and The Big Issue in the North. It is currently being piloted in Manchester, but may be rolled out nationally.
- *Leeds City Credit Union,* a simple savings account, where the money deposited can be used as collateral for loans. This is a local initiative, run by Leeds City Credit Union and sponsored by The Big Issue in the North, but other credit unions have expressed an interest in similar arrangements.

Committee members were concerned about three key issues: ease of cash deposit and withdrawal; the service provider; and identity requirements and credit checks. They also wanted an account that was part of mainstream financial services into which wages could be paid by a future employer. Overall, they felt that the *Cashminder Account* best met their needs and was the closest to what they saw as 'a proper account'. It offered the widest access, did not involve a credit check and handled sympathetically the difficulty homeless people face in providing proof of identity.

Box 1: Co-operative Bank Cashminder account

The Cashminder account is intended to offer *Big Issue* vendors somewhere safe to keep the money they make from sales of the magazine. Special arrangements and processes have been made to assist vendors in opening accounts. In addition, bank branch staff, who have been specifically trained, have been doing some outreach work at the Big Issue offices.

Bill payment

Cash payment of bills can be more costly and time-consuming. Unlike people who pay by direct debit, those paying in cash receive no discount on their bills and those who pay for fuel through pre-payment meters generally pay a higher tariff still.

The select committee considered two new bill-payment initiatives:

- The Woolwich *Open Plan for Everyone account,* which offers up to 12 'savings pots' linked to a basic or current account. Money can be transferred into these pots weekly and then moved back to the current account so that bills can be paid by monthly direct debit. A basic version of the account is currently being piloted with housing association tenants and may be rolled out nationally.
- A bill-payment service offered by *Leeds City Credit Union* to its members (one of a number of credit union initiatives). Based on an assessment of annual expenditure, account holders make regular payments into a special bill-payment account and the credit union pays the bills on their behalf as they fall due.

Committee members felt that a bill-payment service would need to be simple and transparent so that they could retain financial control. They were also concerned about ease of access. On the whole, they preferred the credit union account, but some members felt that neither offered sufficient advantages over the Post Office or PayPoint to tempt them to change the way they paid their bills. They preferred to stick with a tried and tested method of bill payment that they knew gave them financial control rather than trying a new one, even one that offered additional advantages.

Financial information and advice

The select committee assessed three initiatives providing information and advice to people on the margins of financial services:

- *The Money Advice and Budgeting Service (MABS),* which offers one-to-one advice on money management through a network of independent centres across Ireland. (It does not advise on financial products.)
- *Community Finance and Learning Initiative (CFLI) pilot* at Bootstrap Enterprises in Hackney, one of six organisations across England testing ways of delivering financial information and advice to people on the margins of financial services. It offers one-to-one advice and also runs workshops jointly with other local organisations. The pilot service is led by the DfES.
- *Money Advice Plus,* run by Birmingham Settlement, which offers a one-to-one financial information and education service through existing advice agencies in Birmingham.

The discussion of these initiatives focused on the provider and the service offered. Committee members wanted information and advice from a body entirely independent of financial service providers. They favoured independent community-based organisations with well-trained staff who would understand their needs and circumstances. There was, however, no consensus on how the service should be provided. About half of the committee members preferred one-to-one advice; the remainder favoured a workshop approach. Although all three initiatives found favour with committee members, *Bootstrap Enterprises CFLI* was felt to have the edge as it provides advice to individuals and also runs workshops. The *MABS* service, however, had more immediate appeal as it concentrates on money management advice.

Box 2: Bootstrap Enterprises

This CFLI pilot project provides a range of services to help people build financial literacy skills, including one-to-one debt advice and financial literacy workshops run jointly with housing associations and local community organisations. It helps people to access mainstream financial services through advice; help with form-filling; and developing contacts with local financial service providers so that people can be referred to a known person.

Saving and assets

Levels of saving are generally low among people on low incomes. Moreover, existing incentives to save have little or no impact on this group as they are largely based on tax relief. As a consequence, a range of new initiatives has been developed offering different incentives to encourage saving. The select committees considered five quite different initiatives:

- *The Saving Gateway,* set up by HM Treasury but operated through the Halifax Bank. This matches the money saved by people on low incomes pound-for-pound. There is, however, a limit on the amount that can be saved and use of scheme will also be time-limited. It is currently being piloted at five locations; at four of these access is via a local community organisation.
- *The Child Trust Fund* is a proposal from HM Treasury to provide every child with a savings account, opened at birth with an initial endowment from the government. Although not primarily intended to encourage saving, parents can contribute additional money and this could encourage them to save.
- *The tenant asset account,* also only at the proposal stage, is one of several ideas to enable social tenants to gain an equity stake in the value of their home.

Unlike the other ideas, the tenant asset account is designed to encourage further savings by allowing tenants to top up money they earn as 'rental miles' by adhering to their tenancy agreement.

- *The Wealth Club* is currently being piloted in Glasgow. This aims to encourage saving by offering money management training and setting up thrift clubs to help members save and to support continued learning.
- *Helping Hand* saving and loan scheme is one of a number of similar partnership initiatives between housing associations and local building societies. These offer two incentives for saving: savings attract a higher rate of interest as they are underwritten by a large deposit made by the landlord; and, as in a credit union, tenants are able to borrow at low cost against the security of their savings.

Committee members assessed these five initiatives not only on the incentive to save but also on other factors such as product design, accessibility and the provider.

On the whole, the *Saving Gateway* was widely thought to offer the greatest incentive to save, although there was some scepticism about government involvement. The money management aspect of the *Wealth Club* appealed to some; access to low-cost credit through *Helping Hand* appealed to others. The *Child Trust Fund* was felt to offer children from poor families a good start in life but offered less of an incentive for their parents to start saving than other initiatives. There was general agreement that the *tenant asset account* provided the least effective inducement to save.

Box 3: Saving Gateway (Toynbee Hall pilot project)

Toynbee Hall is based in Tower Hamlets in East London. It runs one of the five pilot projects set up across England by the Government to encourage regular saving among lower income households, through the provision of a new type of account that matches savings on a pound-for-pound basis up to a maximum of £375. During the pilot phase, the account will run for 18 months; if it is rolled out nationally, it is proposed that the accounts run for three to five years with a savings cap of £1,000, although this has not been finalised.

Staff at Toynbee Hall have been recruiting people to the Saving Gateway and helping them to open accounts. They assist people with the application form, explain how the account operates and what forms of identification are required. They also encourage applicants to attend financial education courses and workshops being run by the project.

Conclusion

This study has shown that many of the initiatives currently being developed to overcome financial exclusion will meet the needs of those on the margins of financial services. Where they fail to do so, it is often because the advantages they offer do not sufficiently outweigh any disadvantages people currently experience. This was certainly the case for the various bill-payment services. It also applied to a number of the other initiatives assessed, including *Grand Central Savings* and *tenant asset accounts*.

Several other themes also emerged from the select committee discussions. People prefer to deal with locally-based organisations, partly because they offer ease of access but also because they mistrust the involvement of both financial service providers and government. On the other hand, they want financial products and services to be delivered by established providers with well-trained staff. As a consequence, all the initiatives they liked most were ones offered as a partnership between community organisations and either a financial service provider or government.

The study has also shown that community select committees are a very successful way of capturing the views of those directly affected by policies. They successfully shift the balance of power in favour of the intended beneficiaries of new services and away from service providers – who are required to explain and justify the initiatives they are developing and not merely to extol their virtues.

About the project

The project was carried out by Sharon Collard, Elaine Kempson and Nicola Dominy, all of whom work at the Personal Finance Research Centre at Bristol University. It was based on four community select committees, each with between 8 and 14 members.

How to get further information

Further information about using community select committees can be found at www.renewal.net.

The full report, **Promoting financial inclusion: An assessment of initiatives using a community select committee approach** by Sharon Collard, Elaine Kempson and Nicola Dominy, is published for the Foundation by The Policy Press (ISBN 1 86134 550 X, price £11.95).

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