Banking without a bank

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Developing a vision for financial inclusion

The University of Bristol's Personal Finance Research Centre has been working with Friends Provident Foundation to develop an evidence-based vision for financial inclusion over a ten-year time frame, with the support of policy makers, service providers and the financial industry. The research comprised an evidence assessment; roundtable meetings and telephone interviews with financial services providers and other professionals; and community select committees with people on low incomes. This briefing note highlights the findings relating to money transmission services.

Money transmission services are an essential part of everyday life, and are high on the Government's agenda leading up to the introduction of Universal Credit

Appropriate money transmission services can help people on lower incomes to manage their money day-to-day. Money transmission services can also hold the key to accessing other financial services. For example, the cost of credit should fall if a lender can reliably collect payments electronically. And saving can be encouraged as part of budgeting for bills or paying for goods. So, ensuring access to ways of managing day-to-day money is an important component of achieving full financial inclusion.

The planned introduction of Universal Credit from autumn 2013 means that the availability of appropriate money transmission services is high on the Coalition Government's agenda. The Government wants to open up a new market for financial services, to help Universal Credit claimants to budget and manage their money. This new market could include high street banks, mobile phone operators and prepaid card providers.[1]

Meeting day-to-day needs is a key element of financial inclusion

Our vision for meeting day-to-day needs is that everyone has access to, uses and retains:

- an appropriate account (or equivalent product) into which income is paid, can be held securely and is accessed easily;
- an appropriate method of paying, and spreading the cost of, household bills and other regular commitments;
- an appropriate method of paying for goods and services, including making remote purchases by telephone and on the internet;
- an appropriate means of smoothing income and expenditure.

People on lower incomes should be able to use money transmission services without the risk of losing financial control or incurring excessive or unexpected charges.

Can new money transmission services help to meet day-to-day needs?

The nature of banking is being challenged by a range of new entrants that offer money transmission facilities without the need for a traditional bank account. These include 'jam jar' accounts, which generally combine an account to pay bills and a prepaid card, and 'mobile wallets', which provide access to a range of services via a mobile device.

Products like these have many features that are attractive to lower income consumers who want to retain close control over their finances. Consumer research with people on lower incomes for this study indicated that 'mixing and matching' services from different providers might be an attractive alternative to using a bank account.

'Jam jar' accounts can offer users greater control than bank accounts

These types of account are often referred to as 'jam jar' accounts because they mimic the practice of setting money aside in a number of jam jars or similar containers for specific purposes. The basic design of this new generation of money transmission services involves two linked 'accounts':

- an account to pay bills (either a bank account or an escrow account where all clients' funds are held together) into which a regular sum of money is deposited and from which bills and other regular commitments are paid by standing order or direct debit;
- a pre-paid card onto which any remaining money is transferred. This card can be used to withdraw cash from an ATM or to pay for goods and services. Most of these are currently MasterCards, which incur ATM charges.

At the time of this study, three companies offered this type of account: Secure Trust Bank (Prepaid Account), Spectrum Payment Services (CardOne Banking) and Think Banking (Think Banking Account). Around 150,000 people use one of these accounts, with most referred by a debt management company.[2] Account providers may have a full banking licence; others operate with an e-money licence, which imposes a limit on the amount of money that can be paid into the 'account' over the course of a year.

The major advantage of these types of accounts over conventional bank accounts is the much greater degree of financial control that they give the customer, helping people to ensure that bills are paid on time and preventing them from spending more money than they have.

All the jam jar accounts that were available at the time of this study had a monthly charge (typically between £12 and £15 a month) and often a range of other fees, including fees for ATM withdrawals.[3] Taken together, these charges can be high, relative to the incomes of people who are unbanked or marginally banked. Some companies offer ancillary services that can help offset these charges; for example, the Secure Trust Bank account offers a reward scheme linked to its prepaid card.

Mobile wallets enable people to manage and monitor their finances using their mobile phone

Take-up of smartphones in the UK increased from 27 per cent of adults in 2011 to 39 per cent in the first quarter of 2012. Levels of take-up are highest among the under 35s and those in ABC1 households.[4]

One telecommunications company, O2, has developed a mobile wallet that provides an alternative to traditional bank accounts. This enables people to undertake all the basic transactions typical of a bank account, but using a mobile device such as a smartphone. They also include services that are only available with a mobile wallet. These facilities include being able to:

- receive electronic payments (including social security payments) into a stored value account;
- load funds from a range of sources into a stored value account;
- access these funds using a virtual Visa card for online transactions and a linked physical Visa card for purchases and for cash withdrawals at ATMs;
- set up standing orders (but not direct debits);
- make peer-to-peer transactions (for example transferring small sums of money between family members or friends).

Like jam jar accounts, mobile wallets enable people to segregate their money, for example to pay bills, set money aside for Christmas, or retain it as savings. Wallets also allow people to undertake banking transactions while on the move (a feature that may particularly appeal to younger people). Importantly for those on a low income, mobile wallets enable them to manage and monitor their finances using their mobile phone, and it is not possible to overdraw the account so unexpected fees are avoided.

Charges and fees for the O2 mobile wallet include a £1 fee for loading money using cash at an epay or PayPoint terminal (it is free to load money from a debit card or at an O2 shop); £3 for a physical Visa card; and £0.15 to transfer money peer-to-peer (although transfers are free for the first six months).[5]

New money transmission services have created new consumer protection issues

From April 2013 the Financial Conduct Authority (FCA) is responsible for protecting consumers in the financial services market. The Financial Services Bill states that the FCA must 'have regard for…the ease with which consumers, including those in areas affected by social or economic deprivation, who may wish to use [financial] services, can access them'.

Consumer protection is of great importance for new users of financial services and particularly so where they have limited choice or where products sit outside mainstream regulatory control. Generally speaking, regulators will require a greater familiarity with new types of money transmission services that tend to be targeted on people with lower incomes or in financial difficulty and are not covered by the existing regulatory regime. New research from Friends Provident Foundation examines in detail the regulatory issues related to mobile banking and mobile payments, including regulatory gaps that should be addressed.[6]

With the steady increase in providers of money transmission services using e-licences (rather than full banking licences), it is important that consumers have the same level of protection for their money regardless of how their provider is licensed.

Charges for new money transmission services must also be transparent, proportionate and fair. US research has proposed a model fee disclosure box, to help consumers determine the true cost of a pre-paid card and compare different cards.[7]

Working with regulators, the Financial Ombudsman Service also has a role to play in providing an effective system of redress for people who are unreasonably denied access to money transmission facilities or are subject to unfair charges.

Consumers need targeted information and guidance on money transmission services

An important aspect of consumer protection is ensuring that information directed at consumers is fit-for-purpose. If people on lower incomes choose to 'mix and match' money transmission services from a range of providers, they will require readily available information and guidance. This includes comparison information to help people shop around and choose between different types of provider and account.

Information and support is also needed at the time of opening an account or taking up a new service, to ensure that low-income customers get the most out of the services they choose and to help them recognise and avoid potential pitfalls. Service providers and the Money Advice Service alike have roles to play in delivering information and guidance to lower-income consumers at these critical moments.

Notes

1 DWP Press Release, 17 September 2012, 'Freud: New financial products to help Universal Credit claimants manage money'. Universal Credit will replace income-based JSA, income-related ESA, Income Support (including SMI), Working Tax Credits, Child Tax Credits and Housing Benefit. UC will be paid monthly to one person in the household.
2 Social Finance (2011) *A New Approach to Banking: Extending the use of jam jar accounts in the UK*, Social Finance.
3 New entrant banks can themselves be charged higher fees than traditional banks to use the branch networks of banks, Post Offices or PayPoint.
4 Ofcom (2012) *Communications Market Report 2012*, Ofcom.
5 www.o2.co.uk/money/wallet
6 Mike George, Linda Lennard and Kate Scribbins (2013) *Mobile Payments: Problem or Solution? Implications for financial inclusion,* Friends Provident Foundation (online at www.friendsprovidentfoundation.org).
7 David Newville (2012) *Thinking Inside the Box: Improving consumer outcomes through better fee disclosure for prepaid cards*, Center for Financial Services Innovation.

More information

A pdf of this summary is available at www.friendsprovidentfoundation.org. The full research report, *Developing a Vision for Financial Inclusion* by Elaine Kempson and Sharon Collard, is available at www.bris.ac.uk/geography/research/pfrc/themes/finexc/vision.html.

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