

Universal Credit and Financial Products: Developing financial products to help mitigate the impact of welfare reform

**A briefing paper for the National Housing
Federation**

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Introduction

The measures within the Welfare Reform Act represent the biggest changes to the welfare state since Beveridge. In addition to the development of Universal Credit and the direct payment of support for housing costs to the majority of tenants for the first time, there is also discussion within Government that could see the complete phasing out of the Post Office Card Account (POCA) and make the holding of an appropriate account to receive and make payments a requirement of receiving benefit.

As part of its work to support its members to manage the changes for their businesses and tenants, the National Housing Federation is working with DWP and others to look at the opportunities for the use of existing and/or development of new transactional products to support social housing tenants in receiving and managing their money and payments.

The Federation has therefore commissioned Toynbee Hall, as Financial Inclusion experts, to provide a briefing paper for Federation members on the role of transactional accounts in mitigating the potential negative impact of welfare reform on members and their tenants.

Toynbee Hall has been a leader in financial inclusion since 2002. We work with government, financial services and social welfare providers to develop effective financial inclusion solutions, which support households to manage their money better and reduce the impact of poverty on individuals, organisations and communities.

We provide specialist consultancy, training and evaluation services to the social housing sector to reduce the impact of financial exclusion and enable families to sustain tenancies.

For more information log on to www.toynbeehall.org.uk/FITC or email FITC@toynbeehall.org.uk.



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Executive Summary

- The Welfare Reform Act of March 2012 will introduce significant changes to the way in which benefits are paid. All elements of work-related benefits will be paid in a single payment to the recipient monthly in arrears, including support for housing costs.
- A significant number of social housing tenants remain unbanked, only have a Post Office Card Account which cannot make onward payments, or have a bank account which they use as a cash deposit box or not at all.
- The combination of Universal Credit (UC) and Direct Payment to claimants (DP) with the low levels of financial inclusion among social housing tenants could lead to a significant rise in arrears and personal debt, leading to rising costs for social landlords.
- Lessons from Direct Payment of LHA to claimants show that the majority of tenants could manage, given appropriate support. A small percentage however either struggled to manage payments or refused to pay. This evidence highlights potential challenges for UC and DP.
- Given the new need for tenants to receive and pay out large sums of money, appropriate financial products are crucial to mitigating the potential negative impact of Universal Credit.
- Many social housing tenants still receive benefits payments into a Post Office Card Account, which cannot make outward payments other than in cash to the account holder.
- Basic Bank Accounts, Budget Accounts and Pre-paid cards, together with enhanced Post Office services, could provide effective and accessible solutions.
- Basic Bank Accounts offer all the features of a Current Account without access to an overdraft. They have no regular fee, but incur penalty fees for returned payments.
- Budget Accounts, also known as 'jam jar' accounts, are a recent addition to account services, and offer a structured bill payment service to users and service providers. There is usually a fee, which varies in level depending on the provider. In some cases the landlord is charged; in others, the tenant; or both.
- Budget Accounts already exist, but the scale of current provider infrastructure is unlikely to meet demand or provide sufficient geographical coverage.
- Pre-paid services are well used by low-income customers to manage bill payments. However pre-paid services currently require users to make cash payments or have a transactional account to load cards and make payments.
- There is little quantitative data on the effectiveness of Budget Accounts in tackling financial exclusion and poor money management. However anecdotal evidence and emerging case studies show tenants welcome the features of the account and use it effectively to manage bills.
- Crucially, without central coordination the pressing need for bill payment and budgeting solutions could lead to significant resources being invested on an ineffective, piecemeal basis.
- The knowledge and technology already exist for Budget Accounts. Coordination, ideally from the Government (e.g. DWP), is now urgently required to harness existing knowledge and resources effectively in order to achieve the scale required in time for Universal Credit roll-out.
- In order to encourage and enable suppliers to share knowledge, scale up and deliver adequate coverage, and to encourage users to take up Budget

Accounts, suppliers need to know that their costs will be covered. This could be achieved through payments by landlords or other service providers, fees to tenants or through government subsidies.

- Options for potential Budget Account supplier contracting include:
 - A single provider – this could achieve quick delivery but limit competition and choice;
 - A single consortium – this would offer more choice but limit competition;
 - Multiple providers or consortiums – this would increase competition and choice, but could result in uneven delivery and standards;
 - A set of Budget Account standards – suppliers which meet the standards would be eligible to act as a registered provider. We recommend this option as most likely to create long-term products and services which meet tenant and service provider needs.

Introduction

This briefing paper is intended to support Federation members' knowledge and understanding of the role an appropriate transactional account can play in supporting the secure receipt of benefits by a social housing tenant and the regular payment of rent.

Background

Welfare Reform and Financial Capability

The Coalition Government's Welfare Reform Act (March 2012) will significantly change the way in which welfare benefits recipients receive payments, as well as reducing the overall level of benefits paid by the Government. Table 1 below sets out the procedural changes for payments.

Table 1: Procedural changes in benefits payments under UC and DP

Existing Benefits Payments Structure	UC and DP
Each benefit paid separately	All UC benefits paid in one lump sum
Fortnightly or weekly payments dependent on benefit claim date	Monthly payments in arrears (up to 38 days in arrears for first payment)
Benefits made individually to named claimant	All benefits paid to one designated adult in household
Payments made to any transactional account, Post Office Card Account or by cheque	All payments made to an account, ideally transactional (i.e. bank or Credit Union) or through Simple Payment Service (run by Citibank and Paypoint)
The majority of social housing tenants choose to have Housing Benefit paid direct to landlord; LHA paid direct to claimant (unless exception made)	All Housing Benefit and LHA included in UC payment to recipient for onward payment to landlord (unless exception made)
Claims made in person, phone, post or online	Majority of claims made online

These two key procedural elements of the Coalition Government's Welfare Reform Act (2012) will combine to change significantly the way in which benefits are paid; **UC** and **DP** will create the single largest shift in how low income households will be required to manage their money since the introduction of the welfare state. The Government's stated goals for UC are to: reduce dependency on benefits; reduce benefits expenditure; and make work pay (through removing the steep drop in benefit entitlement when additional hours are worked).

Housing Benefit

A key strand in achieving these goals is to transfer responsibility for receiving and making payments to benefits recipients, including for housing costs. The majority of tenants in social housing entitled to Housing Benefit (HB) currently choose to have it paid directly to their landlord. For those tenants whose rent is covered entirely by HB, this removes the need for the tenant to manage their rent in any way. For tenants whose rent is only partly covered by HB, they are required only to manage a small

part of their rent. From October 2013, following a regional pilot, benefit claimants across the country will gradually transition to UC, of which DP are a fundamental element. "Vulnerable" recipients will be exempted from DP, although the Government has yet to define "vulnerable"; a DWP Support and Exceptions Working Group consisting of DWP staff and over 60 non-profit support and housing providers are currently considering which categories of tenants should be exempt and how vulnerability should be assessed.

Housing Benefit was first introduced in 1982, although its origins lie in earlier housing subsidies launched in 1919 to make council rents more affordable. By 1972, local authorities were obliged to provide rebates for their own tenants and allowances for private tenants. The existence of two schemes was confusing, so HB was introduced to simplify the system; ironically, HB's earlier years were chaotic, with high levels of confusion and late payments to tenants and landlords. These problems led to widespread criticism followed by significant administrative and procedural changes. As rents rose in the 1990s, government began to introduce measures to restrict HB levels. Landlords were entitled to request direct payment of HB in cases where tenants were 8 weeks in arrears or where there was sufficient evidence to suggest that the tenant would have difficulty managing rent payments. Increasingly, HB was paid directly to landlords, which avoided rent arrears and enabled many social landlords to reduce rents in return for guaranteed rent payments. Following the introduction of Housing Benefit Regulations in 2006, HB was split in 2008 into two different systems: Housing Benefit (or Rent Allowance) for claimants living in social or council housing who had claimed before April 2008, and Local Housing Allowance (LHA) for claimants in private accommodation claiming after April 2008.

Increasing Personal Financial Responsibility through DP: the LHA Evidence

A key aim of LHA was to improve financial inclusion and equip tenants with money management skills so, unlike the majority of HB payments, LHA is paid directly to claimants, unless they are in arrears of 8 weeks or more, or have other specific reasons for exemption which mean they would be unlikely to manage DP (such as addiction or mental health problems) or a history of non-payment. Although tenants in social housing have higher levels of exclusion and are more likely to be vulnerable than tenants receiving LHA in private housing, LHA is nonetheless the closest indicator of the likely impact of changing the process of HB payments away from the landlord direct to the claimant. A two year evaluation of LHA reached the following conclusions on personal responsibility of tenants when receiving and making rent payments directly (DWP, 2011):

- Relatively high levels of direct payment to tenants were achieved under LHA. In February 2010, 81 per cent of LHA cases were receiving DP, compared to 46 per cent of Non-LHA cases in the private rented sector. 8 per cent of LHA recipients in February 2010 had their benefit payments made to the landlord, due to arrears of eight weeks or more.
- A study of 1,910 LHA claimants across 9 geographical areas of the UK in 2011 showed that 72 per cent of LHA claimants were receiving their LHA directly. 88 per cent of all respondents were up to date with their rent payments, 11 per cent were in arrears and only 1 per cent did not know the state of their rent account.
- However claimants whose LHA was paid directly to their landlord were more likely to be in arrears (20 per cent) than were tenants whose LHA was paid directly to them (nine per cent). One of the grounds for paying the LHA directly to landlords

was eight or more weeks' rent arrears, so higher arrears levels in the LHA paid to landlord group was to be expected.

- Even so, given that nearly eight out of ten claimants whose LHA was being paid direct to the landlord were not behind with their rent, the implication is that the majority of claimants whose LHA was being paid to their landlord was doing so because the local authority had identified them to be vulnerable or otherwise unable to pay the rent themselves, rather than because they were in rent arrears. Another possibility was that they had been in arrears but had been moved to payments direct to the landlord and the arrears had subsequently been cleared.
- Claimants who had a shortfall between the rent and their LHA were more likely to be in arrears than those who did not have a shortfall; 13 per cent of claimants with a shortfall were in arrears, compared with eight per cent of those with no shortfall. This trend could play a useful role in modelling the impact of an overall cap and size criteria on households' ability to cope with potential shortfalls.
- Two-thirds of claimants who were behind with the rent said it was the first time they had been in arrears in their current accommodation. The fact that the remaining third had been in arrears on a previous occasion at the same address suggests that rent arrears can recur.
- Claimants whose LHA was paid direct to their landlord (33 per cent) were equally likely to have been behind with their rent on a previous occasion in their current accommodation as claimants whose LHA was paid to them (34 per cent).
- When asked to name the single most important reason for being behind with the rent, a wide range of factors were mentioned, including income shocks such as job loss (nine per cent) and a change in income (13 per cent). Other responses included on-going financial causes, which related either to their income or to their rent. One in six said that the single most important reason for their arrears was that they were not paid enough.
- Eighty-nine per cent of LHA customers receiving HB directly were paid by Automated Credit Transfer. These figures have been steadily rising every quarter since November 2008.
- Research highlighted that misalignment of HB payment and rent cycles and general constraints of budgeting on a low income deterred claimants from using standing orders to pay rent. For example, in February 2010, HB payment periods did not match rent periods for about 93 per cent of LHA claimants. This misalignment, coupled with the possibility that LHA could be reduced following the anniversary date of the claim due to the fact that entitlement could theoretically change, were both highlighted as hindering good financial management by tenants.
- Evidence on financial management of tenants was mixed. Some tenants took the responsibility of paying rent very seriously, but landlords raised concerns about a 'significant minority' of tenants who were not managing.
- Many tenants, landlords and LA and independent advice agency advisers raised concerns over the success of the safeguards in protecting tenants in vulnerable situations. Crucially, eight weeks was considered too long a period to wait to transfer payments to landlords. Evidence showed landlords lacked awareness and experienced difficulties in providing acceptable supporting evidence for the discretionary safeguards. The most common reasons for rejecting claims to have payments directed to landlords was that evidence did not support that the tenant was ineffectively managing their finances (85 per cent) and that LA advisers were unable to source any additional evidence other than that from the landlord and customer (43 per cent).

The experience of the LHA pilots, in which levels of direct payment to tenants of around 80 per cent were achieved, showed that fears about large scale arrears were not realised. Both DWP's evaluation (DWP, 2007) and research commissioned by the Joseph Rowntree Foundation (Irvine, 2007) found that tenants had a strong commitment to paying rent, not falling behind in payments and gave rent a high priority compared to other household bills.

Direct payments to claimants were lowest to younger, single, males, on passported benefits, with disabilities or in Scotland or one of three northern regions. These groups were therefore probably less likely to experience increased personal responsibility through the LHA scheme. However, single, under 25 shared accommodation rate tenants were of average likelihood to receive direct payments. A high proportion of tenants with disabilities had payments directed to the landlord due to the "difficulty paying" or "unlikely to pay" safeguards, which indicated that, at least to some extent, the safeguards were operating as intended for these tenants. (DWP, 2011)

Landlords highlighted that arrears occurred both as a result of LHA being paid in arrears and due to initial claims taking a while to process. Aside from these "technical arrears", landlords reported two types of arrears:

- irregular arrears, often caused by financial crisis or decisions to spend rent money on other things;
- and committed non-payers who had no intention of paying rent.

To avoid arrears some tenants on the LHA scheme had adopted various strategies such as:

- coinciding paying rent with receipt of HB;
- paying rent as soon as receiving HB (regardless of rent due date); and
- separating HB from other money upon receipt.

The LHA experience, then, showed that moving the majority of tenants to DP was achievable without a significant increase in rent arrears. The key concern in the LHA experience was around those with specific challenges that undermined their ability to manage payments, and those who "wouldn't pay". However the only systemic solution in these cases appeared to be applying for payment direct to the landlord.

Previous Measures to Support Social Housing Tenants in Money Management

The DWP's Family Resources Survey shows that the majority of those who are financially excluded are resident in social housing. Key areas are access to banking, lack of insurance, lack of access to affordable credit, access to advice and financial capability. To date, attempts to support specifically social housing tenants in the UK in managing the receipt and payment of money through the use of financial products has been limited to individual projects by social landlords, Credit Unions and third sector support agencies. Examples of local/organisational work with social housing tenants on using financial services include:

- Increasing uptake of Credit Union savings accounts
- Increasing uptake of current accounts, usually Basic Bank Accounts
- Increasing uptake of home contents insurance
- Increasing access to affordable credit and reducing exposure to loansharks and doorstep lenders

There are a wide range of examples at the local/regional/organisational level on these projects (and too many to list here in full – Budget Account case studies are provided further below). The key common theme is that changing financial behaviour, including use of financial products, requires significant resources in the form of repeated information and 1-1 contact for the majority of social housing tenants. Projects which used intensive face to face work and regular multi-media information campaigns had greater success in engaging tenants and encouraging them to try new forms of payment and money management products and services than those which used only written information campaigns. Tenants struggled with a range of issues, from understanding and filling in forms to keeping up with admin and payments. Further demand-side barriers are described later in this briefing.

More broadly, under the Labour government of 1997-2010, financial inclusion work was channelled through the HMT Financial Inclusion Taskforce (FIT) and focused on reducing the number of unbanked through increasing access to Basic Bank Accounts, increasing access to affordable credit through supporting the growth of the Credit Union sector (DWP Growth Fund), and increasing access to free, quality money advice. Specific programme strands included:

DWP's Now Let's Talk Money (NLTM, 2006-2011): NLTM ran a national campaign, which in its first phase sought to raise awareness of money problems amongst financially excluded groups using a range of media, including local radio and posters. It promoted a telephone helpline, which callers could use to discuss their financial concerns and be referred on to services in their area. An evaluation found that target groups were very hard to reach, that the media channels had limited effect and there were issues with getting the balance right between creating new demand and ensuring that there was adequate supply. NLTM also encouraged service providers to work in partnership to increase the supply of effective financial inclusion services and products, and supported this work through a network of dedicated Financial Inclusion Champions.

Saving Gateway (never launched): This initiative was to have been rolled out in 2010 to address low savings levels amongst low income households and was a savings incentive scheme for those on working age benefits. The scheme was scrapped in 2010 by the new Coalition Government.

Money Guidance (FSA/CFED/MAS, 2010–): This service is aimed at helping people access non-product related guidance on their personal finances, covering areas such as budgeting, saving and borrowing, insurance and retirement planning. Money Advisers, funded by the Money Advice Service (and delivered in England and Northern Ireland through A4E, in Wales through Citizens Advice Cymru, and in Scotland through Citizens Advice Scotland) through partner organisations, can deliver 1-1 sessions through any frontline service delivery organisation, including social landlords. Once a frontline delivery organisation has booked a Money Adviser to attend, tenants are able to book individual sessions to discuss their own personal finances.

Growth Fund (DWP, 2006-2011): The Growth Fund sought to increase the supply of affordable credit to low income households through building the capacity of third sector suppliers. 317,798 Growth Fund loans were made in deprived communities from July 2006 up to the end of September 2010, with a total value of over £137

million. Growth Fund loans and associated financial services were available to financially excluded individuals from about 150 lenders (the number has fluctuated slightly as credit unions merged or new lenders joined the project) serving about 400 towns, cities, and several rural locations across Great Britain. This level of service to financially excluded communities did not exist prior to 2006. (Collard, 2010) Whilst the Growth Fund has now ended, DWP have secured additional funding of £38 million to develop the Credit Union sector further through supporting collaboration, modernisation and expansion.

Improving Financial Confidence in Social Housing Tenants (Big Lottery Fund, 2012-):

The Big Lottery Fund have just awarded grants totalling up to £30m to consortium projects across the country aimed at improving financial confidence amongst three distinct groups of social housing tenants:

1. New tenants
2. Young tenants
3. Tenants moving in and out of work.

This programme is intended as a national learning campaign to identify effective solutions in tackling financial exclusion amongst social housing tenants and will run until 2018.

Overall, then, there has thus far been no national or large scale programme aimed at improving the way in which social housing tenants access and use financial services. Some social housing tenants will have benefitted from the FIT's focus on reducing the unbanked, but there are still at least 1.5m unbanked nationally, and social landlords are reporting up to 20% of their tenants are effectively unbanked as they collect data in preparation for UC. In that regard, then, UC and direct payment to claimants provide welcome impetus and added urgency for raising the profile of the need to improve access to and use of transactional banking among low income households.

Banking Products for Low Income Households

Low income households typically struggle to access and use financial services. Supply and demand side barriers are outlined further below. The main types of products for making and receiving payments are:

Post Office Card Account (POCA): This account:

- can only be opened with a letter proving entitlement to benefits;
- can only receive benefit payments;
- cannot make any cheque, automated or electronic payments;
- can only be used to withdraw cash from Post Office counters during opening hours;
- has no charge to the user;
- can have a second card if account holder needs someone to collect cash on their behalf; and
- has no credit or overdraft facilities.

Low income and vulnerable customers often prefer the POCA as is it very simple to use and has no risk of debt. DWP are reluctant to pay UC into a POCA as it would force the user to withdraw large sums of money in cash to make rent payments, and is unlikely to increase financial capability for users.

Credit Union Current Account

Increasingly, Credit Unions offer a Current Account which mimics a Basic Bank Account (see below). However, the majority of Credit Unions charge for their Current Accounts (up to £5 per month).

Basic Bank Account (BBA): This account:

- can be opened with a wide range of identity (ID) and address verification (AV) documents;
- can receive benefits and other payments;
- can make cheque, automated and electronic payments (specifics vary between providers);
- can be used to withdraw cash from branches and ATMS (services vary between providers);
- has no significant overdraft facility (some have a small buffer of £10-15);
- has no on-going charge for the user;
- and does incur penalty fees for returned Direct Debits and other electronic payments.

Table 2: Comparison of Features of Current and Basic Bank Accounts

Current accounts vs Basic Bank accounts	Current accounts	Basic accounts
Cash card with PIN number to get cash out of a machine	Yes	Yes
Direct debits and standing orders	Yes	Yes
Online and telephone banking	Yes	Yes
Pay in money via cash, cheques, wages, electronic transfer, pension or benefits	Yes	Yes
Debit card	Yes	Sometimes
Cheque book	Yes	No
Interest on credit balance	Sometimes	No
Monthly statements	Yes	Statements are available but they are not always monthly.
Access to credit (eg overdraft)	Yes, but there are extra charges.	No. Some have a small buffer (£10 - £15). Charges for direct debits and standing orders will take you over your limit. Can cost from £5 to £38.
Access to a cash machine	Yes	Yes, although some banks only allow you to use their machines.
Counter service in bank branches	Yes	Some basic accounts have full counter services, some have restrictions. Basic accounts allow you to use a Post Office to pay in or withdraw money.

Table 3: Providers of Basic Bank Accounts

Provider	Account	Receive payments	SO and DD
Bank of Scotland	Cash Account	Y	SO and DD
Barclays	Cash Card	Y	SO and DD
Clydesdale Bank	Readycash	Y	SO and DD
Cooperative Bank	Cashminder	Y	SO and DD
First Trust Bank (NI)	Basic Bank Account	Y	DD
Halifax	Easycash	Y	SO and DD
HSBC	Basic Bank Account	Y	SO and DD
Lloyds TSB	Cash Account	Y	SO and DD
Nationwide	Cash Card	Y	SO and DD
NatWest	Basic Account	Y	SO and DD
Northern Bank (NI)	Northern Personal Access (Basic)	Y	SO and DD
Royal Bank of Scotland	Basic Account	Y	SO and DD
Santander	Basic Account	Y	SO and DD
Secure Trust Bank	Current Account	Y	SO and DD
Ulster Bank	Step Account	Y	SO and DD
Yorkshire Bank	Readycash	Y	SO and DD

Jam Jar or Budget Accounts: These accounts are relatively new to the market and are not yet considered mainstream. Budget Accounts are designed to make bill payment easier for people with lower financial capability, and in doing so provide reassurance to service providers that they will receive their payments on time. Key features of a budget account are (Social Finance, 2011):

- Can receive benefits and other payments;
- Can make automated and electronic payments;
- Allow customers to split their account balance into "Jam Jars" for spending, saving and bill payment; and
- Support customers to improve their budgeting and bill payment behaviour through low balance alerts and automated transfers of funds between Jam Jars.

For these accounts the focus is less on accessing cash (although they may have a debit card and provide access to ATM withdrawals), than on introducing automated bill payment systems to low income households and individuals with previous poor experience of automated banking. Social Finance's report also recommends that Budget Accounts should ideally give customers access to trained "Money Managers" that can provide budgeting advice and referrals to specialist consumer services (e.g. debt advice) where necessary. This aspect of the service will necessarily increase costs.

At the time of Social Finance's report in to Jam Jar Accounts, only four providers were evaluated as offering a Budget Account that met these criteria (taken from Social Finance's report, 2011):

Money Manager Account, Royal Bank of Scotland:

- No charge to customer;
- Supports customers to divide their funds into two or three sub-accounts: bills, spending and (optionally) savings;
- Customers can separate the funds required to pay bills from discretionary expenditure by establishing a standing order from the bills account to the spending account on the day income is received;
- Offers two optional, automated functions to help the customer budget: "Regular Sweep" and "Safety Net". Regular Sweep transfers some or all of the remaining funds in the spending account to the savings account at the end of the month to encourage regular saving. Safety Net automatically sweeps funds from the spending and / or savings account if a shortfall is anticipated in the bills account;
- Customers may pay in funds by cash and cheque over the counter at RBS/NatWest branches;
- Account may receive funds via direct bank transfer;
- Only offered to existing RBS customers with debt problems with the bank.

Prepaid Account, Secure Trust Bank:

- Flat monthly fee of £12.50;
- Enables customers to subdivide their funds between the main account and a prepaid card;
- Receives benefits and other payments electronically;
- Funds are transferred onto the prepaid card by standing order at a level and frequency defined by the customer in a telephone call at start up;
- Encourages customers to retain enough in their main account to pay regular bills;
- Can sweep funds back to the main account from the card or vice versa if required;
- No overdraft facility;

- No penalty fees for returned standing orders or direct debits;
- Provides a range of budgeting support through personal money advisers and online links to MAS;
- Can earn 3-4% cashback at more than 30 UK retailers offering a route to offset some of the fixed management fees;
- In 2011 around 10,000 customers.

CardOne Banking, Spectrum Payment Services:

- Flat monthly fee of £12.50
- Customers can divide funds between a main account where income is received and bills are paid, and a card account that can be used for discretionary expenditure;
- Receives income and benefits through cash, cheque and direct bank transfers;
- Automated payments only by Standing Order;
- Text message service offers range of automated alerts including balance alerts, large deposit alerts, bill payment alerts and low balance warnings;
- If customers do not respond to insufficient balance warnings, account will continue to try to pay the bill for three days, but bills will be unpaid if there remain insufficient funds;
- Customers can use text messages to transfer funds from the main account to the card account and vice versa;
- Customer budgeting is supported by personal account managers who offer, in addition to the budgeting service, bill grouping and smoothing advice;
- In 2011 around 12,000 customers.

ThinkBanking Account, Think Banking Ltd.:

- Flat monthly fee of £14.50;
- Can divide funds between a main account accessed via a debit card for discretionary expenditure, and a bill account into which all income is received and a proportion retained to ensure sufficient funds for payment of bills with the remainder swept to main account;
- Funds in the bill account are ringfenced and can be accessed by customers only through a conversation with a Money Manager;
- Money Managers help customers to set-up bill payments and automated sweeps from income into the bill account, and to amend these if circumstances change;
- Receives income through cash, cheques and direct bank transfers;
- Direct debit and standing order payments;
- In 2011 around 100,000 customers.

Since Social Finance's report in 2011, new providers have entered the market and/or existing providers have begun to offer Budget Accounts or other payment options.

Other Providers in the Budget Account and Bill Payment Market:

Credit Unions: Credit Unions are the most significant entry to the Budget Account market since 2011. Many Credit Unions were already offering a current account, supported by the Cooperative Bank infrastructure, but these accounts mainly mimicked Basic Bank Accounts in offering standard Direct Debits and Standing Order payments. The progress towards UC has prompted more forward-thinking Credit Unions to develop pilot Budget Accounts. Examples include Leeds City Credit Union, Walsave Credit Union (Walsall area), LASER Credit Union (Rotherham), Clockwise Credit Union (Leicester, Leicestershire and Rutland), amongst others. These accounts are comparatively new and there is currently limited evaluation data on how effective they are at supporting people to manage their bills. However, anecdotal evidence from individual Credit Unions is that there is good uptake

and usage of these accounts. As each Credit Union is significantly smaller than a mainstream financial institution, it is harder for Credit Unions to achieve economies of scale. Nonetheless, Credit Unions are trialling a range of fee levels and methods, from charging the landlord but not the customer, splitting the charge between the landlord and customer, or just charging the customer. Fees to customers and landlords vary; current data shows fees range from £1 per transaction to £10 per month. However, some Credit Unions are not yet able to cover their costs if they are charging at the lower end of the price range, but are willing to loss-lead the service to attract new customers and build scale. Good practice examples include:

Walsave Credit Union and Walsall Housing Group: Budgeting/ Rent Payment Accounts

- Walsave offer a LHA payment service, working with 500+ Private Rented Sector landlords and manage 14,000 tenant accounts. Two types of account are offered:
 - The rent payment account: allows customers to have their LHA paid in and then transferred straight to the landlord. Customers pay for the cost of the BACs transfer to the landlord, currently £1 per transfer with an average of two transfers a month.
- The budgeting account: allows customers to have their LHA plus other wages or benefits paid in and money is ring-fenced for bills as well as rent. Costs a flat rate of 75p per week.
- Walsall Housing Group offer budgeting accounts to any resident. In February 2012 WHG were paying £18 per resident for a total of 42 residents, the majority of whom were working. A pre payment card is included in the budgeting account package.
- Many people begin by just using the account for the savings element of their loan repayment. However the CU has noted that customers increase the use of the account over time, using it for bill payment as well as saving, as they develop more of a relationship with the CU and increase their understanding of what the CU can offer.

Neath Port Talbot Credit Union Rent Account

- Tenants must first become a member of NPTCU Credit Union. If agreed, the landlord, tenant, and Credit Union must all sign a Housing Benefit Agreement form.
- The NPTCU Rent account model requires the landlord, tenant and Credit Union to agree a 5% charge per transaction which is split 2.5% to tenant's savings, 2.5% to cover admin costs.
- Once a membership is set up and the Housing Benefit agreement is complete and signed by all 3 parties, the agreement is sent off to Local Authority's Housing Benefit Department.
- Neath Port Talbot County Borough Council's Housing Benefit department have agreed to send all benefit payments to NPTCU with the tenants' membership number as the payment reference. (This is shown on the Agreement form when sent off to the council).
- Benefit payments are received by NPTCU on a fortnightly basis and are apportioned according to the Housing Benefit Agreement. The custom-built system then generates a remittance to be emailed or posted to the landlord.
- Currently, there are 30 landlords with 201 tenants in receipt of Housing Benefit using the NPTCU rent account scheme.
- Feedback from landlords includes; not having to worry about collection of rents, a cost saving in rent collection/arrears services, an assured cash flow, and importantly for those using the scheme, rent collection rates have increased from between 74-79% to 95% which supports property maintenance programmes which improve the property and therefore the living standards of the individual tenants.

Clockwise Credit Union: RENTS for Landlords Scheme

Clockwise Credit Union introduced a new rent collection scheme for landlords in March 2012:

- The Landlord signs up to the service with Clockwise and agrees to some simple terms and conditions.
- The member/tenant agrees to have all or part of their income paid into a Clockwise RENTS account or if they are eligible into their Clockwise current account. This may be wages, their universal benefit payment, existing benefits or just housing allowance.
- They instruct their benefit office or employer to deposit the money into their chosen RENTS account where Clockwise safeguards the agreed amount and then makes the payment to the landlord on an agreed date.
- The landlord will receive two weeks' notice for changes in the amount of benefit and two months notice for cancellation of the payment.
- Clockwise asks the Landlord to pay £5 per tenant per transaction.

Paypoint: Paypoint currently provides the following methods for bill payment:

- magnetic swipe cards
- chip and pin cards
- e-vouchers
- barcoded bills
- electricity prepayment meter key (charging up)
- quantum smart gas card (charging up)
- contactless smart card (charging up)

For customers using prepaid cards, the customer loads cash onto a pre-paid card and uses that to pay the respective bill. Cards supported by Paypoint are:

- Maestro and Mastercard pre-paid debit cards
- paysafecard
- O2 Wallet
- Tuxedo
- Vanquis
- Virgin Money.

However these payment methods require either that the customer takes cash to the Paypoint counter in a shop, or that they have a transactional account from which they can make electronic or card payments. Therefore Paypoint does not currently have a holistic solution for tackling the DWP's goal that currently unbanked UC recipients can move away from a POCA and so do not need to withdraw large sums of cash to pay rent. A new Simple Payment service, to be run by Paypoint with Citibank and which will allow unbanked claimants to receive benefits payment, is likely but there are few details available at present.

Allpay: Allpay is the largest bill payment service provider for the social and government sector. Like Paypoint (which it cooperates with to create the payment systems it offers), it offers a range of payment methods from pre-paid cards to direct debit payments. Like Paypoint, it requires customers to load cash onto pre-paid cards or to transfer payments via direct debit. Payments are free for the customer.

Supply-Side Barriers

Whilst there has been some growth in interest in providing money management systems for low income households, it is notable that, with the exception of RBS' Money Manager Account for RBS customers in arrears and Citibank's new partnership with Paypoint, the mainstream banking sector has yet to make a significant entry into the market. Barclays and Lloyds Banking Group are both exploring the concept of Budget Accounts, but neither have yet announced any significant investment or launched a product. The key interest comes from the Credit Union sector and the pre-paid card/contactless payments sector. The key driving force behind this segmentation of interest is that both these service providers (CUs and pre-paid cards) already have, or wish to have, a significantly large share of the low income consumer market through existing services, whilst the mainstream banking sector traditionally views low income customers as challenging. Mainstream banks do formally offer banking products for this client group, but this originally came about under duress from the Financial Inclusion Taskforce (FIT), and there are increasing signs that mainstream banks are downgrading the Basic Bank Account, such as withdrawing free use of ATMs in other banks. For mainstream banks to enter the Budget Account market with real intent, there would need to be a wholesale shift away from seeing low income customers as a burden. We had anticipated that, once mainstream banks realised the sums of money that will flow through low income accounts with the advent of DP, there would be a surge in interest, but that has not yet been the case. The British Bankers Association is still in discussions with mainstream banks over how to respond to the need for better banking for low income customers.

For other recent entrants to the market, such as Credit Unions and other alternative providers, the key barriers to expansion are development, delivery (both in terms of brand and resources required for sign-up and support), and marketing costs. For Credit Unions, which are the most obvious providers of these accounts, their geographical scope is usually too limited to be able to serve a significantly large number of customers to reduce costs. Nonetheless, some Credit Unions, such as Leeds City Credit Union (LCCU), have ambitions to increase their delivery scope on a national scale through partnerships with Registered Providers. Such an increase in scale could produce a cost structure which would be much more sustainable for the customer and landlord alike. For providers such as Paypoint and Allpay, the challenge will be to create a holistic payment process which does not require the customer to withdraw large sums of cash from a POCA. Collaboration with the Post Office would seem to be the ideal solution in this case. A significant barrier for larger, mainstream or online providers is the level of contact which the least financially capable customers need in order to learn a new payment system successfully, which in turn drives up the cost (and hence in part why the four Budget Account providers identified in the Social Finance report charge higher fees.)

Key barriers to providing financial services in general include:

- Lack of awareness of acceptable ID and AV documents or overly-restrictive requirements
- Lack of trained front-line staff able to identify needs of low-income or vulnerable customers
- Corporate culture focused on profit-making products and services
- Culture of up-selling where inappropriate to meet targets
- Lack of confidence amongst front-line staff to work with customers with additional needs
- Lack of knowledge amongst front-line staff about Basic Bank Accounts

- Physical barriers which prevent people with disabilities accessing services (disproportionate number of people with disabilities are low-income or on benefits)
- Language barriers to serve ethnic communities
- Lack of senior leadership to promote financial inclusion as a core service area
- Limited branch coverage in rural or disadvantaged areas

Demand-Side Barriers

In 2011 Social Finance estimated that only around 150,000 UK consumers were using a Budget Account. Part of the reason for this low figure was that the three accessible brands for non-RBS customers were generally unknown to the majority of potential low income customers. For people with limited financial resources, as with the majority of the population, a trusted brand is key to creating behavioural change. Users need to know that their money is safe and accessible, and that it is not going to get eaten up by unexpected fees and charges. Saving from Poverty, a social enterprise focusing on access to financial services for low-income consumers, in response to Social Finance's report highlighted the need to consider the impact on consumers of small scale providers and encouraged the discussion to include larger scale provision at lower cost. Consumer Focus research (2012) suggests that low-income consumers likely to be affected by Universal Credit would be significantly more likely to access and use Credit Union services if they were available through Post Office branches, and 74 per cent of POCA users surveyed said that a Budgeting Account accessed through the Post Office would better suit their needs compared to a POCA.

Key barriers to using financial services in general include:

- Self-excluding beliefs: "banks wouldn't want me/treat me fairly" based on witnessed experience or cultural perspective
- Lack of ID or AV documents accepted by the provider
- Lack of (English) literacy or numeracy
- Feeling of powerlessness against corporate strength
- Embarrassment or fear
- Lack of knowledge about options and rights
- Lack of confidence to speak out/complain
- Lack of budgeting and contracting skills

Anecdotal evidence from frontline projects suggests that, if users were offered a Budget Account by a known, trusted provider, such as the Post Office or another financial institution which they already use with confidence, whether that be a Credit Union or a high-street bank, many low income customers would be interested in the option. Toynbee Hall's work supporting unbanked Family Mosaic tenants within the Southwark Demonstration Project for DP has also shown that unbanked tenants are genuinely frightened at being asked to manage their rent money and actively follow up on offers of support to open an account and set up automated payments. However tenants are highly price sensitive and usually choose the cheapest option available, which in Southwark is a Basic Bank Account from a high-street bank. Thus it is clear that price will play an important role in tenants' decisions about where and how they budget their money. There is currently no existing research about price sensitivity around Budget Accounts amongst low income customers.

Low income users of accounts tend towards a strong dislike of automated payments due to either past experience or fear of the payment going wrong. Once a user has built up this resistance, it is extremely difficult to persuade them otherwise. Thus any Budget Account must allow for this widespread resistance when designing payment mechanisms, either by

choosing acceptable payment mechanisms or embedding sufficient safeguards to reassure users that there is no potential hidden detriment through returned payment fees.

Low income users tend to like:

- Feeling in control of their money (e.g. knowing the exact date a payment will be made);
- Knowing exactly how much is in their account (text alerts, automated phone balance, ATM mini-statements etc);
- Being able to withdraw small sums at a time and place of their choosing;
- Knowing bill payments are made securely without risk of penalty fees;
- Having flexibility within their money management systems to smooth income and expenditure.

Low income users tend to dislike:

- Losing control of money (e.g. through imprecise payment dates for Direct Debits);
- Not being able to access cash easily (although the Southwark Demonstration Project suggests that the least financially capable fear having access to their rent money);
- Not knowing how much is in their account.

For some low income users, Budget Accounts offer essential reassurance that bills will be paid on time. However, the LHA evaluation showed that individuals tended to express a preference for the money management system they were currently using, regardless of what that was. This suggests that the biggest hurdle in introducing people to new payments systems is the first step of change, rather than the following steps of using the new system.

Supplying Solution Products

Developments in the Budget Account sector thus far show that there is insufficient appetite amongst mainstream banks to invest significant resources in providing a solution to the challenge posed by UC and DP. The majority of development work has been undertaken by niche banks, Credit Unions and bill payment/pre-paid card providers. At this point in the journey towards UC it is clear that we need a significant gear change if there is to be a sufficient supply of appropriate products to support the personal budgeting requirements of UC. If UC and DP do not work as intended, landlords and tenants will be worst affected in the first instance, followed by other providers such as utilities companies and Local Authorities, with a knock-on impact for advice and advocacy services.

The knowledge of developing a Budget Account already exists, but is spread across sectors and smaller providers; the key challenge is in engaging large enough suppliers, or consortium/s of suppliers, who can achieve the economies of scale required to reduce costs to user and landlord/other suppliers. We are currently at risk of literally hundreds of individual institutions developing Budget Accounts but with almost none of them able to reach the required population, either for economies of scale or for sufficient geographical service provision. Where subsidies and support are required is in paying the initial costs of accounts for users until providers can reach sufficient economies of scale to achieve a manageable and sustainable cost. This could take the form of a government subsidy and/or subsidies from landlords or other service providers, such as utilities companies.

Some tenants will be willing to pay for transactional services, particularly those who are able to compare the value of a small, monthly fee compared to higher penalty fees resulting from missed payments. However, we believe that there remains considerable price sensitivity amongst the majority of the low-income population, so any charges levied

on the tenant could lead to self-exclusion for some of the most vulnerable tenants who need the service most. In the long-term, landlords in particular will need to develop their own business case for subsidising (or not) Budget Accounts; where rent payments fall into arrears, the benefit of a low cost Budget Account will significantly outweigh the cost of rent arrears recovery and eviction. However this will need to be weighed against the fact that not all tenants will fall into arrears. Budget Account subsidies are therefore best viewed as preventative rather than reactive investment across the tenant population.

One option for moving product development forwards would be to create consortia which can pool resources to develop an effective, scale-efficient product. DWP would be well placed to initiate this process, through its twin roles as payer of benefits and supporter of Credit Unions. Possible consortia would ideally include a mix of the Post Office, Credit Unions, prepaid card providers and mainstream banks, in order to pool expertise and resources, encourage competition and provide choice. We would strongly recommend against a single contracted provider as this would limit choice and reduce price competition. Our preferred model for stimulating development would be for DWP to determine a set of standards for Budget Accounts, allowing eligible providers to provide accounts against these standards in return for initial subsidies. In our view this would best encourage the choice and competition required to produce good outcomes for individual and corporate users.

Tenants will require repeated communication, significant support and encouragement to take up new products; however this is essential if the least financially capable are to continue to maintain their rent payments and thus their tenancies. The single most effective way of promoting these new products will be through DWP and the landlord in combination. Whilst we would want other support agencies to promote the accounts, tenants are most likely to hear about them through their benefits letter and rent letter, or through their housing officer. Locally landlords and benefits teams will need to build infrastructure to support tenants to open and manage the account, but that is best done through the local branch of the account provider and through third sector support agencies.

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