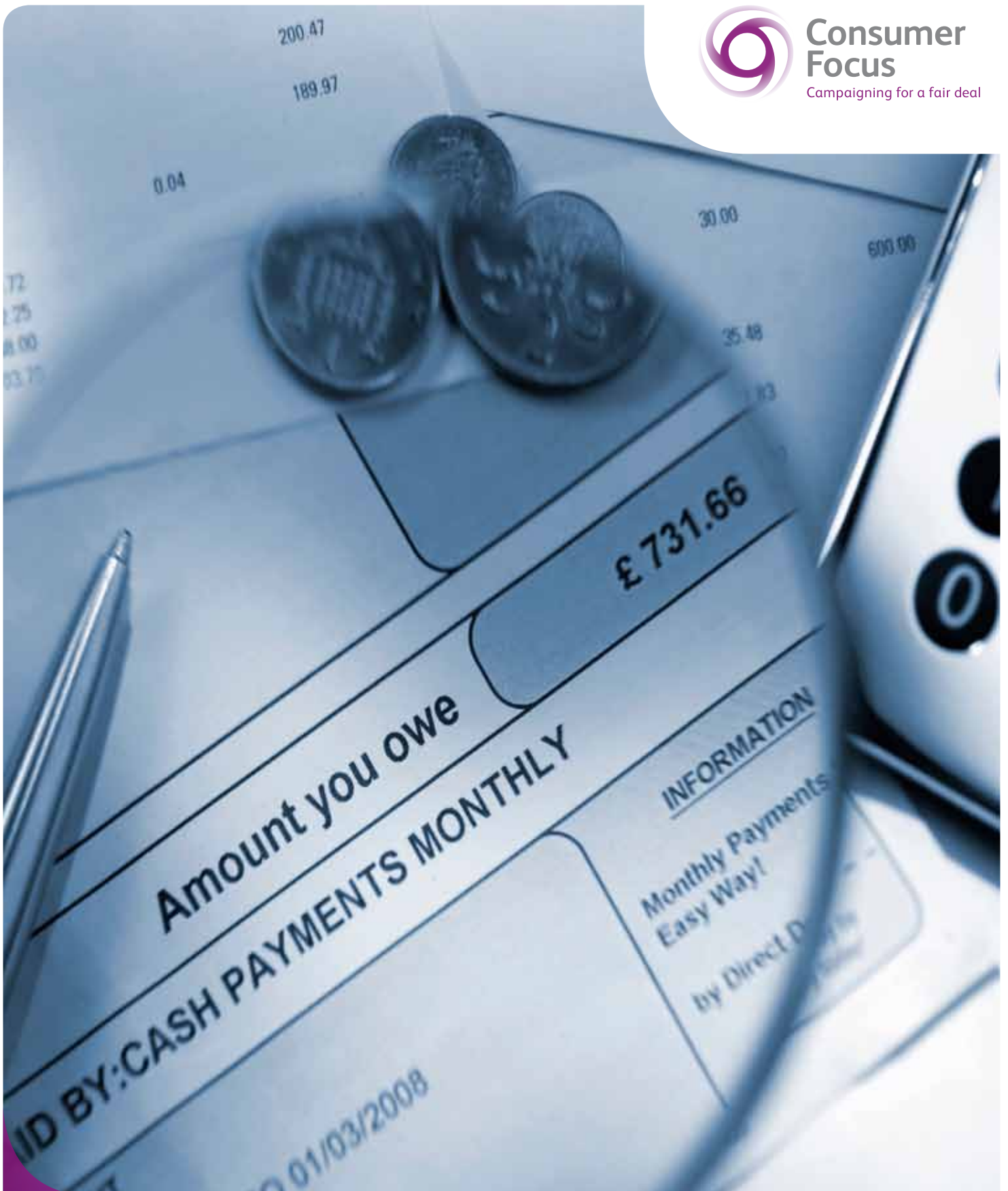




**Consumer  
Focus**  
Campaigning for a fair deal



# On the margins

Society's most vulnerable people and banking exclusion

# About Consumer Focus

Consumer Focus is the statutory consumer champion for England, Wales, Scotland and (for postal consumers) Northern Ireland.

We operate across the whole of the economy, persuading businesses, public services and policy makers to put consumers at the heart of what they do.

Consumer Focus tackles the issues that matter to consumers, and aims to give people a stronger voice. We don't just draw attention to problems – we work with consumers and with a range of organisations to champion creative solutions that make a difference to consumers' lives.

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# 1 Introduction



Since the early 2000s financial inclusion has been recognised as key to the achievement of the policy goals of addressing poverty and social exclusion. In turn, ensuring that people have access to, and the ability to make effective use of, banking facilities for day-to-day money management has been the first priority of financial inclusion policy.

Consumer Focus commissioned this ground-breaking qualitative study to make sure that the voices of the most marginalised consumers in society are heard in relation to their banking and other financial needs.

## The policy context

In 2004 the Government announced the agreement of a 'shared goal' with the High Street banks, designed to achieve a significant reduction in the number of households without bank accounts in Great Britain. Progress towards the goal was to be overseen by a newly-formed Financial Inclusion Taskforce, with a Financial Inclusion Fund of £120 million over three years to support the wider financial inclusion effort.

The Government's strategy for financial inclusion identified three priority areas:

- **banking**
- **affordable credit**
- **free face-to-face money advice<sup>1</sup>**

However, access to basic banking facilities was rapidly identified as the essential first step to achieving wider financial inclusion, due to its potential to reduce the 'poverty premium'<sup>2</sup> (the additional costs associated with being poor) and because so many other financial products are dependent on having a bank account.

In addition to the shared goal, aimed at increasing access to bank accounts, the Government has also supported a number of initiatives aimed at stimulating demand for banking facilities among those who are financially excluded. This included the *Now let's talk money* campaign, launched in 2007, which encouraged the creation of local and regional networks of key stakeholders working together to promote and support financial inclusion at grassroots level. The ongoing *Financial inclusion champions* initiative aims to consolidate the achievements of *Now let's talk money*, by developing and promoting effective working relationships between organisations striving to achieve financial inclusion. A banking subgroup has been set up within the Champions initiative, to deliver a consistent and coherent approach to banking inclusion across Great Britain.

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<sup>1</sup> HM Treasury 2004

<sup>2</sup> Strelitz and Kober, 2007

## Why banking inclusion matters

A substantial evidence base has developed in recent years, indicating both significant costs associated with not having a bank account and notable benefits for those who do.

### The costs of banking exclusion

Research shows that the costs of being without a bank account can be significant<sup>3</sup>. They are also frequently cumulative, combining to exacerbate existing problems associated with life on a low or unstable income.

A number of non-monetary costs have been identified, affecting many areas of people's lives, including the additional time and costs associated with paying bills and managing money, difficulties making and receiving payments and problems 'smoothing' household budgets and dealing with financial shocks. In addition, cash is less secure than funds kept in an account, and cash purchases do not have the same protection as those made by credit card.

Furthermore, being without a bank account limits access to other products – financial and non-financial. Lack of access to mainstream credit facilities is the most commonly cited problem of this kind, although access to insurance policies and savings accounts is also affected, and private pensions and mortgages are completely unavailable. People without a bank account are also unable to access other, increasingly mainstream, goods and services including contract mobile phones, broadband, and satellite and cable television. In addition, remote and online shopping are not possible without a bank account, excluding those without accounts from a range of choices, lower prices and special offers.

These costs affect not just individuals, but also their families and, in particular, children, who feel acutely the stigma associated with paying for school trips and activities in cash. Parents without bank accounts are very aware of the extent to which the extra costs associated with cash budgeting reduce the resources available to provide for their children and give them a good start in life.

Being without a bank account has been found to result in lower confidence, self-esteem and financial capability among some of those affected<sup>4</sup>.

### The benefits of banking inclusion

A number of benefits have been identified as resulting from having a bank account, either for the first time or after a period of exclusion<sup>5</sup>. Many account users like having an account and find it useful. Account ownership can trigger further financial inclusion as people move from basic bank accounts to more sophisticated products.

Money management and budgeting can be cheaper, easier and more convenient with a bank account. Some of those with new accounts particularly welcome access to Direct Debits as a less costly and more reliable means of bill payment. Others experience less temptation to spend money held in an account rather than in cash, and this can facilitate saving for some. A bank account can be a route to mainstream credit products, and also provides an opportunity to build up a credit history to facilitate future access to High Street credit. Access to other goods and services, and to remote purchasing channels, also widens for people with banking facilities.

Account ownership is widely perceived to smooth the transition into employment for those without work, with bank accounts viewed as a necessity for finding work.

<sup>3</sup> See, for example, Kempson and Whyley, 1998; Kempson and Whyley, 1999; Kempson, Whyley, Collard and Caskey, 2001; Collard, Kempson and Whyley, 2001; Farrel and O'Connor, 2003; Opinion Leader Research, 2006; O'Reilly, 2006; Andrew Irving Associates, 2006; BMRB, 2006; Streliz and Kober, 2007; Harris et al, 2009; Financial Inclusion Taskforce, 2008; National Consumer Council, 2008; Kearton, 2009; Financial Inclusion Taskforce, 2010

<sup>4</sup> Kempson and Whyley, 1999; Kempson, Whyley, Caskey and Collard, 2001; Collard, Kempson and Whyley, 2001; Farrel and O'Connor, 2003; Andrew Irving Associates, 2006; BMRB, 2006; O'Reilly, 2006; Opinion Leader Research, 2006

<sup>5</sup> See, for example, Farrel and O'Connor, 2003; Millward Brown Research, 2006; Opinion Leader Research 2006; Jones, 2008; Bates, Burrows and MacLachlan, 2010; Financial Inclusion Taskforce, 2010

Finally, banking inclusion has been found to increase people's self-esteem and confidence. This is particularly the case for more vulnerable people, who perceive account ownership as key to social inclusion and participation in society.

## Achievements to date

A great deal has been achieved in terms of banking inclusion since the start of the century.

Basic bank accounts have been introduced by all of the High Street banks and, in a few notable cases, further refined to more effectively meet the needs of those new to banking. Regular monitoring by the former Banking Code Standards Board set a benchmark for basic bank account provision and drove key improvements in banks' performance. In 2009, the Financial Inclusion Taskforce announced that the shared goal in banking, agreed in 2004, had been met. By 2007/08 there were 890,000 adults and 690,000 households who said they were without access to a bank account, one of the lowest levels in Europe<sup>6</sup>.

Evidence suggests that many of those who open bank accounts are realising at least some of the benefits of having an account and some are achieving significant savings. In some cases, banking inclusion is a stepping stone to wider financial inclusion.

## The limits to banking inclusion

In spite of these achievements, a number of key questions and policy challenges remain.

First, it is important to understand the extent to which further banking inclusion is possible and desirable.

What are the needs and circumstances of those who remain outside the banking system? How important are bank accounts to this group? What products and services do they most need? What support do they require to access banking?

Second, the benefits of inclusion are not guaranteed for everyone who moves into banking. Many of the newly banked do not take advantage of account functionality or make use of facilities like Direct Debits, which would reduce their 'poverty premium'. There is also a relatively high failure rate for people moving into banking. Six in ten of those currently without accounts have previously held accounts<sup>7</sup>. Managing money through a bank account can expose people on low incomes to higher costs and greater risks to their financial security, especially for those who also gain access to account-based credit facilities. In some cases, exposure to the costs and risks of banking inclusion can worsen financial circumstances significantly, resulting in a further period of exclusion.

What needs to be done to support people to make and sustain the transition to banking? How can the failure rate for the newly banked be reduced? What action is needed to protect people from the costs and risks associated with banking inclusion?

To answer these questions, this research focuses on understanding and addressing the needs of very vulnerable or extremely marginalised consumers who are at a high risk of not being picked up in standard social research studies, because they are difficult to identify or contact, or due to logistical difficulties in interviewing them.

The Financial Inclusion Taskforce has also commissioned two major studies – one qualitative (in-depth, using small samples) and one quantitative (gathering large amounts of data) – looking more generally at the attitudes and experiences of the newly banked and those who remain without bank accounts<sup>8</sup>.

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<sup>6</sup> Financial Inclusion Taskforce, 2009

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<sup>7</sup> Realising banking inclusion: the achievements and challenges, Financial Inclusion Taskforce, 2010

<sup>8</sup> Research on motivations and barriers to becoming 'banked', Financial Inclusion Taskforce, 2010; Realising banking inclusion: the achievements and challenges, Financial Inclusion Taskforce, 2010

## This research

The research aimed to:

- understand the banking needs of people falling into a number of identified marginalised groups without bank accounts
- explore the extent to which these consumers differ from others without accounts and require specific policy responses
- identify the extent and nature of detriment associated with not having an account experienced by marginalised groups
- reflect attitudes towards and aspirations for banking inclusion among marginalised consumers and identify the barriers to becoming banked
- assess the potential benefits of banking inclusion for these consumers and for wider society
- explore how the needs of the most marginalised groups of consumers without bank accounts might most appropriately be met in the context of wider policy on banking inclusion

Our research focuses on the most vulnerable people without bank accounts. Finding solutions to the specific issues these people face can provide valuable lessons in how to extend banking and other financial services to the wider population without bank accounts.

The study involved face-to-face in-depth interviews with individuals in England, Scotland and Wales, during January and February 2010<sup>9</sup>. Recruitment was achieved via specialist agencies working with particular consumer groups, and using ‘free-recruitment’ among the general population according to specific criteria. This ensured that the research included people who were not receiving support from specialist agencies, as well as some who were.

In total, 50 in-depth interviews were conducted. The categories covered were:

- people experiencing disruptive life events, eg bereavement, bankruptcy, the onset of a debilitating illness or disability
- people who were homeless
- new migrants, recently arrived in the UK
- long-established residents from minority ethnic groups, speaking little or no English
- adults with mental health problems
- adults with learning disabilities
- ex-offenders
- women fleeing domestic violence
- users of illegal loan sharks

The adults with learning disabilities interviewed for the research had all recently opened bank accounts, having been helped to open them and, in some cases, assisted with using them by support workers or parents. They were included in the research to highlight their experiences of using an account. In addition, some interviews were also undertaken with ‘mainstream’ consumers without a bank account, to facilitate comparison with the needs of more marginalised consumers.

We also attempted to identify ex-service personnel without bank accounts but, despite contacting a number of organisations working with this group, were unable to find any.

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<sup>9</sup> Further details of the research methods are provided in the Annex

## 2 The people behind the labels



## Outside the banking system

There is no doubt that those who remain outside the banking system have a number of characteristics and circumstances that make them potentially vulnerable as consumers.

Research focusing on people without bank accounts has identified them as having very low incomes, often being long-term recipients of means-tested benefits. Being without paid employment significantly increases the likelihood of being without an account, especially for those who are unable to work due to sickness or disability<sup>10</sup>. They are more likely to be tenants (social or private) than homeowners.

People without bank accounts are also more likely to experience life crises – such as family breakdown, severe debt and homelessness – or chaotic lifestyles, perhaps as a result of mental health problems or addiction<sup>11</sup>.

## No account and marginalised

This research, focusing specifically on people from marginalised groups who do not have a bank account, provides a stark illustration of the extent and nature of this vulnerability. It also highlights the extent to which people who are marginalised and without a bank account suffer multiple vulnerability factors which, combined with their severe financial exclusion, keep them trapped in difficult and precarious lifestyles, struggling simply to survive from day to day.

### Who are they?

The sample included a diverse group of people with a wide range of personal, social and economic circumstances. Despite this, there are some strikingly common themes within the sample which indicate their vulnerability.

- Very few were in paid employment of any kind, although many had had steady jobs in the past. Those who were working tended to be doing so informally, paid in cash, often with long, unpredictable or unsociable hours. Job security and employee protection were minimal or non-existent. Many of those who were working could not rely on this employment to continue, even in the short term
- Incomes were extremely low. Most were eligible for state benefits and many had been claiming in the long term. Some of the new migrants, ex-offenders and young homeless people, however, were surviving on little, if any, state support. Housing costs and bills tended to soak up much of this income, and disposable incomes were strikingly low

A young ex-offender living in a hostel for the homeless was left with £70 a fortnight, once he'd paid for his hostel place, to buy food and cover all his other expenses. He could rarely afford to go out because the hostel was in an isolated area and he couldn't afford the bus fare into town.

A man who had had to give up work due to acute anxiety following a violent assault had £50 left from his benefits each week after his essential costs had been met, £40 of which he was paying to a loan shark.

An elderly woman in poor health, living in sheltered housing, was left with £30 a fortnight once her housing costs, bills and food were covered. She lives in an isolated area with no friends or family close by. As a bonus, if she has a win at bingo (she plays free games or takes advantage of special offers) or if a relative gives her £5 she is able to buy a weekly bus pass at £7.50.

<sup>10</sup> Finney A and Kempson E, 2009

<sup>11</sup> Research on motivations and barriers to becoming 'banked', Financial Inclusion Taskforce, 2010

- Many were dealing with serious, problem debt which they had been trying to repay over several years. In some cases they were still being charged interest on the debt, and the repayments they were able to make were doing little to reduce the outstanding amount
- A high proportion were not receiving income they were entitled to. Some, especially adults with mental health problems and non English-speaking migrants, were eligible for state benefits but could not face the application process. A number of women were not receiving regular maintenance payments from an ex-partner, although their benefit entitlement had been calculated on the assumption that these payments were being made. Women fleeing domestic violence or other controlling relationships were extremely reluctant to involve themselves in formal processes or bureaucracy that would make them 'visible' to others
- The sample was characterised by a high degree of social isolation and family dislocation. While there were some families, relatively few of the respondents were part of a couple. Many others also had problematic relationships with other family members. Some – especially ex-offenders and those who were homeless – were completely estranged from their families
- Many people were also living in temporary and unstable situations which made it difficult for them to move forward. In part, the nature of the sample makes this inevitable, as many of the respondents were selected because they were living in these circumstances. Nevertheless, the degree of ongoing uncertainty in people's lives frequently meant that most of their energies were diverted to day-to-day survival, leaving little scope for consolidation or progress. Some lived in daily anticipation of further changes in their circumstances, or had such uncertain futures that they were unable to see beyond the immediate challenges they were facing
- Some very vulnerable people were not receiving support and advice that would have helped them improve their circumstances. A number of respondents would have benefitted considerably from receiving advice from a Citizens Advice Bureau or similar free advice agency, but did not know they existed. Others should have been receiving help from agencies such as social services or the probation service. While there were, undoubtedly, some real success stories in terms of joined-up care packages, others had fallen through the net and were unaware of the sources of support available to them

*'I don't come from round here at all, I'm initially from [address], I lived in [address] for 20 years and then I've just been sent here without a choice. I don't see my family, I can't get anywhere because it costs money to travel so, whereas before everybody was close to me, now I don't see anybody, unless I go out, which is a bit sad really.'* Older woman, living in sheltered housing following a disruptive life event

*'Well I came home, I didn't actually go home, I phoned up and said "I'm coming home"; she said, "Don't. I don't want you to come home".'* Ex-offender, suffering from depression and living in rented accommodation

## Multiple vulnerability

The marginalised groups included in this research are not neat, discrete categories. There was a high degree of cross over between the various groups in the sample, with the majority of people falling into more than one of the sampling categories. Many of the vulnerability factors were evident even among the small group of people who were sampled as being 'mainstream' without a bank account. It is clear that a powerful relationship exists between falling into a group perceived as being marginalised and hard-to-reach and not having a bank account.

The following patterns were particularly apparent:

- A high degree of cross over between homelessness and alcohol and drug abuse
- A high incidence of mental health problems, domestic violence, abuse, alcohol and drug use among ex-offenders
- Those with mental health issues frequently experienced serious debt and housing problems
- Women fleeing domestic violence were often depressed, traumatised and facing homelessness
- Disruptive life events frequently resulted in serious debt and even bankruptcy
- Bankrupts and those with existing debt were most likely to fall victim to loan sharks
- Those with learning disabilities, migrant workers or those marginalised by lack of English faced a similar range of practical barriers, low financial capability and social isolation

## The risk of increased financial vulnerability

Some people from marginal groups potentially face additional risks once they start using a bank account.

- *Abusive partners* may find it easier to abuse or control the flow of funds via a bank account, which renders financial transactions very visible. Taking control of bank cards, leaving their partner completely dependent on them for money, and withdrawing money from or making financial transactions in their partner's name are not uncommon
- *Loan shark users* may be more exposed to the exploitative use of securities through the confiscation of bank cards
- *People with mental health problems* that result in compulsive or uncontrolled spending may have easier access to funds via overdraft facilities, debit cards or offers of credit cards that they find too tempting to resist

- *Adults with learning difficulties* can find it more difficult to preserve a degree of independence or privacy. They are also at risk of fraud and identity theft by people who bully or take advantage of them

A young adult with learning disabilities had been subject to identify theft by his father, who took out a range of loans and financial products in his name.

## Banking history

Perhaps surprisingly, a high proportion – six in ten – of people currently without a bank account have had a bank account at some point in their lives<sup>12</sup>.

Even among our sample of people from marginalised groups, over half had previously had a bank account. Overwhelmingly, people in this group had closed their account – or had them closed by the bank – as a result of a build-up of debt via an overdraft facility and/or penalty charges. Of the remainder, some had struggled to maintain account-based money management arrangements following job loss or another change in their circumstances, such as relationship breakdown or the death of a partner. In a few cases, women had become responsible for debts run up by their partners without their consent which had made their account unviable. It is worth noting that some of these accounts remained in existence, with people making regular payments to bring down their debt, but were not open to new transactions and could not be used to receive income, which would have been swallowed up by debt repayments.

The fact that a significant proportion of consumers in this study had once had accounts, but were unable to sustain them indicates that for many marginalised consumers bank accounts have failed to meet their needs

<sup>12</sup> Research on motivations and barriers to becoming 'banked' Financial Inclusion Taskforce, 2010

People who had never had a bank account were a mixed group. New migrants were prominent, having not yet had a chance to build up an account history in Great Britain. Some, though not all, had held accounts in their country of origin.

A high proportion of those who had never had a bank account were women. Some were older women who had previously relied on their husbands to handle financial transactions, leaving them to manage the household budget in cash. Two were women fleeing domestic violence, whose partners had previously controlled all their finances as part of abusive relationships.

Finally, some of the young homeless people and ex-offenders had never had a bank account. One ex-offender had spent the majority of his life in prison, without a job during the periods in between, and had never needed an account. One or two of the young homeless respondents had simply never reached the point where a bank account was relevant or necessary.

### **Current banking status**

Again, in line with other research, around half of the sample had a Post Office Card Account (POCA) at the time of the research, used to receive benefit income. These accounts were introduced specifically to enable state benefits and the state pension to be paid automatically, replacing the previous system of payment by giro cheque for the majority of recipients. POCAs do not offer any banking functions beyond cash withdrawal. They cannot receive any payments other than benefit income, do not take deposits or offer Direct Debit or standing order facilities. Due to their limited functionality, they are not counted as bank accounts for the purposes of the Government's measure of banking inclusion, and people who only have a POCA are counted as being without banking facilities.

A small number of the remainder had building society accounts, which could receive income from employment or benefits but did not offer any other functionality. A similar number used other people's accounts to receive income or make transactions. One older woman used her daughter's account for some transactions. A new migrant received all his income via his mother-in-law's account. She also handled all financial transactions on his behalf. An ex-offender with an ongoing alcohol dependency had sole use of an account that her mother had opened in her own name.

The majority of those without any account whatsoever were simply extremely vulnerable. This is clearly illustrated by the fact that a number of them were receiving benefits by giro cheque rather than to a POCA – a service reserved for those deemed to be unable to cope with payment to an account. The remainder were not receiving any income or claiming benefits. Ex-offenders, new migrants and women fleeing domestic violence were prominent among this group. Some of them had even been unable to open a POCA because they could not cope with the form-filling or produce the correct ID. This group tended to be staying with – and almost completely reliant on the goodwill of – friends or family.

In addition, the sample included five adults with learning disabilities who had recently opened accounts, with the help of parents or care workers. One or two of this group were unable to use their account independently and needed constant support to manage their finances. The remainder, however, were able to make use of their accounts, with ongoing advice and support about spending and the value of money.

### 3 Managing without an account



## Money management

Unsurprisingly, consumers without bank accounts in this research managed their money in cash. Even those who had use of an account via a friend or relative still maintained a largely cash budget, rarely using this account for regular transactions. This was common across the sample and the vast majority were satisfied with these arrangements.

A significant minority of these consumers, however, had very limited responsibilities for money management because they were staying with friends or family, or in hostels. This was particularly the case for younger people, some of the ex-offenders and some of the new migrants who were staying with relatives. Some of this group made regular payments to cover their board while the remainder, without any regular income of their own, were wholly reliant on others' hospitality. Women from some minority ethnic groups, whose culture required them to play little role in financial decision-making, were very dependent on their husbands, fathers or other male relatives in this respect.

Others required a high degree of intermediation in order to manage their money. Some adults with learning disabilities, in particular, relied heavily on the support provided by parents or care workers, although the degree of support required by this group varied widely.

*'Trouble is, I don't know how much money I've spent and how much I've got. I can't handle my own money. I'd like to.'*

*'The staff handle our, well, like our bills and accounts and stuff. We've got staff, like home carers. They do it with us.'*

Some of the people with mental health problems had also received support and intervention from psychiatric nurses and social workers to help them deal with debt and make financial decisions.

*'When I was a bit manic, I would buy ten of the same things and so I had a mental health team worker that supported me. They used to come and take me to the shops and make sure I didn't buy twenty boxes of cereal when I didn't even eat cereal.'*

## Paying bills

Most consumers in this study received their income, or withdrew their benefits from a POCA, as a lump sum and used this to cover all their expenses over a set period – usually a week or fortnight. Some POCA holders, however, used this account to store money, withdrawing it in two or three smaller amounts, timed to ensure that planned expenditure could be met.

Housing costs – which tended to be rent – were paid either in cash or covered by state benefits. Household bills were paid either via prepayment meters or in cash at the Post Office or PayPoint outlets. Bill payment usually coincided with income receipt, ensuring that essential outgoings were covered as soon as income was received, and providing security and clarity regarding remaining disposable income.

People mentioned few other regular outgoings, with the exception of mobile phones. The vast majority of those who had a mobile phone were on pay-as-you-go tariffs. One person – who had previously had a bank account – had a contract mobile phone, which he paid in cash at the shop each month.

## Ability to make ends meet

The struggle to make ends meet is key to the strong preference for cash budgeting. Income was often uncertain and subject to sudden disruption or loss. Participants frequently also faced a range of additional expenses, such as the cost of travel for hospital treatment or to use support services, that do not feature in the budgets of other poor households. Very low disposable incomes were, in some cases, eroded even further by repayments on historic debts from overdrafts or credit cards and, in one case, an over-payment of state benefits.

A few respondents were able to manage fairly comfortably, usually because their circumstances were more favourable than those of others. They tended to be receiving significant family support or had been able to secure some cash-in-hand work to supplement their income. Others had learned to manage on a constrained budget and found they were able to live within their means, albeit by cutting back on heating, social and leisure activities.

For the majority, however, making ends meet was an ongoing challenge, requiring constant assessment and re-assessment of expenditure and frequent juggling. The flexibility afforded by a cash budget to alter the level and timing of essential payments, in order to keep afloat, was critical to success. In addition, the assurance that a cash budget cannot be overspent was highly valued.

### **Attitudes to cash-based money management**

The majority of people did not seem to feel strongly that cash money management limited their options or lifestyle. Some acknowledged that bills paid by Direct Debit would be cheaper but few expressed a strong desire to do this.

*'I have heard from people and even seen leaflets like for gas bill payment which states that you can save so much percentages on the bills every month if you pay by Direct Debit.'*

*'I find it easier to manage in cash because I don't speak English... I don't need to know English to manage my finances and pay my bills in cash.'*

Younger people and those who were not without an account by choice, generally those who had been forced out of banking due to a life crisis or financial shock, were frustrated at being unable to pay for purchases by telephone or online. This group were more likely to use other people's accounts for certain transactions, like insurance policies, mobile phone contracts or online purchases. One also asked her sister to write cheques to pay for her children's school trips and activities.

*'Car insurance money I give it to my mother-in-law and then she pays it from her account. This is the only payment I make that I can't do in cash.'*

Many, especially those who had never had an account, had a long history of cash budgeting and are unlikely to have considered any other method. Often these were older women who had always managed the household finances in this way. Also in this group, however, were younger people who – having not experienced account-based money management – had not yet established any other way of operating.

Others who previously had a bank account had to adapt to cash budgeting, having used an account for at least some of their transactions in the past. Often, bad experiences with Direct Debits for bill payment, resulting in an accumulation of penalty charges, or a build-up of debt via an overdraft or credit cards meant that people preferred the security and visibility of cash money management. Some had to learn cash budgeting skills for the first time and, despite struggling initially to adapt, took comfort in the fact that they could not overspend and always knew where they were with their money. The remainder appeared to have welcomed a return to cash money management following the loss of control over their finances that resulted from using an account.

A few, most notably those who had previously had an account that they had lost or ceased to use following a financial shock or life crisis, struggled with the restrictions imposed by cash money management. This group aspired to return to account-based transactions and were most likely to use accounts belonging to friends or family for payments that could not be made in cash.

## Borrowing and short-term credit

Given the difficulties that most respondents experienced in trying to make ends meet, the need for small amounts of short-term credit to help smooth the budget or cover unexpected expenses, was paramount.

Many of the people who took part in the research were extremely debt-averse and expressed strong views, and fears, about borrowing. Nevertheless, the vast majority borrowed small amounts of money, around £10 or £20, informally, from friends and relatives on an ongoing basis. This small-scale reciprocal borrowing was a successful strategy for helping to make ends meet provided each party managed to repay the other. Failure to repay even these small loans, however, could have major financial repercussions, damaging relationships and increasing social isolation.

The need for larger amounts of money – £50 or £100 or more – necessitated a different strategy and most people had very few options available. A small number of people, usually those who had fallen out of banking due to a financial shock or life crisis, had better-off relatives, usually parents, adult children or siblings, they could turn to. Very few people had friends who were in a position to lend them larger amounts of money.

*'They was going to give me credit and basically they had approved me and then when I said I didn't have a bank account, it was "Well, how are you going to make payments then?" You know. So that kind of fell through... so not a lot of other choices really.'*

Without family or friends to turn to, people were vulnerable to falling prey to illegal loan sharks. Legal credit options were extremely limited without a bank account, and relatively few mentioned using home credit companies, suggesting that their circumstances made them too high a risk even for higher-cost lenders. A few – principally ex-offenders and young homeless people – had been advised to apply for Crisis Loans. It is a measure of their vulnerability that some had been successful in obtaining them. However, time and uncertainty involved in applying for a Crisis Loan made them unattractive in some circumstances.

A number of respondents were recruited to the study specifically because they were or had been users of illegal loan sharks. In addition to these, however, a number of people recruited to other categories of the sample also had experience of illegal lending. Many respondents were aware of active loan sharks operating in their local area, who were often very well known and widely used within the community.

One person, previously banked and receiving Jobseeker's Allowance, appeared to be borrowing £20 from an illegal lender on a fairly regular basis. Another, a single parent who had fled from a violent relationship and also suffered with bi-polar disorder, turned to a loan shark to buy her son Christmas presents when she was refused a Social Fund loan. Her neighbour recommended the loan shark, and she borrowed £100, repaying £150 over 15 weeks. She always prioritised these payments because she was scared of the lender.

*'Because you're paying it back but you're deleting it, you know that's one you cannot miss because you've got to pay it back.'*

*'Well I'm struggling of course I'm struggling but you try and cut corners elsewhere if you like to make sure that that money's there.'*

A number of other respondents had been exposed to even more frightening levels of debt to illegal loan sharks. One, a young mother, had borrowed £400 and was paying back around £950. She described the experience as 'hell'. Another borrowed £800 at Christmas and was paying back £1,900. A single parent on means-tested benefits was repaying a £500 loan at £40 a week, amounting to £1,200 in total.

*'Aye [the loan shark] threatens but he... puts it to you very, how can I put it, puts it to you very subtle and professional, if you like, you know but at the end of the day it's not very professional and basically they don't care if you've got troubles, they don't get care, they're ruthless you know, they're gangsters at the end of day.'*

*'I'm really, really angry with myself for doing it. It was so stupid. One of the most stupidest things I've ever done. I just can't wait to get it paid off you know... it was just financially... it was to pay other things off, I was falling behind paying things you know. Just basic bills in the house and things and paying up the television and things like that you know.'*

Others, usually parents with young children, had been tempted to use loan sharks out of desperation and because they were so prevalent in their communities. Only fear of the consequences of being unable to repay had stopped them doing so.

### **Saving and security**

Predictably, very few respondents managed to save, although several aspired to do so.

*'It's [having a bank account] the door to saving and stuff. Saving – eventually I want to buy my own house so obviously if I get a good credit rating it all helps.'*

All of the adults with learning disabilities had been helped to open savings accounts at the same time as their bank accounts and most were saving actively. One was saving in an ISA and another putting aside £100 of their £200 fortnightly income.

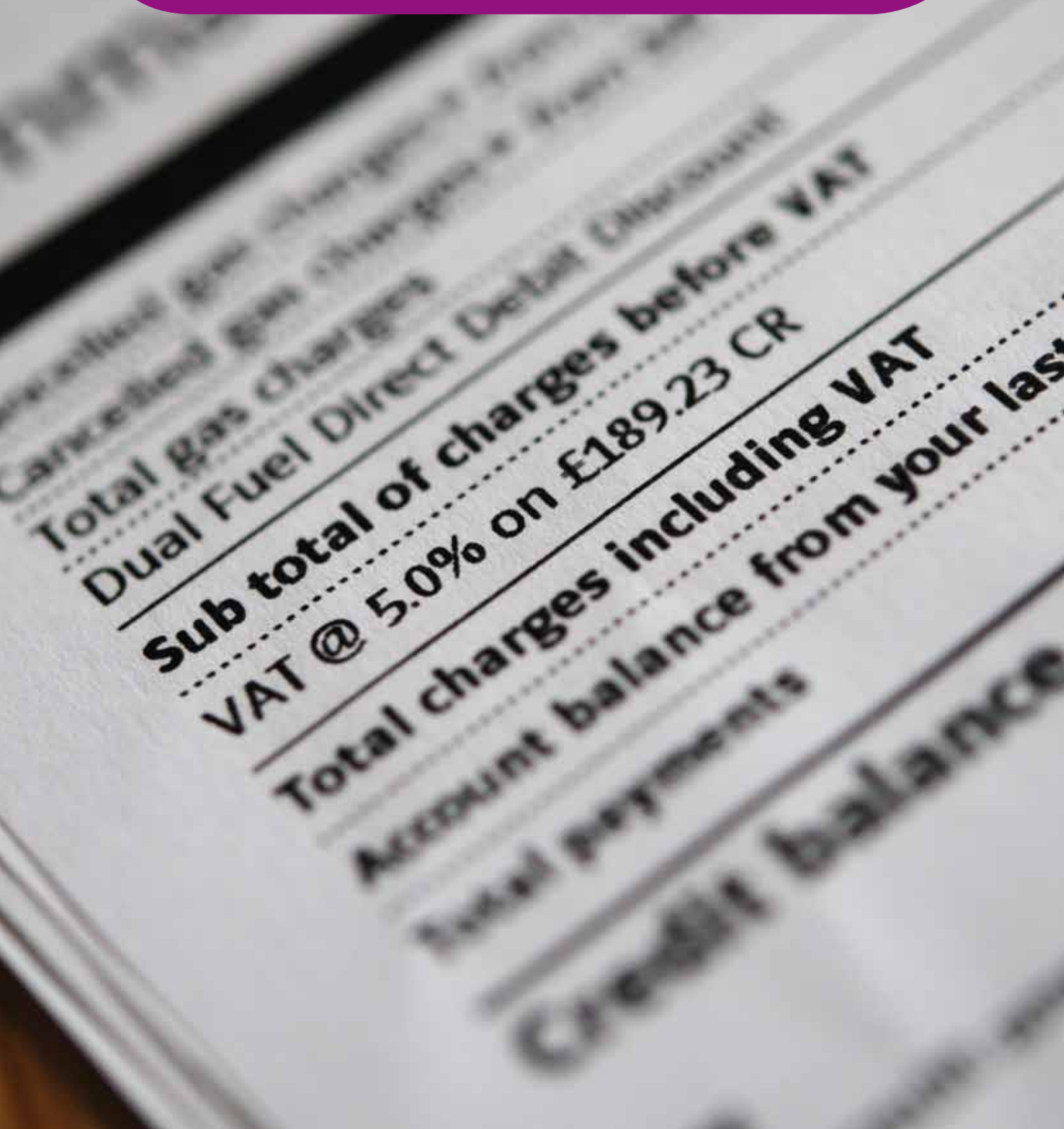
A couple of others were also able to save, as a result of securing cash-in-hand work. One found himself able to put money by to treat his son when he saw him. Another, a young woman recovering from mental health difficulties, was saving for a deposit on a flat of her own.

The majority, however, had too little money to cover their day-to-day expenses, let alone to save. Some had savings and assets in the past, but had lost them as a result of the life crisis or financial shock that resulted in them not having an account, or they had been eroded as a result of spiralling debt. A few people in the sample had their already low incomes further reduced as a result of ongoing debt repayments and could not contemplate being able to save until they had cleared their existing commitments.

### **Employment**

A bank account is, increasingly, perceived as a prerequisite to employment and a number of people, especially younger respondents, were aware of this. Several were aware that they would have to open a bank account if they were to find employment. Only one cited being without an account as a barrier to finding work.

## 4 Banking needs, attitudes and aspirations



There was a great deal of variation within the sample in terms of their views about the potential advantages of having a bank account. The views expressed, however, are little different from the wider group of people who remain outside the banking system.

## Limitations of current options and strategies

While many consumers in this research were relatively happy operating a cash budget, they still experienced a number of risks, difficulties and frustrations.

Some recognised that carrying and holding cash can be risky and, although some were confident that they would never be robbed, others were more wary. A few, especially men and less skilled money managers, also highlighted the hassle associated with cash budgeting, which required a great deal of planning and physical effort.

There was some recognition that paying bills in cash added considerably to their cost, although this wasn't expressed widely among the sample. It was most prevalent among people who had previously had a bank account and especially those who had fallen out of banking suddenly.

A number of people, especially younger people and those with more chaotic lifestyles, found accessing cash held in a POCA at the Post Office inconvenient, due to limited opening hours and the cost of travel.

*'It's not very convenient and it's, you're kind of limited to when you can get money... so whereas with a bank account, you can go any time with a bank account. With a post office there are opening hours at a post office you know so, och I don't really think it's inconvenient but it could be more convenient you know. I'd rather have a bank account put it that way.'*

For less skilled money managers cash budgeting increased the temptation to spend money unwisely and they wanted somewhere to keep their money until they really needed it.

Younger people and those who had lost or stopped using their bank account due to a life crisis or financial shock were frustrated at being unable to shop online. A few also found it difficult to manage without debit or credit cards that would enable them to shop more easily and spread the cost of larger items.

## Perceived benefits of banking

Although they were very divided in terms of banking needs and aspirations, most consumers in this research could identify some perceived benefits to having a bank account.

Banks were seen to offer a safer and more secure means of money management than cash budgeting, reducing risks associated with theft or loss and providing somewhere for people to leave their money until it was needed. A few people, especially those who were less adept money managers, felt that account-based money management would be easier and more convenient than using cash. They also thought that they would be less tempted to spend money that was left in an account.

Many also saw banks as being more physically accessible and, with ATMs, offering access to money outside bank opening hours. Being able to use plastic cards – to access cash and, for some, for purchasing – was seen as more convenient, especially by younger people and those who had used an account successfully in the past.

A number of people – especially those who had previously had a bank account – recognised that use of Direct Debits for bill payment would save them money.

It was widely recognised that a bank account would be necessary if people found work, which many people hoped to do. A few felt that having an account in place would facilitate them in securing a job.

## Key needs and priorities

A cheaper means of paying household bills would, undoubtedly, benefit the vast majority of people in this research, most of whom were having already very low incomes further eroded by higher tariffs and charges for cash payment.

A number of people, especially younger people and those with previous banking experience, expressed a need for easier access to their money – outside Post Office opening hours. They wanted ATM access, so they could withdraw money at multiple locations, as and when they needed it. They also felt that plastic cards were safer and more secure than carrying cash.

While few people were in a position to save, many aspired to do so and wanted an account that offered opportunities to save. For some, simply having somewhere to leave their money would help to achieve this. Others felt they would benefit from an account with specific triggers to save.

Although many people were extremely debt-averse, those from some marginalised groups expressed a need for a small overdraft facility to help them smooth their budget during times of financial pressure. New migrants, in particular, felt the need for this, as did some of those who had experience of successfully using a bank account in the past.

## Attitudes to banks and banking

People without accounts had largely negative attitudes to banks and banking, even among some of those who could perceive benefits in having an account. In part, these reflected their views of banks as institutions, sometimes developed as a result of previous experience of having accounts.

In the main, banks were viewed as unsuitable for people on very low incomes, either because banking services were unnecessary in these circumstances or because of a perception that ‘banks are for the rich’. This was a view held particularly strongly by those not involved in banking long term.

People who had fallen out of banking also viewed banks, based on their past experience, as irresponsible in making overdraft facilities available and encouraging, even pressuring, them to use facilities such as Direct Debits that incurred charges. Among this group, many of whom had been subject to aggressive debt recovery practices, banks were also seen as being unreasonable, inflexible and unhelpful to people in financial difficulty.

*‘Every time you went and says to them, you know, because like any time I’d went into the bank and says to them, look, can you not start taking something off my wages a week – or monthly, it was – [to repay her overdraft] and they says, no, but we can help you here, and gave me another £200 overdraft on top of what I had.’*

As a result, for many people, using a bank account was associated with losing control of their finances and being encouraged to use facilities that would make money management more difficult and more expensive. A number of people who had previous experience of using Direct Debits had found that, despite acting as a gateway to cheaper tariffs for utility bills, they increased the risk of falling into arrears and, once penalty charges were added to the equation, were far more expensive than cash or pre-payment tariffs.

Finally, a wide range of fears was expressed regarding the risks of fraud and ID theft associated with using a bank account. This was more prevalent among people who had never used a bank account and who were fearful of technology and the lack of transparency associated with account-based transactions. A number of other people, however, with banking experience, had experience of ID theft or had become responsible for debts incurred by a partner without their knowledge.

## Aspirations to banking inclusion

### Lifestyle aspirations – banking as a route to wider inclusion

A small proportion of the sample – around one in five – expressed clear aspirations to get an account. Some of them had tried to obtain an account, often on more than one occasion, but been refused, either due to a lack of ID, existing debt or an unfavourable credit history.

For some, especially ex-offenders, people who had fallen out of banking and some new migrants, this was a priority, and viewed very much as part of becoming established in society, gaining independence and becoming ‘more like everyone else’. Some of the ex-offenders, especially those who were younger and newly released from prison, viewed having a bank account as a key route out of a criminal lifestyle. Younger people, especially those who had previously had quite chaotic lifestyles, also viewed having a bank account as a sign of maturity and independence from their families, on whom many were still reliant.

*‘I think it will make some difference in my life if I was to have bank account.’*

*‘If I have a bank account then I can get a better job... most good companies don’t pay cash and expect you to have a bank account for the wages to go in or they pay by cheque. If I have a bank account to start with then I can apply for better jobs.’*

*‘The benefit of having an account is that the money will be secure. You’ll get interest. The other thing is that once you have an account you’ll then get to learn about other services that the bank offers and increase your knowledge. If I don’t have an account then there is no way for me to find out about the services they offer, like mortgages, credit cards.’*

It is clear that to a major extent the success of this route was dependent on finding employment and gaining some degree of financial security that would enable them to avoid falling back into crime. It is also important to note that many of the people who aspired to have a bank account had never had one before and did not express an awareness of any of the risks associated with banking, such as being drawn into revolving credit or incurring penalty charges, which would undoubtedly further destabilise their situation.

### Limited aspirations – a POCA-plus or banking-minus model

A larger group – around half of the sample – could see benefits to banking and expressed some aspiration to achieve them but were extremely wary of being drawn into the wider array of banking services, such as revolving credit and Direct Debits. Many of these were people who had previous negative experiences of banking, which had resulted in significant problems with overdraft debt, and cumulative interest and penalty charges. As a result, they were extremely averse to risk and debt, and were keen to avoid any banking facilities associated with debt, interest or penalty charges. They expressed a desire to have a bank account with clear barriers and safety nets to protect them from the risks associated with it.

Some of them expressed this in terms of a POCA-plus model. They were very happy and comfortable with their Post Office account, which they perceived to be safe, secure, simple and risk-free. They did aspire, however, to limited additional facilities attached to this account, such as an ATM card and a savings option.

*‘I just think basically that a Post Office account you’ve got what you’ve got. It’s no as if you canna get at what you’ve no got. You know with the banks if they can give me money, basically they had no rules you know but with a Post Office account you know what’s there.’*

For others, the aspiration was expressed in terms of a bank account – which they saw as better than a POCA in terms of convenience, access and the ability to receive wages as well as benefits. The majority, however, would only feel confident about using a very stripped-down version of this account – a banking-minus model – which did not offer any overdraft or Direct Debit facilities, to guarantee that they would not be tempted to use any facilities that could lead them into debt or incur penalty charges. Recent research by Consumer Focus has shown that low-income consumers would be interested in a tailored bank account provided by the Post Office that would offer greater functionality than a POCA<sup>13</sup>.

### **No desire for banking inclusion**

The remainder expressed a clear and strong opposition to bank accounts and were extremely resistant to the idea of moving away from cash budgeting or becoming involved in the banking system.

*'Bank accounts are not really for people like me. I only earn £150 a week and have to use most of it. What's the use of having an account where I will only have £10-£20 in my account. And then the bank might charge me if I go overdrawn. It's not worth it for such small amounts.'*

For most, this stemmed from strong negative attitudes to banks, either due to past experience which had severely worsened their already difficult circumstances, or a long-held view that banks were 'not for people like us'. Some had POCAs and were happy to continue with this model, which offered the simplicity and security they needed. Others simply wanted to stay outside the banking system, viewing banks as invasive and representing authority that they preferred to avoid.



<sup>13</sup> Opportunity knocks, Consumer Focus, 2010

## 5 Barriers to opening a bank account



## Practical

**Identification** still appears to be a key barrier to banking for some people from marginalised groups, especially new migrants, but also ex-offenders and homeless people who do not have a fixed address and may not be receiving benefits. Although a letter from the Department for Work and Pensions should be sufficient to open a POCA, at least one respondent said they had been unable to provide sufficient ID to open one and were receiving their benefits by giro cheque.

*'Too much money to renew it [passport], because it's like £79 or something now.'*

*'When you're working you can afford to do that but now that I no be working it's just no even in my thoughts to go and renew it but then again it's like an obstacle, you've not got an ID, it's barriers you are up against.'*

**Language barriers** are also significant for some consumers without bank accounts, particularly new migrants, and people – especially women – from minority groups who have traditionally relied on husbands or male family members to handle financial matters.

*'If you go to a bank you need to be able to read and write English. There are only English people working there and there is no one to help you. But you will always find an Asian person working in a Post Office who is willing to help you.'*

**Literacy problems** – expressed largely as a fear of, or inability to cope with, form-filling and written information – affected many consumers without bank accounts, including those who have previously had a bank account. There is a strong perception that information is provided in a style and format that is unsuitable for people with little experience of banking. Adults with learning difficulties, in particular, some of whom are unable to read or write, require information and application processes that are sensitive to their needs. People with mental health problems can also quickly become overwhelmed by too much detailed information and struggle with completing forms.

*'You see, I can't write at all, see. I can read... I can sign my name.. The letters are too small. You can't see them properly.'*

There are clearly issues with **financial capability** for many, although not all of this group. People who have previously had accounts unsuccessfully and those who have never had one, while very successful at cash money management, require support in understanding the banking system and, crucially, how to avoid the risks associated with banking inclusion. Young people with chaotic lifestyles, women from some minority ethnic groups and those fleeing abusive and controlling relationships may have no past experience of banking or financial independence. Some, although by no means all, adults with learning disabilities also have very low levels of financial capability.

**Legacy debt**, which is still being repaid or which has resulted in a poor credit rating, is an insurmountable barrier for many, especially those who have faced disruptive life events, loan shark users and those with mental health problems. A number of people in this situation had attempted to open another account but been refused. A high proportion of those who previously had bank accounts are still repaying outstanding overdrafts and the associated interest and penalty charges. Many have not received debt advice or intervention that might have resulted in the debt being frozen. As a consequence, they are making little headway in reducing a debt which is continually increasing due to interest and penalty charges. Although they are prioritising the repayment of this debt, they recognise that they have little prospect of doing so in the short or medium term.

## Attitudes and experience

### Negative attitudes towards banks and banking

remain prevalent, with widespread mistrust of banks and a sense that 'banking is not for me', especially among the long-term never-banked. A number of people see bank accounts as irrelevant for people with very low incomes, or believe that employment income is a prerequisite for opening an account. Banks are also associated with 'hard selling' of products and facilities that bear interest or carry a risk of debt or penalty charges, especially among those who have previously had a bank account. A view that banks are unwelcoming and unsympathetic to people in difficulties is also a key deterrent to banking inclusion.

**Poor previous experience of banking**, for the vast majority of people who no longer had accounts, was due to debt resulting from cumulative penalty charges and access to revolving credit. Many found that the banks simply closed their account. Others were forced to cease using their account because such a high proportion of their income was eaten up by debt repayments. They frequently felt that banks had been irresponsible in pushing them towards facilities which were not suitable, purely as a means of making money from them. They also cited banks as having been insensitive and inflexible in helping them manage their problems.

*'They want their money back one way or another and they rarely care what personal hardship they cause people... you go into the bank and the stupid wee girls haven't got a clue. I mean, I was quite traumatised at the time.'*

*'I had a small overdraft at the bank and, you know, I tried to go to them for help and explain the situation along the lines, if they just waited x amount of time I would have the overdraft paid and they said, "No, unfortunately we have to set the debt collectors on you." Which they did... It was a vicious circle.'*

In the aftermath of this, most were extremely nervous about having another bank account. They were fearful of being subject to 'hard selling' of credit and other products, or simply offered the temptation to use credit that they would find hard to resist.

A woman with mental health problems had been given a premium account that carried an overdraft facility of which she was not aware. Having found she had inadvertently overspent, taking her into the overdraft, she struggled to manage the subsequent charges and interest, which escalated to the point at which the account became unviable.

**Lack of perceived need** – as other research has shown<sup>14</sup>, there is a core group of people without bank accounts who are managing comfortably and successfully, either with an entirely cash budget or using a POCA. They often have a very long tradition of cash money-management and do not perceive any difficulties or drawbacks associated with this. They are resistant to the idea of banking and see no advantages of having an account.

**Resistance to unfamiliar technology** associated with banking, in particular the use of ATMs, plastic cards and the need to remember PIN numbers is another barrier for this group of consumers.

**Risk of fraud and ID theft** are cited by many as a key reason for not having a bank account. This is most prevalent among older people and especially those who have never had an account.

<sup>14</sup> Research on motivations and barriers to becoming 'banked' Financial Inclusion Taskforce, 2010

## The structure and pricing of banking products

This research provides stark evidence that banking inclusion can carry considerable risks and can lead to significant additional costs for people who are least able to manage them.

**Lack of transparency** in account-based transactions, especially for people used to the security and visibility of a cash budget, can undermine budgetary control and planning.

**Access to and, real or perceived, encouragement to use revolving credit and Direct Debit** can result in a build-up of unmanageable debt, compounded by interest payments and penalty charges which quickly make accounts unviable and destabilise already precarious budgets.

**The inflexibility of Direct Debits and resulting penalty charges** can rapidly cancel out and, frequently, completely overshadow any cost savings resulting from access to cheaper utility tariffs.

*'It [using Direct Debit] wasn't better when... you not got any money in the account and the Direct Debits are coming off and you've no money there, you're getting an instant charge of £35.'*



# 6 Marginalised customer groups: a typology

Message board  
We're dropping our gas prices

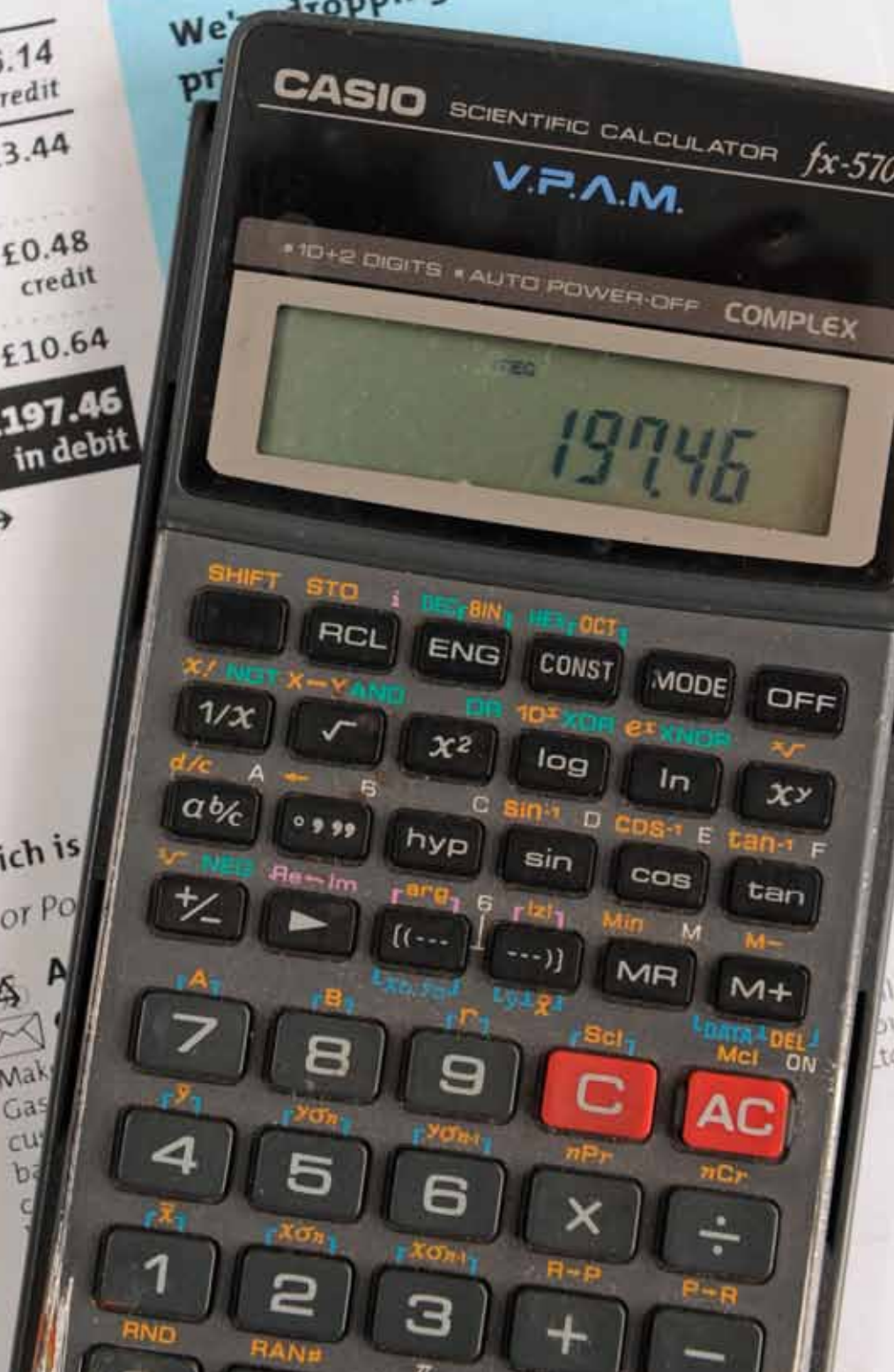
Balance brought forward	£26.14 in credit
Gas you've used this period	£213.44
Your Prompt Pay discount	£0.48 credit
VAT at 5%	£10.64
<b>Total to pay</b>	<b>£197.46</b> in debit

For further details please turn over →

customer reference number which is your payment to clear at a bank or Post Office

 **Credit/Debit card, by phone or online**  
Call us on 0800 107 0224 or visit [britishgas.co.uk/paymybill](http://britishgas.co.uk/paymybill)

 **Internet or phone banking**  
Pay directly to our account number 584685 and sort code 40-05-30.



The marginalised people without bank accounts in this research fall into five broad categories in terms of their circumstances, experiences and aspirations with regard to banking. Identifying these categories allows for better-targeted solutions that address the specific issues each category faces and can also have wider applications for financially excluded consumers. They are outlined below:

- 1 **People who have recently opened a bank account and are realising the benefits with support** – adults with learning disabilities who have been supported to move into banking by care workers and/or parents. Their ability to use their accounts and make financial decisions is varied and some require a high degree of support. They all view having a bank account as a positive step some have chosen the wider functionality of bank accounts over a POCA and have begun saving, with one regularly paying into an ISA.

A young woman with learning disabilities lives in her own flat, manages her finances independently and has had a bank account for nearly two years, opened with the help of her support worker. She switched from a POCA because she preferred a bank account, and now uses a debit card to make purchases and pays for a contract mobile phone by Direct Debit.

- 2 **Struggling for stability** – people who have not yet been able to achieve a stable lifestyle or financial security. Some are new migrants without formal employment or benefit entitlement and lack the necessary ID to open an account.

Others are young people, some ex-offenders, with precarious circumstances due to mental health problems, dependency on drugs or alcohol, or homelessness. They have never reached the point of opening a bank account. Many of them have a POCA, although not all are claiming benefits and some are dependent on friends and family to support them. It is likely that many of this group will move into banking if they are able to find employment and stabilise their lifestyles. Some aspire to account ownership, most realise that if they were to find a job they would need an account. They do, however, have fears and reservations about having an account, often due to past experience of banking.

An ex-offender with a severe alcohol dependency had been released from prison 11 months earlier. She had undergone treatment for drug addiction and was trying to overcome her alcoholism but at the time of the interview was drinking from early in the morning. She had no account at all. She would like a POCA but had been 'too disorganised' to get round to it. When she was working, before she went to prison, her wages were paid into her mother's account. She had an ATM card for this account but was continually losing it when she had been drinking. Although her mother was a supportive, stable influence, her living circumstances were very unstable.

- 3 **Moving in and out of stability** – people who have been struggling for some years, often as a result of mental health problems or addictions. This group also includes ex-offenders who have had repeated periods in custody and also single parents, often not receiving agreed child maintenance, who are simply striving to keep their heads above water. They have had stable periods in their lives but experience repeated periods of instability, during which their financial and life circumstances deteriorate, often severely.

A young woman who came to the UK just under a year ago to be with her family, all of whom have migrated here in the last five years. She is not claiming any benefits but gets occasional shifts as a cleaner in a care home; the work is unpredictable and not guaranteed. She lives in a house with eight adult relatives, and pays any money she earns to a communal pot. Her cousin, who attended the interview as an interpreter, explained that she had no need for an account, as she had little money to manage on a daily basis, and would not be able to read English language information.

Most of them have held an account at some point in the past, some successfully for long periods, but are currently without a bank account because their financial circumstances have spiralled out of control, exacerbated by access to revolving credit and penalty charges, often resulting in serious and ongoing debt. Most have POCAs. Some use loan sharks.

This group tends to be happy with the security provided by a cash budget. They may see some advantages in having an account but have many strong fears and reservations about the risks of using a bank account.

A lone mother with a 16-year-old had suffered recurrent periods of depression for some years. She took medication and was also receiving psychiatric treatment. She held a bank account and, when she wasn't depressed, was able to budget well. When she was depressed, however, she had periods of indiscriminate over-spending, and gambled on fruit machines.

*'Do you know what I was actually doing? Going and playing machines. Any time I'd got money I'd go and play the machines. And I wasn't caring how much I spent either.'*

As a result, she ran up an overdraft on her bank account and was unable to cover the charges

4 **Without a bank account following a crisis** – this group is divided into two.

- a Those who experienced a relatively minor financial crisis, perhaps due to job loss or mental health problems which affected financial control and spending patterns

A man lost his job two years ago and was unable to secure a regular income. He struggled to repay credit card debt and, as a result, a number of Direct Debits on his account failed, attracting penalty charges.

*'Because I was paying back like I said, I was paying back when I'd only got a couple of loans, I was paying back, it wasn't loan sharks or anything, it was an actual company but it just ended up I was just paying back the interest and then the Direct Debits were building up and sometimes my work used to pay me late... and then they'd taken £35 out straight away you know... So really it was either if you don't start to cut off the bank the account's being shut down anyway, you know.'*

He ended up closing his account due to a £350 debt.

- b Those who have experienced a major life crisis, such as the death of a partner, relationship breakdown, or the onset of a serious illness or disability. Some became responsible for a partner's debts which they were previously unaware of

All of this group have previously held an account, often successfully, for many years. But a build up of debt, often in the form of unauthorised overdrafts, compounded by interest and penalty charges applied for unpaid Direct Debits, led directly to a serious and devastating financial crisis.

A few had turned to loan sharks out of desperation. This group is generally keen to move back into banking, and some feel better able to cope than they were before, although many have reservations based on past experience.

A woman with three adult children fell out of banking after her husband died six years ago. Prior to that she had successfully used banks for almost 30 years. She has always had a joint account with her husband. Her husband had a secure salaried job and, while they had credit commitments, they had always been able to service their debts effectively. When her husband died – he committed suicide – she discovered that he had accumulated £38,000 of gambling debts and had taken out a number of loans in their joint names.

*'So, at that point I really didn't have, we lost everything, house and everything. I ended up closing the bank accounts down because of overdrafts and all that it was just a complete carry on but I've never been able to get a bank account since...'*

*But the bank weren't very caring at all, not at all. They more or less said we're shutting your account down and giving it to a debt collector.'*

*I got to the point I would use money to make a payment to a card and then charge groceries and things on to another card. You know, so it was a vicious circle, obviously I lost everything, bank account the lot.'*

5 **The long-term disengaged from banking**  
– comprising two broad groups.

- a A small group of middle-aged or older people who do not use banks by choice. They are mostly women who previously relied on their husbands to deal with banking and financial transactions. They have never adapted to account-based money management and have a long tradition of cash budgeting which they have no desire to change. Ex-offenders with a long history of repeated prison sentences who have not found formal employment or claimed benefits during their periods out of prison also fall into this category. One or two people in this category have always worked in the informal economy, may be keen to keep away from official channels, and are managing without an account

An older woman stopped work more than 30 years ago, following a heart attack and a series of strokes. She has never had a bank account, was paid in cash when she was working and has always managed a cash budget. Previously her husband, who she left when she became ill because he was violent, had taken care of financial transactions. Now, she pays her bills at the Post Office and, although she has no savings, would always save up for anything she needed to buy rather than use credit. She feels that banks are for 'rich people' and prefers 'the old-fashioned Post Office book' to plastic cards and account statements.

- b People – usually women – who are socially isolated and disconnected from many aspects of society. Some are from minority ethnic groups, speak little English and have always relied on male family members to handle all the finances. They are extremely vulnerable following relationship breakdown, the death of a partner or family dislocation. Others are women who have recently fled from a violent partner who previously controlled their finances

A woman, originally from Pakistan, speaks little English and has never been inside a UK bank. She does the weekly shopping, but her husband handles all of the household finances and would deal with financial decisions or problems. He is much more knowledgeable about the banking system than she is. She has never needed a bank account.

*'In Pakistan my father was there, my older brother was there – they were the ones working and had bank accounts. They were responsible for the family. That's how it worked there.'*

## 7 The way forward



This research suggests that, in many respects, the needs of people without bank accounts from marginal groups are similar to those of people without bank accounts more generally, identified in other research<sup>15</sup>. However, the key challenge is to deliver banking services to society's most vulnerable people in a way that mitigates the potential costs and risks.

The core banking needs of these marginalised consumers are for a product that offers:

- convenient, local access with the option of an ATM card – people from marginalised groups often live 'ultra local' lifestyles and the cost of travel beyond their immediate vicinity can add considerably to financial pressures. In addition, unpredictable or unstable lifestyles and long working hours make access to cash outside bank or post office opening hours a key requirement
- flexible and transparent payment methods which will help them manage and keep track of tight budgets
- risk-free payment facilities – in particular, payment facilities that do not carry the risk of high, unpredictable and cumulative penalty charges
- a risk-free, small-scale overdraft facility or buffer zone – access to revolving credit carries significant risk for people managing on very limited budgets or trying to cope with financial shocks, who may be tempted to use it out of desperation or who may fall into an overdraft inadvertently due to competing pressures. Nevertheless, access to fixed, short-term credit facilities is a key need for some to help smooth constrained finances
- access to savings and insurance products. A long-term aspiration for many, these products are seen as key to re-establishing financial stability. Many people would welcome easier access to these products and a trigger to pay into savings

Due to their precarious personal circumstances, these consumers are particularly vulnerable to financial difficulties and are less able to recover from the consequences of debt because they operate without a safety net.

Distinct areas of concern remain:

- The structure and pricing of banking products can act to exclude vulnerable people. An insensitive approach to penalty charging can undermine hard-won financial stability
- Therefore, for many vulnerable people on low incomes, Direct Debits in their current form and other banking facilities are not the solution to the extra costs associated with being poor

We have identified a wide range of solutions to the problems of these consumers, outlined below. Where appropriate, they are targeted towards specific groups in the typology of people who do not have an account and are marginalised. Undoubtedly, however, actions identified would benefit most, if not all, of those who are currently without bank accounts.

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<sup>15</sup> Research on motivations and barriers to becoming 'banked', Financial Inclusion Taskforce, 2010

## Recommendations

### For the long-term disengaged from banking

Some consumers feel that their needs are best served by staying in a cash economy and see little to no benefit from banking services.

An informed debate is required to provide a clear goal for banking inclusion, which recognises the needs and circumstances of those without accounts, and the risks and costs associated with banking for people from marginal groups, as well as the potential benefits.

The development of post office banking services could be of major benefit to this group, who have experience of using POCA accounts and post office services. Many people are happy with the POCA as it stands or require limited additional functionality for a POCA. However, recent research has shown some appetite among POCA holders and the unbanked for a bank account with improved functionality provided by the Post Office<sup>16</sup>. A decision is needed on the future role of the POCA and other financial services provided by the Post Office in banking inclusion.

Nonetheless an informed debate needs to recognise that:

- banks should remain responsible for serving this group of consumers and recognise their own past shortcomings by developing appropriate services which better meet their needs in the future. In meeting the goal for banking inclusion for this group, banks and post offices should make sure that products are developed which will give this group of consumers a choice of services that could make them less dependent on cash and more able to access the potential benefits of banking. Even if they are not the direct providers of these services, banks must make sure that this group's potential banking needs are provided for
- the Government has a key role in ensuring that the banking needs of low income consumers are being met by the Post Office and the banks

### For those who are struggling for stability and adults with learning disabilities

Tailored practical support is needed to assist those who can benefit from a move into banking.

- ID requirements remain a considerable barrier for some of the most vulnerable people
- Information needs to be made available in appropriate languages and formats
- Some people will require hands-on, face-to-face assistance in order to manage the process

### For people who move in and out of stability or are without a bank account following a crisis

- Bank staff should receive training to alert them to patterns of, or sudden changes in, banking behaviour that indicate the need for intervention to mitigate the risks of difficult situations being compounded by access to revolving credit and penalty charging
- Banks should be more proactive in meeting their obligation to assist those experiencing financial difficulties. This should include bank staff being trained to provide support to people who have problems with their account, to prevent an escalation of difficulties, and to ensure that people receive the information and the advice they need to help them resolve these difficulties (including actively targeting people who would benefit from independent advice)

<sup>16</sup> *Opportunity knocks*, Consumer Focus, 2010



For all of those with a new or recently opened bank account, especially those from marginalised groups

- Safeguards are needed against people being channelled towards accounts and facilities without being fully aware of the risks
- There should be a carefully managed initial period after opening an account, providing sensitive support in understanding and using additional facilities
- A safety net must be put in place to ensure that problems are identified proactively and quickly to prevent a build-up of penalty charges or unmanageable debt and avoid account failure
- Ongoing proactive support is required – many people quickly become overwhelmed in the face of financial difficulties and are extremely unlikely to initiate contact. People who are at risk of exploitation may be unaware of problems with their account or unable to take action to resolve them

# Annex

## Research methods

### The sample

The final sample comprised fifty respondents, falling into the following categories:

Respondent type	Number
Mainstream, without a bank account	10
<i>POCA only</i>	5
<i>no account at all</i>	5
Homeless	2
New migrants in low-wage occupations with limited English	5
Long-established residents from minority ethnic groups	4
Women fleeing domestic violence	4
Adults with moderate learning disabilities	5
Adults with mental health problems	6
Ex-offenders	5
Users of loan sharks	3
Those who have experienced a disruptive life event in late middle age, including:	6
<i>bankruptcy</i>	2
<i>death of a partner/divorce</i>	2
<i>chronic illness or the onset of disability</i>	2
<b>Total</b>	<b>50</b>

### Recruitment

Recruitment to the sample was achieved using specialist recruiters, working to a recruitment specification provided by Policis. Some respondents were selected via voluntary or community organisations working with particular groups, such as adults with learning disabilities, ex-offenders and homeless people. The remainder were obtained via 'free recruitment' to ensure that the sample included people who were not receiving support from specialist agencies.

### Fieldwork

Fieldwork took place in January and February 2010, in Glasgow, South Wales, the West Midlands, Yorkshire and Birmingham.

In-depth interviews were conducted by specialist interviewers according to a discussion guide prepared by Policis. All the interviews were conducted face-to-face, except one which was conducted by telephone. The interviews were tape recorded and fully transcribed.

### Analysis

Verbatim transcripts of the interviews were analysed thematically, to draw out key themes and distinctions between the respondents.

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Claire Whyley is an independent consultant specialising in research, policy and strategy in relation to a range of consumer issues, and collaborating with Policis for this project. Claire has a background in research on consumer disadvantage, finance services, credit use and debt, and social and financial exclusion. She is a member of the Financial Inclusion Task Force, Chair of its Affordable Credit Sub-group and sits on the Financial Services Authority Consumer Panel and the Finance and Leasing Association's Lending Code Board. Until 2008 she was Deputy Director of Policy at the National Consumer Council, and prior to that was Head of Research at the Welsh Consumer Council and a Research Fellow at Bristol University's Personal Finance Research Centre.

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