

Financial Inclusion Taskforce: Report on progress towards the shared goal

Summary

Based on currently available information, steady progress is being made towards the goal to halve the number of adults in households with no bank account, although it is not yet possible to say accurately what proportion of the goal has been achieved.

The Taskforce welcomes this progress and encourages the banks, the Government and others to ensure that it continues.

In particular the Taskforce encourages the banks to continue work to address the difficulties with account opening identified by the Banking Code Standards Board (BCSB) and others.

The Taskforce is taking steps aimed at coordinating action between the banks, the Government and others to facilitate access to bank accounts amongst the financially excluded. It looks forward to continuing the constructive discussions that it currently has underway to develop proposals in this area.

Background

1. The Financial Inclusion Taskforce was established by HM Treasury following the publication of 'Promoting financial inclusion' and was formally launched in April 2005.
2. The Taskforce terms of reference cover the three key priority areas identified in 'Promoting financial inclusion': access to banking, affordable credit and free face-to-face money advice.
3. With regard to banking, the terms of reference are as follows:
 - To report to HM Treasury and the banking industry on progress towards the shared goal of halving the number of adults in households without a bank account and of

having made significant progress in that direction within two years¹;

- To monitor provision of banking services to the financially excluded, including access, and report to the banks and HM Treasury on findings.

This is the first annual report on progress towards the shared goal, making use of the data that is available at this time.

Goal to halve the unbanked

4. Following the PAT14 report on access to financial services in 1999, the banking industry worked with the Government to introduce the basic bank account which is specifically designed to address the needs of the financially excluded. In April 2003, the Government began the process of transforming the payment of benefits to direct electronic payment. A significant proportion of benefit recipients were without a bank account and basic bank accounts were expected to meet much of this need. The Post Office Card Account (POCA) was introduced, with a financial contribution from the banks of £182 million over five years, as a stepping stone into electronic money management.
5. Despite this, the Family Resources Survey indicated that in 2002/03 there were 1.9 million households without a bank account of any kind, containing around 2.8 million adults. In December 2004, the Government and the banks agreed to work together towards the shared goal. The 2002/03 Family Resources Survey data is the baseline for the goal.
6. For the purposes of this survey, a bank account is defined as a current account, basic bank account or savings account. Post Office Card Account holders are therefore not considered to be 'banked'. Although the Post Office Card Account provides a useful stepping stone for those who have not had experience of

¹ The goal was announced in the Pre-Budget Report, December 2004.

using electronic forms of money management in the past, it does not have the functionality to allow holders to make the savings associated with holding a bank account eg cashing cheques free of charge, paying bills by direct debit etc.

7. The Taskforce also considers it appropriate to monitor the number of households without current accounts². Although 'no account of any kind' is a suitable measure for the most extreme form of financial exclusion, operating without a current account imposes real costs on those who can least afford them. The Taskforce is therefore interested in monitoring both measures.

Measurement

8. The FRS data on which the goal to halve the unbanked is based is set out in the table below. This household level data equates to adults in households as follows:

FRS 2002-03	Households	Adults in households
No account of any kind	1.9 million	2.8 million
No current account	3 million	4.5 million

The baseline for the goal was set as *the number of adults in the households with no bank account of any kind (2.8 million)*.

9. Unfortunately, the design of the Family Resources Survey for 2003/04 and 2004/05 does not allow comparable figures to be drawn for those two years, because responses from POCA holders have been aggregated with those from basic bank account holders. This has been rectified for the 2005/06 survey which will be published in spring 2007. The results of this

² Current account includes basic bank accounts

survey will enable the first definitive assessment to be made of achievement towards the goal.

10. In order to provide more regular information and to ensure data is available in the period during which FRS data are unavailable, the Taskforce has commissioned a series of questions on bank account holding. These are being included quarterly in the ONS omnibus survey. The results of this survey are not directly comparable with the FRS because they are measured in benefit units rather than households³. However, the ONS survey does provide a useful proxy to allow the *direction of progress* to be determined and provides data more frequently than the FRS. *We stress that this data cannot be taken as an indication of whether the goal itself has been met.*

11. The results of this survey are as follows:

	May 2005	Aug 2005	Dec 2005
Adults in benefit units with no account of any kind	2.54 million	2.22 million	1.89 million
Adults in benefit units with no current account	3.54 million	3.42 million	3.15 million
<i>NB: These figures are not comparable with the FRS baseline</i>			

12. In addition, the British Bankers Association collects data from its members on the number of basic bank accounts opened on a quarterly basis. This data is also not comparable with the FRS or the ONS data as it measures the number of basic bank accounts opened, regardless of whether or not the account holder already has a bank account. It also does not include those who have entered banking by opening an account other

³ A benefit unit is defined as an adult and their partner, if they have one, and any dependent children. A household is defined as a single person or group of people living at the same address who either share one meal a day or share the living accommodation, i.e. a living room.

than a basic bank account and is therefore likely to underestimate the number of people moving into banking. Latest data available⁴ shows that between April 2005 and December 2005, broadly the same period as the ONS survey, a net 407,000 basic bank accounts have been opened. This brings the total number of basic bank accounts opened since April 2003 to 1.6 million.

Progress

13. The results of the ONS survey cannot be used to assess absolute progress towards the goal as they are not comparable to the FRS baseline. However, the results appear to indicate a steady decrease in the unbanked over the survey period, although the apparent trend cannot yet be viewed as statistically significant⁵.
14. Independent research commissioned by the BBA⁶ indicates that around 51% of basic bank accounts have been opened by adults from unbanked households. This suggests that, over the period of the ONS survey, around 208,000 basic bank accounts were opened by adults from unbanked households. Again, this is not directly comparable with other data.
15. The BBA data reinforces the downward trend in the number of unbanked people apparent in the ONS survey results. Taking these two pieces of evidence together, the Taskforce feels confident that steady progress is being made towards reducing the unbanked. The Taskforce welcomes this indication of progress.

⁴ <http://www.bba.org.uk>

⁵ Because of the sample size of the ONS survey, the apparent trend shown by the results is not statistically significant at the 95% confidence level.

⁶ <http://www.bba.org.uk>

Obstacles

16. The Taskforce considers ensuring those new to banking have the knowledge and capability to make effective use of their bank accounts to be key to effectively addressing the problem of exclusion. Supporting people in making effective use of their accounts depends in part on removing obstacles, both real and perceived, to engaging with banks. It also depends on ensuring available products meet the needs of the excluded and are accessible.
17. In order to fully understand the difficulties with accessing banking services, the Taskforce wishes to hear, at first hand, the views and concerns of those experiencing financial exclusion. For this purpose it has commissioned a series of deliberative workshops in a range of locations across the country involving financially excluded people directly. These workshops will be run during March 2006 and the Taskforce intends to discuss the issues that emerge with the banks, the Government and others.
18. In discussions with the banks about their strategies to ensure the goal is met, the Taskforce is exploring what is being done to address the obstacles to account opening identified by the Banking Code Standards Board (BCSB) in its recent mystery shopping exercise⁷. This is the first report since the Banking Code was strengthened in 2005. The Code now states that, amongst other things, a basic bank account will be offered to customers who specifically ask for one and to those whose needs are suited to this kind of account.
19. The obstacles identified by the BCSB are: availability of account literature; staff awareness of product features; identification and address verification procedures; account opening timescales and credit searches.

⁷ Survey of Subscribers Providing Basic Bank Accounts, Banking Code Standards Board, November 2005.

20. The BCSB mystery shopping exercise showed that 67% of people would be prepared to recommend the bank that they opened an account with (up from 41% in 2003 and 57% in 2004). This demonstrates marked improvement from previous years. The BCSB concludes:

'There have been some improvements in the provision of Basic Bank Accounts following strengthening of the code in 2005. Overall there were some very positive reactions from consumers recorded in our survey. Availability of literature and information has also improved but these improvements have not been universal and more still needs to be done.'

21. Recent work by Citizens Advice⁸ has identified additional difficulties, including bank staff selling accounts and services unsuitable for customers' needs and delays in opening basic accounts due to centralised processing. Work by Services Against Financial Exclusion at Toynbee Hall has come to similar findings⁹.

22. The banks have recently agreed that the independent Banking Code reviewer should consider, at the time of the next review starting in January 2007, whether the Code guidance should be amended to address the specific points where further action is needed, as identified by the BCSB.

23. The Taskforce encourages the banks to continue with their progress to address the difficulties identified and in particular to consider ways in which the new Joint Money Laundering Steering Group guidance¹⁰ on acceptable forms of identification and address verification can be implemented in branches as soon as possible.

⁸ Banking Benefits: CAB evidence on payment of benefits into bank accounts, Citizens Advice, January 2006

⁹ Banking the Unbanked – a snapshot, SAFE at Toynbee Hall, November 2005

¹⁰ <http://www.jmlsg.org.uk>

Product features

24. To ensure banking services are attractive to those on low incomes, they must have features that meet the needs of this group of consumers. One feature that the Taskforce considers may require further investigation is the bill payment facility on offer. The Taskforce is keen to explore with the industry how bill payment services could be developed to better suit the budgeting arrangements of those on low incomes. One example may be the facility to allocate sums from within the account for the payment of different bills, often known as a 'jam jar' account.
25. The Taskforce has noted recent moves by some banks to restrict the ways in which basic bank account customers can access their accounts, in particular counter service and the length of time taken for cheque deposits to clear. The Taskforce would be concerned if the utility of basic bank accounts was eroded such that they were no longer appropriate or convenient for the holders. The Taskforce has commissioned a survey into how the financially excluded access their cash and transmit money, which should allow it to draw conclusions about the importance of counter access to the financially excluded. The Taskforce will want to discuss its findings on this point with the banks. This survey will also demonstrate the extent to which fee-charging ATMs are used by the financially excluded. The results of this survey are due shortly and the Taskforce will report results to Ministers.

Next Steps

26. Progress towards the goal has, since April 2003, been encouraged by the move towards the direct payment of benefit into bank accounts or Post Office Card Accounts (POCAs). Work to move to electronic payment of benefit is now complete and around 97% of benefit recipients are paid electronically. Of

DWP customers receiving benefits, 3.3 million are paid into a POCA, 12.3 million into a bank account and less than 400,000 remain in receipt of cheque payments. The challenge, looking ahead, will be to encourage those who have opted for a POCA, and those who have remained in receipt of cheques, who could reasonably stand to benefit from having a bank account, to consider opening one.

27. Demonstrating the benefit of having a bank account to those who remain outside banking will be a particular challenge as this group is likely to be the hardest to reach. However, the Taskforce recognises that this is not solely the responsibility of the banks; rather, it requires coordination of effort from a range of organisations such as the intermediaries mentioned below in paragraph 28. We anticipate that the deliberative workshops, mentioned above, will provide information that will be useful in targeting this group of people.

28. The Taskforce considers that the problem of financial exclusion is not solely one of availability of products or practices of providers. There is also a need to stimulate demand for appropriate banking services amongst financially excluded groups, and to motivate action by intermediaries in order to equip individuals to make the most appropriate choice for themselves. The Taskforce recognises that, in order to do this, individuals may benefit from assistance with understanding the options available to them, the potential benefits of different products, and the requirements for accessing products. Practical assistance in, for example, applying for a bank account may also be appropriate. This kind of 'informed choice' process may be usefully facilitated through organisations such as:

- those with which individuals are already in touch, such as housing associations or Job Centre Plus;

- others which individuals already trust, such as voluntary sector organisations or community groups; or
 - central or local government.
29. The Taskforce does not consider this kind of support work to stop at account opening. There is also a need to support individuals in making effective use of their accounts. Progress will require coordinated work between providers, intermediaries and the Government. For example, third sector lenders such as credit unions and CDFIs have an important role to play in assisting customers into banking as well as providing affordable credit. The Taskforce will be particularly interested in the outcome of work that ABCUL¹¹ is undertaking with the Cooperative Bank to enable credit unions to provide basic bank accounts to their members.
30. The Taskforce is developing proposals for this work in discussion with the banks with a view to identifying effective ways of targeting the financially excluded. For example, the Taskforce and the banks are together considering using information on areas of high deprivation to assess the scope for targeting action geographically.

Conclusion

31. The Taskforce considers the available evidence to indicate steady progress has been made towards the goal to halve the unbanked. However, further work is required to ensure the goal is achieved and that the financially excluded have the opportunity to access banking services if they wish. It has put in place arrangements to determine the nature of the difficulties experienced by those that remain outside banking and to explore effective ways of addressing these obstacles. The Taskforce will continue working with the banks, the Government

¹¹ The Association of British Credit Unions Limited

and others towards the achievement of the goal. The Taskforce will report more fully on the range of its Terms of Reference in autumn 2006.

Financial Inclusion Taskforce

March 2006