



# A new approach to banking

## Extending the use of Jam Jar Accounts in the UK

April 2011

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Social Finance is an FSA regulated, non-profit organisation with a mission to accelerate the flows of non-government capital to address difficult social issues in the UK. Social Finance's team brings together individuals with expertise in finance, strategy consultancy and the social sector. Social Finance is committed to driving innovative, sustainable and scalable solutions by combining a deep understanding of social issues and low income consumer needs with expertise in financial modelling, business case development and investment structuring.

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## 1. The case for a new approach to banking

Having a bank account is seen as fundamental by most people in the UK. Bank accounts play a key role in enabling better access to affordable goods and services, other essential financial products like low cost loans and insurance, and even employment.

Since the creation of the Financial Inclusion Taskforce in 2005, there has been some improvement in the take-up of bank accounts in the UK. The number of working age adults without access to a transactional (current or basic) bank account is estimated to have fallen from 3.57 million in 2002/03 to 1.54 million in 2010. (1)

Nevertheless, we estimate that more than 9 million people in the UK are still missing out on some of the benefits of banking.\* Many individuals on low incomes, even some with bank accounts, still choose to maintain control of their finances by managing in cash, limiting their access to affordable goods and services including other essential financial products. Many more incur high levels of penalty charges each month due to bounced payments or unauthorised overdrafts.

The current system of charges profoundly affects how consumers view banks. Low income families with credit and debt issues see banks as the least flexible of their creditors, and the most likely to apply punitive charges which increase their debt. (2)

Existing models of 'free if in credit' high street banking were not designed to meet the needs of individuals on low incomes or with poor financial management skills. (3)

This report explores and assesses the commercial viability of new banking products that actively support consumers to manage their money, reducing the risk of debt and bill payment arrears while enabling access to lower cost products and services through automated bill payments and online shopping.

### *Why does banking failure matter?*

Access to appropriate banking should lead to significant financial and quality of life benefits.

The 'poverty premium' – that families on low incomes pay more for goods, services and financial products – has been widely documented. (4) Appropriate bank accounts are a portal to better value financial services – affordable credit, savings products and insurance – and to more affordable utilities and consumer goods through automated payments (direct debits or standing orders) and payment cards that enable consumers to shop around online. Appropriate banking products also reduce the less visible costs of financial exclusion – the time and money excluded consumers spend travelling to and queuing at branches or newsagents to pay their bills.

Access to an appropriate bank account brings significant psychological benefits. Consumers feel that their money will be held securely until they need it, leading to greater peace of mind. Support to make automated bill payments could also help consumers to avoid falling into arrears and debt which can

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\* This includes 1.54 million people with no access to a transactional account, 0.95 million people with a basic bank account who choose to manage in cash and 6.6 million people across the income spectrum that are paying more than £100 per annum in bank fees.

exert huge pressure on people's lives – the link between debt and mental health problems, such as anxiety and depression, is well documented. (5)

Not having access to a bank account can also lead people to feel socially excluded. Having an account is essential for most jobs, so not having a bank account can act as both a practical and psychological barrier to finding employment. (6) Furthermore, low income consumers who have recently opened a bank account report that having a bank account makes them feel more independent and confident, and more like everybody else. (7)

### **Why do existing banking models fail people?**

Part of the preference for cash management among both the banked and the unbanked comes from a greater sense of transparency and control. This is particularly important for people managing on low incomes, *"you pay by cash because you know where you are from one day to the next."* (8)

Consumers may also worry that the account holder is not in control of the timing of some automated payments, such as direct debits. These can be hard for consumers to manage if the timing of their income (for example, weekly or fortnightly benefits) is different to the timing of their bill payments (often monthly or quarterly). Variations in earned income as a result of shift work or casual labour can also make automated payments difficult to manage, especially if the value of direct debits varies from month to month with service usage (e.g. telephone bills).

Consumers know that existing bank accounts may charge them large penalty fees if there are insufficient funds in their account to make a payment, *"you might be £1 short and then you get charged £24."* (9) Such fees can put a huge amount of pressure on already tight household finances. As a result, the decision not to fully engage with existing banking products may be very rational for many consumers on low or variable incomes, or with poor financial management skills.

### **What would a new approach look like?**

No single banking product will ever meet the needs of everyone that is not currently benefiting from banking. However, consumer research indicates that a significant proportion would benefit from Jam Jar Accounts that:

- Allow customers to split their account balance into 'Jam Jars' for spending, saving and bill payment;
- Support customers to improve their budgeting and bill payment behaviour through low balance alerts and automated transfers of funds between Jam Jars; and
- Give customers access to trained 'Money Managers' that can provide budgeting advice and referrals to specialist consumer services (e.g. debt advice or Citizens Advice Bureaux) where necessary.

Access to such accounts would be all the more important in times of economic pressure on household finances due to high levels of unemployment and inflation. They could also play an important role in facilitating the planned introduction of Universal Credit by supporting vulnerable consumers to budget and pay bills particularly if Universal Credit is paid monthly or 4-weekly rather than on a weekly or fortnightly basis.

To some extent accounts with Jam Jar features are already available in the UK, often charging a fixed monthly fee to cover the costs of the account. Social Finance estimates that they are currently used by only 150,000 people. Our analysis indicates that the price, profile and branding of Jam Jar Accounts would need to be addressed in order to improve take-up of such accounts significantly.

### *Summary of recommendations and next steps*

Social Finance believes that there would be considerable value to supporting the take-up of Jam Jar Accounts in the UK, which could offer consumers some of the transparency and convenience they value in cash budgeting, combined with improved security and functionality to help them manage their money with greater confidence.

This report indicates that, if taken up at scale, it should be possible to make Jam Jar Accounts available at a price that would be affordable for low income consumers (Chapter 5).

If the Government agrees with our findings and is interested in pursuing these benefits, then we believe that there is scope for them to play an important role in supporting the take-up of Jam Jar accounts in the UK.

Before pushing for roll-out at scale however, we believe that there could be considerable value to funding further research through a pilot of lower cost Jam Jar Accounts to a limited number of consumers. Such a pilot would maximise the potential to generate interest from a range of account providers for roll-out and would maximise the likelihood of securing non-consumer account revenues from service providers to reduce account costs for financially vulnerable consumers.

There could also be value in funding research with service providers to define and develop criteria for identifying consumers for whom there would be a commercial benefit to supporting the costs of improved bill payment behaviour through a Jam Jar Account.

Subject to the findings of such further research, Government could maximise the social benefit from greater take-up of Jam Jar Accounts by:

1. Encouraging a range of providers with trusted consumer brands, potentially including the Post Office, third sector providers such as Credit Unions, retail payment networks like Paypoint and at least one high street bank, to explore the potential to offer Jam Jar Accounts to consumers, either directly or via existing providers, with fixed consumer fees appropriate to customer circumstances;\*
2. Negotiating a system of fees payable to Jam Jar Account providers from service providers that would benefit from better bill payment to reduce the fixed fees that consumers on low incomes or in financial difficulty would have to pay for the account;
3. Approving Government support to Jam Jar Account providers to offer low fee or fee-free Jam Jar Accounts to vulnerable benefit recipients to support their transition to Universal Credit.

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\* Surplus generating provision to consumers on mid to high incomes, lower fees for consumers likely to struggle with financial management as a result of low incomes or poor financial management skills with the outstanding revenue made up from other sources.

## 2. Who could benefit from a new approach to banking?

Social Finance estimates that up to 9 million UK consumers are not currently benefiting from banking. These consumers either do not have a bank account, act as if they do not have a bank account, or pay high levels of penalty fees as a result of the pressures of managing on low incomes and / or poor financial management.

Our best estimates of how many working age adults might be included in each group is presented in Table 2.1.\* Understanding the characteristics and financial preferences of each group is an important guide to understanding what they would need to more effectively manage their money through a bank account. Key characteristics of each group are summarised below. More detailed profiles can be found in Appendix 1.

**Table 2.1: UK adult population not currently benefiting from banking**

	Unbanked	Act as if unbanked	Not benefiting from banking
Unbanked	1,540,000	1,540,000	1,540,000
Basic Bank Account - manage in cash		950,000	950,000
Account holders paying >£100 pa in fees <sup>†</sup>			6,600,000
TOTAL POPULATION	1,540,000	2,490,000	9,090,000

### *The unbanked*

Over 1.5 million adults do not currently have access to a transactional bank account.<sup>‡</sup> (1) This includes those who do not have any account at all and those who only have a Post Office Card Account.<sup>§</sup>

\* These figures represent our best estimate of the total number of individuals that are not currently benefiting from banking in the UK. The number of individuals likely to take-up an alternative bank account product cannot be inferred from these figures and will depend on, amongst other things, the branding, marketing and pricing of the alternative bank accounts.

<sup>†</sup> A number of banks are known to have reduced their penalty fees since the 2008 Office of Fair Trading research on which this figure is based was published. Social Finance has been unable to find more up to date data at the current time. It is likely that the number of people paying >£100 per year in penalty fees has reduced but is still substantial.

<sup>‡</sup> Some of these individuals may have savings accounts.

<sup>§</sup> Post Office Card Accounts (POCA) were introduced in 2003 to enable state benefits and pensions payments to be paid automatically. POCAs can only accept inward payments of some benefits and state pensions from the

Individuals in this group are particularly disadvantaged: 36% have incomes in the lowest income quintile. (1) A survey of low income unbanked consumers found that 89% receive means-tested benefits and 79% live in households with no working adults and live in social housing. (7) Levels of lone parenthood, disability, and literacy and numeracy difficulties are high among this group. (1), (7) Levels of internet access are low.

Two thirds of the unbanked have previously had bank accounts and have fallen out of banking because of trouble with overdrafts and penalty fees. (7) Many of this group claim not to feel the need for a bank account. Others report being refused, or choosing to manage in cash because of problems with a previous account.

Research with particularly vulnerable unbanked consumers (with issues such as homelessness and mental health problems) found a widespread mistrust of banks and a sense that 'banking is not for me'. (10). Consumers who had previously got into trouble with overdrafts and penalty fees expressed a view that banks had acted irresponsibly in giving them products that were not suitable for them. (11)

While the unbanked could benefit significantly from a new approach to banking, convincing this group of the benefits may be a challenge. 95% of this group report a preference for cash management. (7) This is likely to be motivated significantly by the desire to avoid the risk of penalty charges although, in reality, it is almost impossible to manage entirely in cash in the modern world. Many unbanked consumers report using friends' or relatives' accounts where electronic or cheque payment is necessary. (10) The extent to which such behaviour is driven by a desire for anonymity is unclear.

Consumer research indicates that, to the extent that this group express an interest in banking, the three biggest draws are: feeling more independent; feeling more like everybody else; and having the convenience of a payment card. Confidence that their money will be secure is also a strong attraction. (7)

This group express interest in bank accounts that would enable them to receive payments from all sources (benefits, salary, cash and cheques) and to more easily access cash from free to use cash machines and branch payment networks (e.g. Post Office, Pay Point, etc.). However, just 15% of POCA-only customers and 8% of the entirely unbanked view access to automated payments (direct debits and standing orders) as essential. This compares to 35% among those who are banked and receiving benefits. (11)

### ***Individuals that act as if unbanked***

The second group that is not benefiting from banking are those who act as if they are unbanked, by choosing to manage their finances in cash, in spite of their access to a transactional bank account.

We estimate that 950,000 people with basic bank accounts fall into this group – around 50% of all those with an account of this kind. (12) \*\* These consumers have made the step into (or back into) banking, but

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Department for Work and Pensions (other income cannot be paid in), and customers can only make withdrawals over the counter at Post Offices or at Post Office cash machines. Given their limited functionality, they are not widely regarded as promoting financial inclusion and are not considered to be transactional bank accounts for the Government target or in this report. Around 800,000 people in the UK only have a POCA. (7)

\* We have been unable to find data on current account holders operating in cash.

are failing to benefit from many of its advantages. Reported reasons for managing in cash include simply having a preference for cash management, having always managed in cash and the lack of transparency and flexibility associated with direct debits. <sup>†</sup> (7)

While this group has slightly higher average incomes than the unbanked group, their household income still tends to be low (69% receive means-tested benefits). (7) Staying on top of household finances is also a problem for this group; 29% report being in arrears on their household bills. (7)

Nearly one third of this group report having problems with a previous bank account. (7) Choosing to manage in cash is therefore a way to retain control over their household budget and to avoid the high levels of missed payment and overdraft fees that can result if automated payments from basic bank accounts fail.

It seems likely that many of this group would benefit significantly from a new approach to banking that allowed them to access automated bill payments without the risk of penalty charges. The ability to keep track, in real time, of funds coming into and out of the account will be important to this group. 82% state that they prefer to manage in cash because "*with cash you know exactly where you are*". (7)

### **Those not benefiting from banking**

In addition to those not using bank accounts to make bill payments, a large number of people use automated payments from high street bank accounts, but encounter significant difficulties in doing so.

Penalty fees for insufficient funds – where a low account balance prevents scheduled automated payments from being made, or causes the account balance to fall into an unauthorised overdraft – are a common experience in the UK.

Data from the Office of Fair Trading (OFT) from 2006 indicates that 12.6 million accounts (23% of active accounts in the UK) incurred at least one penalty charge that year. (13) <sup>‡</sup> Of those consumers that incurred charges, the average incurred over one year was £205. Over 6.6 million accounts paid at least £100 in penalty fees, of which 1.4 million paid over £500.

Unsurprisingly, consumers on low incomes, or with low levels of savings, are significantly more likely to have been charged penalty fees in the past 12 months. Fees are also disproportionately more likely to be incurred by the relatively young. (3) Of those who paid insufficient fund charges in 2006, 57% also paid

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\* The British Bankers' Association reports that there are 7.8 million "basic functionality" accounts. (37) However, a number of these may be second accounts belonging to people that have a full current account elsewhere. The number of people with a basic bank account as their main account is likely to be much lower, given that, of the current accounts provided by banks, only 4% are basic bank accounts (3). There are 50 million people aged over 16 in the UK, and our assumptions above suggest that fewer than 2 million do not have an account. (39). If we assume that the distribution of types of account accurately reflects the number of people whose main account is of that type, we estimate that there are 1.9 million basic bank account holders (4% of 48m).

<sup>†</sup> Note: these descriptions are actually from research with low income newly banked consumers, 78% of whom are basic bank account holders. (7) The findings in this report are not differentiated between those who have current accounts and those who do not, nor those who cash-manage and those who do not.

<sup>‡</sup> It should be noted that a number of banks are known to have reduced their penalty fees since this research was published. Social Finance has been unable to find more up to date data at the current time.



them the previous year suggesting that either consumers do not learn from incurring such charges, or that their financial circumstances make incurring charges unavoidable. (3)

This group would benefit significantly from an account which supported successful bill payments and removed the risk of penalty charges. It is worth noting, however, that UK consumers are generally reluctant to switch bank accounts. Of UK consumers surveyed in 2010, only 7% had switched current accounts in the last two years. (14)

### *Budgeters vs. Jugglers*

Recent research suggests that, whether they are banked or not, low income consumers fall into two categories: 'financial budgeters' and 'financial jugglers'. (9)

Financial budgeters keep careful track of their expected income and expenditure, and time the payment of large bills and expenses to coincide with their income. Those with bank accounts time their direct debits so that payments are made soon after money is received into the account. Those without bank accounts try to pay their bills via standard credit as soon as they receive their wages or benefits. Financial budgeters report regularly monitoring their budgets by checking their bank balances and keeping a close eye on their cash in hand.

Financial jugglers on the other hand, whether due to poor financial skills or very low incomes, have a less structured approach to managing their finances and do not necessarily have routines for paying their bills. They tend to hope that they will have enough money to pay bills when they arrive and lurch from one priority to the next. Research suggests that, if several bills need paying at once, jugglers may need to prioritise which bills to pay.

A bank account that supports better budgeting and bill payment behaviour is likely to be of most value to 'jugglers' that struggle to stay on top of their finances on their own. While the psychological and financial impact of juggling is likely to be greatest among those on low incomes, Social Finance believes that these characteristics of financial behaviour are likely to be true across the income spectrum. The high numbers of customers paying bank penalty charges suggests that a wide range of people struggle to set aside money for bills. This would imply that the potential consumer market for a bank account that supported budgeting behaviour could extend significantly beyond simply the groups that are not benefiting from banking that we have outlined in this chapter.

### 3. A new approach to banking? The Jam Jar Account

No single banking product will meet the needs of everyone who is not currently benefiting from banking. However, consumer research (summarised in Appendix 2) indicates that a significant proportion would benefit from an account with the following core and budgeting functions.

#### *Core functions*

These functions emulate those offered by most high street banks' basic and current accounts. Ensuring that these functions are available through Jam Jar Accounts should make them attractive to those who are struggling to stay on top of their finances with a high street account. They also offer significant additional functionality for those transitioning from Post Office Card Accounts or cash management.

The removal of penalty fees for bounced payments and unauthorised overdrafts responds to strong evidence in consumer research around the link between such fees and consumer decisions to stay away or withdraw from banking. We believe that, where necessary, fixed consumer fees would be better suited to meet the needs of financially vulnerable consumers.

Ideally, core Jam Jar Account functions would include:

- Ability to receive funds from a range of sources (wages, benefits, cash, cheques and electronic transfers);
- Ability to withdraw money at any time from free to use ATMs and to make smaller value cash withdrawals via a payment network (e.g. Post Office, Pay Point or Payzone);
- A payment card that can be used to buy goods and services in shops and online;
- Automated bill payment facilities (one-off payments, standing orders and direct debits); and
- No penalty fees or unauthorised overdrafts.

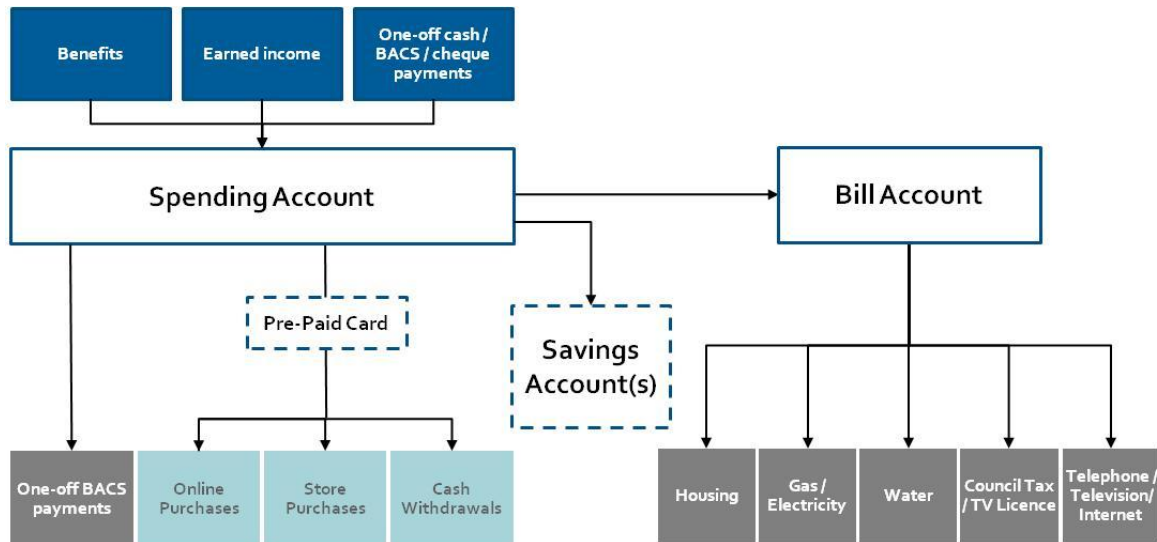
#### *Budgeting functions*

These functions extend those generally offered by most high street bank accounts, to offer consumers some of the transparency and convenience they value in cash budgeting, while improving support for effective budgeting to help them manage their money with greater confidence.

Ideally, budgeting Jam Jar Account functions would include:

- Ability to get real time updates on balances, receipts and spending;
- Ability to subdivide account balance into 'Jam Jars' for spending, saving and bill payment;
- Ability to move funds between Jam Jars in real time;
- Automated balance warnings if the account is low on funds or does not have sufficient funds to make forthcoming bill payments;
- Automated sweeps of funds between Jam Jars to support budgeting and improve bill payment behaviour;
- Timing of bill payments aligned with timing of income; and
- Support to set-up and manage payment of regular bills.

Conversations with providers of bank accounts and banking systems undertaken in the course of this research indicate that these needs may best be met by an account with the following structure:



The Jam Jar Account differs from high street basic and current bank accounts in three significant ways:

### **Division of account balance into Jam Jars**

To support consumers to stay on top of their finances, we propose that income coming into the Jam Jar Account is split into a number of different pots or 'Jam Jars'. Research suggests that this would emulate the way that many individuals currently choose to manage in cash. (9)

Our research has led us to believe that a minimum of two Jam Jars – one for spending and one for bill payment – will be essential to improve bill payment behaviour and put account holders in control of their finances.

There is evidence that many consumers would also value the ability to put money into one or more savings accounts. (9) Saving money on a regular basis can support individuals on low incomes to absorb financial shocks and reduce their dependence on borrowing. (15)

Some consumers may also value the ability to further divide their spending account balance by use of a Prepaid Card. Such cards would also prevent any risk that the account holder could spend more than they have in their account removing any fear around unintentional overdrafts.

### **Supported bill payment mechanism**

To support consumers to improve their bill payment behaviour, we propose that the Jam Jar Account operates on the basis of a system of automated balance forecasts and transfers between Jam Jars.

The first will ensure that, as regular income enters the Spending Account, an agreed amount is swept into the Bill Account to enable scheduled bill payments to be made. This function will effectively align the frequency of bill payments with that of income receipts – a known stumbling block for many

consumers not benefiting from banking. This should improve bill payment behaviour while avoiding the need for the account provider to extend credit to smooth bill payments.

The second will ensure that, if an expected incoming payment has not arrived, or insufficient funds have been transferred to the Bill Account to enable payment of forthcoming bills, the account holder is alerted to this a number of days in advance to give them an opportunity to pay in additional funds or to reschedule their bill payment with their service provider.

The third will ensure that, if the Bill Account continues to have insufficient funds to pay forthcoming bills, funds will be swept from the Spending and / or Savings Accounts, where available, to enable bill payments to be made.

### **Supported account management**

Many individuals that are excluded from banking do not currently have easy access to private internet services that would enable them to manage their accounts online. (7) However, a high percentage have access to mobile and landline telephones even among the lowest income groups. (7)\*

While online budgeting and account management tools will be important for some potential customers, text message (SMS) and telephone-based account management are likely to be essential to ensure that the account meets the needs of everyone that could benefit from this new approach to banking.

Online tools, text messages and Interactive Voice Response technology could be used by customers to track their balances, receipts and spending, and to make administrative changes to the account. Our research indicates, however, that a call centre staffed by trained 'Money Managers' would be central to maximising the value of the Jam Jar Account for many customers.

In addition to supporting customers to set-up and manage changes to regular income and bill payment information, Money Managers would be able to advise customers on budgeting if customer spending becomes unsustainable, if customers run into trouble with bill payments, or if customer circumstances change. For customers who need more specialist support, such as debt advice or consumer advocacy, to address their financial problems, Money Managers could refer account holders on to specialist consumer services, like Citizens Advice Bureaux or the Consumer Credit Counselling Service.

We believe Money Managers could also play an important role in ensuring that customers only move funds out of their Bill Account in exceptional circumstances, limiting the potential for them to fall into arrears and debt. We would recommend that, to ensure that this is a considered decision, transfers out of the Bill Account are only allowed once account holders have talked through the purpose and potential implications of withdrawing funds with a Money Manager. While leaving the ultimate decision with the account holder, conversations with account providers indicate that such a process would significantly reduce the number of bill payment failures and hence the level of customer arrears.

### **One size won't fit all**

The levels of telephone and text message support that potential customers want or need will vary significantly across the potential group that could benefit from a Jam Jar Account.

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\* 84% of unbanked customers have a mobile phone. (7)

Conversations with existing bank account providers indicate that some customers will want to receive an update every time a payment is received or made from the account. Other customers may only want to be alerted if there are potential problems with the account, for instance if a regular income payment has not been received, or if there are insufficient funds in the Bill Account to pay a forthcoming bill.

To appeal to a wide customer group, account providers will need to give customers options around the intensity of support they receive and how they receive it (e.g. by email, telephone, or text message). It is likely that customers managing on very low incomes, or those with a track record of poor financial management, will benefit most from the support that a Jam Jar Account could offer.

In addition to the full service offering, there may also be value to offering consumers the option of a lower cost Jam Jar Account with more limited telephone / text message support. Alternatively customers could be given the option to pay additional charges for such services in addition to a lower fixed monthly fee.

## 4. Do Jam Jar Accounts already exist?

Having identified the Jam Jar Account as a model that could offer considerable benefits to consumers not benefiting from banking, Social Finance reviewed over 100 bank account providers in the UK and abroad to assess the extent to which accounts already exist that would meet identified consumer needs (Appendix 3).

Providers reviewed included banks, building societies, post offices, prepaid card companies, Credit Unions and other social sector providers.

Our analysis revealed that, for the most part, available products:

- Offer the basic functions desired by the target population, such as the ability to receive funds from multiple sources, make automated payments and access all free to use ATMs;
- Do not offer consumers budgeting features, such as the ability to subdivide accounts, generate automated balance warnings or provide personal budgeting support; and
- Tend not to be commercially viable on a stand-alone basis, exclude applicants based upon credit scores, or offer overdrafts, penalty fees and credit cards that place consumers at increased risk of getting into debt.

Our screening process identified twelve providers that offer customers significant budgeting features, of which four accounts seemed to fit most closely with the needs of those not currently benefiting from banking:

ACCOUNT PROVIDER		Royal Bank of Scotland	Secure Trust Bank	Spectrum Financial Group	ThinkBanking
Product name		Money Manager	Prepaid Account	CardOne Banking	ThinkBanking Account
Core features	Receives funds from a range of sources	✓	✓	✓	✓
	Access to all free to use ATMs	✓	✓	✓	✓
	Ability to make smaller value cash withdrawals				
	Payment card that can be used to buy goods and services in shops and online	✓	✓	✓	✓
	Access to automated bill payment facilities	✓	✓	✓	✓
	No penalty fees or unarranged overdraft facilities		✓	✓	✓
Budgeting features	Ability to get real time updates on balances, receipts and spending	✓	✓	✓	✓
	Ability to subdivide account balance	✓	✓	✓	✓
	Ability to move funds between Jam Jars in real time	✓	✓	✓	✓

ACCOUNT PROVIDER		Royal Bank of Scotland	Secure Trust Bank	Spectrum Financial Group	ThinkBanking
Product name		Money Manager	Prepaid Account	CardOne Banking	ThinkBanking Account
Budgeting features (continued)	Automated balance warnings if the account is low on funds or does not have sufficient funds to make forthcoming bill payments			✓	✓
	Automated sweeps of funds between Jam Jars to support budgeting and improve bill payment behaviour	✓			✓
	Timing of bill payments aligned with timing of income	✓		✓	
	Support to set-up and manage payment of regular bills	✓	✓	✓	✓
Fees	Fixed monthly fees	Free	£12.50	£12.50	£14.50
	Other	£6 per day on unauthorised overdrafts; £6 per missed payment up to a maximum of £60 per month.	£12.50 set-up £0.50 fee per cash withdrawal	£1.00 per cash withdrawal	£25 set up

### **Money Manager Account – Royal Bank of Scotland**

This account supports customers to divide their funds into two or three sub-accounts: bills, spending and (optionally) savings. Customers are encouraged to separate the funds required to pay bills from their discretionary expenditure by establishing a standing order from the bills account to the spending account on the day income is received. The account also offers two optional, automated functions to help the customer budget; 'Regular Sweep' and 'Safety Net'. Regular Sweep transfers some or all of the remaining funds in the spending account to the savings account at the end of the month to encourage regular saving. Safety Net automatically sweeps funds from the spending and / or savings account if a shortfall is anticipated in the bills account. Customers may pay in funds by cash and cheque over the counter at RBS / NatWest branches and the account may receive funds via direct bank transfer. The Money Manager Account is currently only offered to existing RBS customers who have got themselves into debt problems with the bank (through loans, credit cards or overdrafts). Fewer than 100 customers are added to the Money Manager service each week, which is made available to them at no charge. RBS has no existing plans to extend access to this account to a broader customer group.

### **Prepaid Account – Secure Trust Bank**

This account enables customers to subdivide their funds between the main account and a prepaid card. Following a budgeting conversation with Secure Trust's phone banking operators when the account is set-up, funds are deposited into the main account and then transferred onto the prepaid card by standing order at a level and frequency defined by the customer. Customers are encouraged to retain enough in their main account to pay their regular bills. They can sweep funds back to the main account from the card or vice versa if required. Customers may pay in cash through the Payzone network and cheques over the counter at Barclays. The account can also receive and originate direct bank transfers.

The account does not have an overdraft facility, there are no penalty fees for returned standing orders and direct debits and customers are provided with a range of budgeting support through personal money advisers and online links to the Consumer Finance Education Body. Around 10,000 customers are currently using this account in return for a flat monthly fee of £12.50. Since November customers have been able to earn 3-4% cashback at more than 30 UK retailers offering a route to offset some of the fixed management fees.

### ***CardOne Banking – Spectrum Payment Services***

CardOne Banking enables customers to divide their funds between a main account where income is received and bills are paid, and a card account that can be used for discretionary expenditure. CardOne Banking is distinguished from others in the market by its sophisticated text message service that offers a range of automated alerts including balance alerts, large deposit alerts, bill payment alerts and low balance warnings. This account only allows bill payments by standing order so that if customers do not respond to insufficient funds warnings, bill payments can be stopped. The account will continue to try to pay the bill for three days, but bills will be unpaid if there remain insufficient funds to pay them. Customers can use text messages to transfer funds from the main account to the card account and vice versa. Customers can pay in cash and cheques using 'Quick Deposit' payment envelopes at NatWest branches, Post Office branches and direct bank transfers. Customer budgeting is supported by personal account managers who offer, in addition to the budgeting service, bill grouping and smoothing advice. Around 12,000 customers are currently using this account in return for a flat monthly fee of £12.50.

### ***ThinkBanking Account – Think Banking Ltd.***

This account allows customers to divide their funds between a main account accessed via a debit card for discretionary expenditure, and a bill account into which all income is received and a proportion retained to ensure sufficient funds for payment of bills with the remainder swept to the main account. Funds in the bill account are ringfenced and can be accessed by customers only through a conversation with a Money Manager. Money Managers also assist customers to set-up bill payments and automated sweeps from income into the bill account, and to amend these if circumstances change. The account offers customers access to both direct debit and standing order payments. Customers can pay in cash or cheques at RBS / NatWest branches and the account may receive funds through direct bank transfer. Around 100,000 customers are currently using this account in return for a flat monthly fee of £14.50.

### ***If these products meet consumer needs so well, why is account uptake so low?***

The existence of banking products with Jam Jar Account features raises questions around why the uptake of such accounts is not higher if they meet reported consumer needs so well. At present we estimate that only around 150,000 UK consumers are taking advantage of such accounts.

Conversations with account providers have revealed that many existing Jam Jar Account customers have been referred by debt management companies on the basis that such accounts increase the likelihood of successful debt repayment. Data shared with Social Finance indicates that current Jam Jar Account customers tend to be over 30 but still of working age, in the C1 socio-economic group and in rented accommodation.

In order to improve access to Jam Jar Accounts, it is likely that the following things will need to be addressed:



- **Price** – existing accounts with Jam Jar features charge consumers fixed fees of £12.50 - £14.50 per month to cover the costs of providing the account including high levels of customer support.  
\* Some also charge for account activities like ATM withdrawals. Unlike free if in credit high street bank accounts, Jam Jar Account providers do not currently rely on penalty charges or financial product cross-sales to cover their costs. Unfortunately, the resulting level of consumer fees is likely to put these accounts out of the reach of many individuals on low incomes.
- **Profile** – there seems to be limited awareness of the existence of accounts with Jam Jar features among the UK population. Much of the existing customer base has been driven by referrals from debt management companies, although recently account providers have used online marketing campaigns to target individuals that have been refused bank accounts elsewhere. Key selling points include the absence of credit checks and penalty fees. Without greater awareness of the potential benefits of such accounts, take-up is unlikely to increase.
- **Providers** – with the exception of RBS, which doesn't advertise its Money Manager Account, existing providers of accounts with Jam Jar features are relatively new / specialist companies whose brands lack the consumer recognition that high street banks, supermarkets or the Post Office would have. To increase take-up significantly among those who would benefit from them, Jam Jar Accounts may need to be offered using consumer brands that are already trusted by the target population in relation to financial services.<sup>†</sup>

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\* With the exception of Royal Bank of Scotland's Money Manager account, which is provided at no charge to consumers, but is only made available to existing RBS customers that are considered to be a bad debt risk for the bank.

<sup>†</sup> Consumer research suggests this would include high street banks, supermarkets and the Post Office. (11)

## 5. How could Jam Jar Account uptake be improved?

The previous chapter demonstrated that Jam Jar Accounts are already available in the UK, but that their pricing, profile and branding are currently a barrier to significant take-up. This chapter examines ways that these barriers could be removed.

### Price

Social Finance analysis (Appendix 4) indicates that, to be commercially viable, a full function Jam Jar Account, like that described in chapter 3 would need to generate revenue of £5-7 per account per month over the first five years of operation. This assumes market take-up of at least 500,000 accounts over the first five years.\* It is highly likely that the costs to account providers with existing systems, customers and financial products would be significantly less.

While many consumers would no doubt be happy to pay fees that cover the full costs of providing a Jam Jar Account, in order to ensure take-up among lower income groups, it may be necessary to identify alternative income streams that would reduce the costs for these consumers.

Research indicates that many consumers on low incomes, would be willing and able to pay in the region of £1-1.50 per week (£4-6 per month) for bank accounts that offer them support with financial management and peace of mind that their bills will be paid (Appendix 5). Indeed, Social Finance conversations with existing providers of financial services to this group indicate that such customers would find accounts with low levels of fixed fees more attractive than 'free' banking that could leave them worrying about when and how they will get charged.

Social Finance research with a range of service providers – housing associations, utility companies, local authorities, telecommunications companies, etc. – indicates that there could be a commercial case for them to support the costs of Jam Jar Accounts for high cost to serve customers (Appendix 5). Use of Jam Jar Accounts by such customers could significantly reduce service provider costs through:

- Lower costs of payment collection;
- Greater certainty of bill payment;
- Reduced probability of customer debt;
- Easier collection of customer arrears; and
- Improved customer retention.

To ensure that it is commercially beneficial for service providers to contribute in this way, fees from service providers may need to be restricted to customer groups that are costly for such companies to serve. Social Finance's initial analysis indicates that a poor credit score may be the most practical and cost-effective single gating criterion for eligibility (Appendix 6). In reality, it may be that different

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\* Social Finance has modelled costs for a new entrant to the market with no existing customer base, no existing banking systems and no other financial product offerings. The required revenue described here assumes that active account numbers grow linearly from zero to over 500,000 active accounts over a five year period. We estimate that at lower account numbers the required revenue per account is significantly higher – for instance £10-16 per account per month would be required at 100,000 active accounts. This is broadly in line with the fixed monthly charges of existing Jam Jar Account providers who currently have 100,000 accounts or fewer.

criteria are used by different service providers. Further work would be required to determine the extent which high cost to serve customers overlap across different service industries, and to identify appropriate criteria and threshold for fee eligibility.

With the introduction of Universal Credit, there may also be a case for Government to financially support Jam Jar Account take-up by benefit recipients. Proposals to shift from weekly or fortnightly, to monthly or 4-weekly benefit payment may prove difficult to manage for some recipients and vulnerable consumers may struggle to stay on top of their bill payments without support.

Landlords, particularly social landlords, are also fearful of the impact that any move away from direct payment of housing benefit to social housing providers will have on their tenant arrears and hence their long-term sustainability. Seen in such a context, Jam Jar Accounts could not only improve financial inclusion, but also help to protect vulnerable consumers and ensure stable incomes for the social housing sector.

Finally, account providers could potentially generate additional revenues themselves through cross-subsidisation of products or customers. Such cross-subsidisation plays a central role in funding existing 'free if in credit' high street bank accounts and could potentially play a further role in ensuring financial inclusion if products (e.g. affordable loans or insurance) were carefully designed to meet the needs of the consumers being targeted.

### **Profile**

Social Finance believes that referrals from trusted service providers – housing associations, utility companies, local authorities, telecommunications companies, Citizens Advice Bureaux, etc. – will play an important role in raising the profile of Jam Jar Accounts to the consumers that would benefit from them most. As we discuss above, such service providers may also benefit from such referrals through reductions in customer cost to serve. Public awareness campaigns and distribution of Jam Jar Accounts by trusted consumer brands would help to build consumer awareness further.

Care would need to be taken to ensure that profile raising activities did not create stigma by portraying Jam Jar Accounts as a financial product attractive to only those on low incomes or poor at financial management. Social Finance believes that, in fact, consumers across the income spectrum would find access to Jam Jar Account services attractive. If high quality products are available in the market, in time, it is likely that word of mouth would play a significant role in driving account take-up.

### **Branding**

Social Finance conversations with existing providers of accounts with Jam Jar features indicate that many would be keen to provide services to lower income consumers if the expected take-up is high and if non-consumer sources of account revenue were available to supplement lower consumer fees.

Conversations with trusted consumer brands have indicated some interest in branding and distributing white labelled Jam Jar Account products, where the delivery and infrastructure of the account is managed by a third party provider if such distribution could be demonstrated to be commercially viable. Extending consumer brand recognition by using existing providers of accounts with Jam Jar features would manage the costs of product launch, support market pioneers and significantly reduce the time required for market entry. Over time, as the potential size of the market for Jam Jar Accounts is

demonstrated, new providers, such as Credit Unions, building societies and other private sector providers, may choose to enter the space.

Consumer research indicates that a market of multiple providers of Jam Jar Accounts would be preferable as brand preferences differ among the potential target population. The unbanked express a preference for Post Office and other trusted non-high street bank brands (e.g. PayPoint and supermarkets), while those that are currently not benefiting from banking generally express a preference for staying with a recognised high street bank or building society. (11)

In addition to brand preferences, a market of multiple providers is likely to generate a number of other benefits. These include creating the conditions to ensure ongoing product innovation and service improvement, and reassuring potential referrers that they are promoting a class of financial products rather than a specific account.

### **Conclusion**

Social Finance's analysis indicates that, if taken up at scale (500,000 accounts or more) it should be possible to make Jam Jar Accounts available at a price that would be affordable for low income consumers.

To be attractive to those that might benefit from it most, it may be necessary to identify revenue from other sources that could offset some or all of the consumer fees for particularly vulnerable consumers - for instance those on very low incomes, in serious financial difficulty or likely to struggle with the move to Universal Credit.

Some potential sources of non-consumer income might include fees from service providers for improved bill payment behaviour, government revenues for consumers struggling with Universal Credit and income from cross-sales of products like affordable credit.

We believe that extending the use of Jam Jar Accounts in the UK would have a significant social impact.

## 6. Recommendations and next steps

Social Finance believes that there would be considerable value to supporting the take-up of Jam Jar Accounts in the UK, which could offer consumers some of the transparency and convenience they value in cash budgeting, combined with improved security and functionality to help them manage their money with greater confidence.

This report indicates that, if taken up at scale, it should be possible to make Jam Jar Accounts available at a price that would be affordable for low income consumers.

If Government agrees with our findings and is interested in pursuing these benefits, then we believe that there is scope for them to play an important role in supporting the take-up of Jam Jar accounts in the UK.

Before pushing for roll-out at scale however, we believe there could be considerable value to funding further research through a pilot of lower cost Jam Jar Accounts to a limited number of consumers. Evidence gathered through such a pilot would verify likely consumer demand for alternative banking products and could demonstrate the potential commercial benefit for service providers (utility companies, social landlords, local authorities and telecommunications companies, etc.) through better payment of bills.

A pilot, using existing Jam Jar Account providers to offer lower cost accounts to consumers, would quickly enable a firm understanding to develop around:

- The effectiveness of service provider referral mechanisms;
- Likely consumer account take-up and satisfaction;
- Consumer price sensitivity;
- The impact of Jam Jar Accounts on consumer bill payment behaviour; and
- The costs incurred by account providers in serving lower income / higher financial need groups.

We believe such a pilot would maximise the potential to generate interest from a range of account providers for roll-out and would demonstrate the case for securing non-consumer account revenues from service providers to reduce account costs for financially vulnerable consumers.

In parallel with this pilot, we believe that there would also be value in funding research with service providers to define and develop criteria for identifying consumers for whom there would be a commercial benefit to supporting the costs of improved bill payment behaviour through a Jam Jar Account. Our current hypothesis, outlined in Appendix 6, is that credit scores are the most practical criterion by which to assess those customers who would be eligible for support towards the costs of banking. Further research could:

- Confirm our hypothesis that credit scoring is the best eligibility criterion;
- Evidence the relationship between those with a poor credit history and those deemed high cost to serve by service providers; and
- Develop practical recommendations around customer group segmentation by credit history to determine eligibility for service provider fees.

Subject to the findings of such further research, Government could maximise the social benefit from greater take-up of Jam Jar Accounts by:

1. Encouraging a range of providers with trusted consumer brands, potentially including the Post Office, third sector providers such as Credit Unions, retail payment networks like Paypoint and at least one high street bank, to explore the potential to offer Jam Jar Accounts to consumers, either directly or via existing providers, with fixed consumer fees appropriate to customer circumstances; \*
2. Negotiating a system of fees payable to Jam Jar Account providers from service providers that would benefit from better bill payment to reduce the fixed fees that consumers on low incomes or in financial difficulty would have to pay for the account;
3. Approving Government support to Jam Jar Account providers to offer low fee or fee-free Jam Jar Accounts to vulnerable benefit recipients to support their transition to Universal Credit.

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\* Surplus generating provision to consumers on mid to high incomes, lower fees for consumers likely to struggle with financial management as a result of low incomes or poor financial management skills with the outstanding revenue made up from other sources.

## Glossary

ATM	Automated Teller Machine (also known as a 'cash point' or 'cash machine'). Allows account holders to withdraw cash from their account using a card and pin verification system.
Automated bill payment	A means of making regular bill payments / fund transfers through direct debits or standing orders.
BACS payment	Bank Automated Clearing Service; an electronic method of making direct transfers between bank accounts in the UK.
Basic bank account	A transactional bank account offered by high street banks and other providers offering limited access to credit (and hence few barriers to entry other than identity verification).
Direct debit	An instruction a bank account holder gives to their bank to permit a third party to collect funds directly from their account.
Interactive voice response (IVR)	A technology system that allows customers to interact with a computer system to manage their bank account, by responding to automated messages through the use of keypad inputs and voice.
Payment network	Organisation that provides a network of retail outlets across the country where customers can use cash to pay for a variety of everyday bills. In the UK these include the Post Office, Pay Point and Pay Zone.
Penalty fees	Fees levied by a bank account provider to an account holder for violating the user agreements of a bank account e.g. having insufficient funds to pay a direct debit or using an unarranged overdraft.
Prepaid card	A card onto which a customers' funds can be loaded for use at point-of-sale in shops and online. Prepaid cards avoid the potential for customers to get into debt, as only transactions up to the balance loaded onto the prepaid account will be authorised.
Standing order	Automated payment established by an account holder to transfer a set sum of money to a beneficiary on a regular basis.
Unauthorised overdraft	Use of an account's overdraft facility by a customer without the permission or agreement of the account provider.
Universal credit	A policy introduced by the Coalition Government in 2010 to simplify the existing welfare system and unify the various existing benefits into a single, integrated system.
White labelled product	A product produced by one company that other companies rebrand to make it appear as if they made it.

## Appendix 1 – Groups not benefiting from banking

### 1a) The unbanked

#### Scale

In total, an estimated 1.54 million adults do not have a transactional current account. (1) Research with people in the lowest 50% of household incomes suggested that only a small number of consumers in this income segment (around 330,000 people) do not have any account at all, not even a Post Office Card Account (POCA).<sup>\*</sup> (7) Another 800,000 in this income segment only have a POCA.<sup>†</sup>

#### Characteristics

The vast majority of unbanked consumers live in low income households. The Family Resources Survey reports that 36% of the unbanked have incomes in the lowest quintile. (1) A survey of low income unbanked consumers found that most of this group's income is from benefits – 79% are in households where no one is working in paid employment and 89% receive means-tested benefits. (7)

Other demographic characteristics of unbanked households include that:

- Single, lone parent and retired households are over-represented; (1)
- They are very likely to live in socially rented housing (89%, compared with 18% of the general population); (7), (16) and
- Disability and health problems are high (a recent survey of low income unbanked consumers suggested two fifths report a disability of impairment). (7)

Low income unbanked consumers also report significant issues with literacy and numeracy which make handling bureaucracy difficult, and just 31% have access to the internet in the home. (7)

While they share some characteristics, there are also some important differences between consumers that are entirely unbanked and those that have a POCA only. As most benefits are now paid into an account, the smaller group of entirely unbanked consumers are unlikely to be receiving benefits, and are instead likely to be working in 'cash in hand' jobs. Research with a small group of unbanked non-benefit recipients found that they were working in jobs such as childminding and bar staff. (11) The entirely unbanked are also better off than those with a POCA only: a recent survey found that, among low

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<sup>\*</sup> Post Office Card Accounts (POCA) were introduced in 2003 to enable state benefits and pensions payments to be paid automatically. POCAs can only accept inward payments of benefits and pensions from the Department for Work and Pensions (other benefits such as housing benefit, or deposits from other sources, cannot be paid in), and customers can only make withdrawals over the counter at Post Offices or at Post Office cash machines. Given their limited functionality, they are not widely regarded as promoting financial inclusion and are not considered to be transactional bank accounts for the Government target or in this report. Around 800,000 people in the UK only have a POCA.

<sup>†</sup> Analysis of household survey data suggests that a total of 3.12 million adults have a Post Office Card Account, though other sources quote higher numbers. (38), (11) Given that the recent survey suggests that 800,000 low income consumers only have a POCA, this implies that up to 2.32m POCA holders also have other accounts. (7) This backs up previous research which found that that 73% of POCA households also hold at least one bank account. (22)



income consumers, entirely unbanked people have an average monthly income of £778 compared to £585 for those with a POCA only. (7)

### Attitudes to banking

Two thirds of the low income unbanked have previously had accounts and have fallen out of banking, so only an estimated 390,000 low income consumers have never had an account. (7)

Research reveals that people do not have bank accounts for a range of interlinked reasons. The most reported reason is that respondents *"don't feel need for a bank account so haven't applied for one"* (42%); no longer having a need for an account is another common response (13%). However, the next most reported reasons for not having an account is that a bank has refused them one (16%) or that they have had trouble with a previous account (15%). (7)

Qualitative research with particularly vulnerable unbanked consumers (with issues such as homelessness and mental health problems) found widespread mistrust of banks and a sense that *"banking is not for me"*. (10) It also found that consumers who had previously got into trouble with overdrafts and penalty fees felt that banks had been irresponsible in giving them products that were not suitable for them in the first place.

Preferences for cash management are high among this group (95% report managing their money mainly in cash). Avoiding the risk of incurring penalty charges is a large driver for this, particularly among those who encountered this problem on previous accounts.\* (7)

Interest in banking among this group is split: one half of unbanked consumers might be interested in a bank account, the other half not. (7) The 56% who report little or no interest in a bank account are likely to have never been banked or to have a POCA. (7) This reflects other research which found that POCA only customers report high levels of satisfaction with their account. (11)

The three biggest draws to banking for this group are: feeling more independent; feeling more like everybody else; and having the convenience of a payment card. (7) Confidence that their money is secure is also a strong attraction, particularly for those with no account whatsoever. (7)

In terms of functions that this group are interested in, their responses are characterised by their simplicity: features such as the ability to receive payments from all sources, to access to cash machines and small value withdrawals at high street banks or Post Office counters. (11)

What stands out among the unbanked is their lack of interest in automated payments like direct debits: just 15% of POCA only customers and 8% of the entirely unbanked viewed this as essential, compared with 35% among consumers who are banked and received benefits. (11)

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\* In reality, it is almost impossible to manage entirely in cash in the modern world. Qualitative research suggests that unbanked consumers use friends' and relatives' accounts where online or electronic payment is necessary, or if a cheque is needed. (10)

## 1b) Basic bank account – manage in cash

### Scale

We estimate that there are around 1.9 million individuals with basic bank accounts in the UK.\* There is a range of evidence showing that a large proportion of these consumers are managing in cash:

- Half of basic bank account holders prefer to withdraw their income and manage in cash according to a 2005 survey. (12)
- Only 34% of basic bank accounts have direct debits set up according to evidence gathered from banks for the Financial Inclusion Taskforce in 2007. (17) However, the high total number of basic bank accounts (7.8m) compared with the fact that only 4% of current accounts are basic bank accounts suggests that many will have another bank account too. (3) It is possible that they may have direct debits associated with these other accounts.
- A 2009/10 survey of low income consumers who have opened bank accounts in the last five years – 78% of whom have basic bank accounts – found that 43% manage in cash. (7)

For the purposes of this report, we estimate that 50%, 950,000 basic bank account holders, act as if they are unbanked by managing their finances in cash.

### Characteristics

It is difficult to separate this group of cash-managing basic bank account holders from other groups in existing consumer research. The best source of information about basic bank account holders generally is from the recent research about low-income consumers who have become banked in the last 5 years, 78% of whom have basic bank accounts. This found that: (7)

- They have a higher income (average monthly income: £956) than POCA only holders (£585) and completely unbanked people (£778), but those with the lowest incomes are most likely to choose to manage in cash;
- Their household finances are precariously balanced: 29% are in arrears on household bills;
- 69% are in receipt of the main means-tested benefits and 41% receive housing benefit; and
- Almost half (46%) have had some previous experience of banking. However, many fell out of banking due to problems in managing their account: 27% had had an account that they or the bank had previously closed.

### Attitudes to banking

Of those who do not use their account for automated payments, 59% say this is simply because they preferred to manage their money in cash, with 82% stating that “*with cash you know exactly where you are*”. (7) Beyond this, it is difficult to separate out the attitudes of the ‘cash managers’ as opposed to

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\* The British Bankers’ Association reports that there are 7.8 million “basic functionality” accounts. (37) However, many people will have more than one account. The number of people with a basic bank account as their main account is likely to be much lower, given that, of the current accounts provided by banks, only 4% are Basic Bank Accounts (3). There are 50 million people aged over 16 in the UK, and our assumptions above suggest that fewer than 2 million do not have an account. (39). If we assume that the distribution of types of account accurately reflects the number of people whose main account is of that type, we estimate that there are 1.9 million basic bank account holders (4% of 48m).

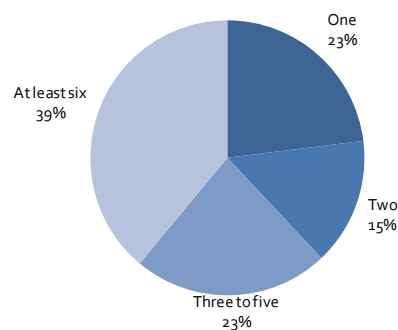
other low income users of bank accounts. However, one point to note is that a significant minority (26%) of newly-banked consumers in the lowest income quintile feel that banking has made no real difference to their lives. As this is the group most likely to still be managing in cash, this is potentially unsurprising. (7)

### 1c) Account holders paying over £100 per annum in penalty fees

#### Scale

The most recent data from the Office of Fair Trading (OFT) indicates that 12.6 million accounts (23% of active accounts in the UK) incur at least one penalty charge each year. (3) This includes basic bank accounts as well as standard and other current accounts. Of those who incurred one charge, most incurred more than one (Figure 1). (3) Of those consumers that incurred charges, the average incurred over one year was £205. Over 6.6 million accounts paid at least £100 in penalty fees, of which 1.4 million paid over £500. (13) \*

**Figure 1.1: Distribution of insufficient funds charges by number for those accounts that incurred at least one charge (3)**



#### Characteristics

Unsurprisingly, consumers on low incomes or with low savings are significantly more likely to have been charged penalty fees in the past 12 months and fees are disproportionately more likely to be paid by the relatively young. (3)

Beyond this, it is difficult to make generalisations about this group.

#### Attitudes to banking

UK current account holders are very unlikely to switch bank accounts. 47% of all consumers state that they have never even considered switching and a survey in 2010 found that 7% had switched in the previous two years. (3), (14)

Of those consumers that do switch, more consumers cite bad experiences with their previous bank (40%) than the existence of better offers (33%). (3) Consumer trust in banks has been falling over the past few years, and banks are the least-trusted financial service providers. (18), (19)

\* It should be noted that a number of banks are known to have reduced their penalty fees since this research was published. Social Finance has been unable to find more up to date data at the current time.

## Appendix 2 – Desired bank account functionality

Consumers not benefiting from high street banking models express a need for a range of different functions in a bank account. Different people have different attitudes to how essential these are. Social Finance has split these functions into two groups: core functions that many mainstream bank accounts have; and budgeting functions that could particularly benefit consumers that are not currently benefiting from banking.

### 2a) Core functions

Based on a review of existing consumer research, the highest priorities for consumers seem to be simplicity and convenience. The core functions identified that are most in demand are:

- Ability to receive funds from a range of sources (wages, benefits, cash, cheques and electronic transfers);
- Ability to withdraw money at anytime from free to use ATMs and to make smaller value cash withdrawals via a payment network (e.g. Post Office, Pay Point or Payzone);
- A payment card that can be used to buy goods and services in shops and online;
- Automated bill payment facilities (one off payments, standing orders and direct debits); and
- No penalty fees or unauthorised overdrafts.

#### Receiving funds from a range of sources

All the consumer research reviewed by Social Finance indicates demand for an account that can receive payments from a range of sources, not just benefits. (7), (9) This was a feature that was universal in its appeal across different segments of low income consumers and is notably not currently offered by the Post Office Card Account (POCA).

In fact, research with low income consumers who have become banked in the past 5 years shows that the most significant reasons that people open bank accounts is that an employer needed to pay money into a bank account, or a landlord requires a bank account for payment of rent. (7) This is not surprising given that more than 90% of the UK workforce is now paid using a bank transfer. (20) However, it is important to note that this need was more significant among the slightly higher income groups - 26% of those between the 20th and 50th percentiles of household income reported employer requirements as a reason for them opening an account, compared with only 11% of those in the bottom quintile. (7)

#### Withdrawing money from ATMs and payment networks

Access to free to use ATMs (cash machines) is another universal demand from consumers. For newly banked consumers with the lowest 20% of incomes it was an important reason for opening an account. (11), (7)

One reason that people like to withdraw their income in one go and budget in cash is that managing in cash is very precise – you can put aside the exact amount that you need, for example, for your child's lunch money. In contrast, ATMs mostly only allow withdrawals in units of ten pounds. This may cause problems if a few pounds need to be left in the account in order to cover a bill that is due to come out, or if less than £10 remains in the account. If consumers were able to make smaller value cash withdrawals, in a way that mimics cash management, they may be more likely to use their account for money

management. Therefore there may be interest in the ability to withdraw small cash values through, for example, Post Offices or via convenience store payment networks like PayPoint or Payzone. Discussions with existing account providers suggest that there is demand for this function particularly among those on low incomes.

### **Payment card**

Cards that allow customers to pay for goods and services appeal across a range of banked and unbanked consumers, although demand varies significantly between groups. For example, 45% banked consumers thought a payment card was essential, compared with only 11% of those who do not even have a POCA. (11)

A payment card is seen as a key benefit among those who are newly banked. (7) A review of basic bank accounts found that the most common frustration among interviewees was the lack of opportunity to have a mainstream payment card (e.g. Mastercard or Visa) which they could use to pay for goods wherever they wanted in stores or online. (7), (21)

### **Automated payment facilities**

Low-income consumers are interested in using bank accounts to make payments using automated payments (direct debits and standing orders), but at present the interest is less strong than might be expected given the money and time that consumers could save through such automated payments. (11)

Three reasons for the current lack of interest are suggested by consumer research:

1. **Fear of penalty fees** – Historically many low income consumers who have used automated payments have ended up paying on balance more, not less, for their utilities, as a result of the penalty fees that banks charge if there are insufficient funds available to make a payment. (2) A recent report found that 43% of low income customers who have opened accounts in the last 5 years have paid penalty charges for not having enough money in their account to make payments. (7) Of newly-banked consumers who had previously had accounts, half had stopped banking because of problems such as penalty charges. (7) One issue is that automated payments are usually monthly, whereas consumers on benefits and in some types of employment will receive their income weekly or fortnightly. Others may have variable incomes as a result of shift work. Both these issues, combined with having low incomes, can make it difficult to manage regular monthly payments. This leads to some reluctance about using bank accounts to pay bills, particularly among the lowest income groups, in case they lead to high insufficient funds fees and / or unintended debt.
2. **Preference for pre-payment** – Pre-payment meters are commonly used in the lowest income households as a way to pay for utilities – 31% of the consumers in the bottom income quintile report that they are most comfortable paying through an electricity/fuel key. (7) Pre-payment meters are seen as convenient and enable people on very tight budgets to track and manage their utility usage and expenditure. For example, low income consumers are known to cut back on fuel usage when household finances are tight. (2)
3. **Lack of awareness around automated payments** – One survey found that 65% of consumers who are unbanked or do not use their bank account for day to day money management were unaware that using automated payments was often a cheaper way to pay bills. Another report by the Financial Inclusion Taskforce suggested that lack of awareness around the customer's right to setup automated payments is also a barrier. (22), (23)

Nevertheless, as noted above, among the lowest income consumers who have become banked in the past 5 years, the need to pay rent from an account was one of the biggest drivers for opening accounts, and 59% do have direct debits set-up from their accounts. (7) It seems reasonable to assume that if an account did not charge penalty fees, interest in automated payments would increase.

### **No penalty fees or unauthorised overdraft**

Given the concerns noted above, if consumers are to be encouraged to use bank accounts for automated bill payments, consumers managing on low incomes or with poor financial management skills must not run the risk of incurring penalty fees from their banking provider.

As well as fees, the target group are also wary of being able to get into debt on the account. There is very little expressed demand for even a small (£10-20) overdraft, and many consumers are put off by accounts with overdraft facilities. (11)

### **2b) Budgeting functions**

Consumer research indicates that there are a number of additional account functions that would support consumers to budget and stay on top of their finances. These include:

- Ability to get real time updates on balances, receipts and spending;
- Ability to subdivide account balance into 'Jam Jars' for spending, saving and bill payment;
- Ability to move funds between Jam Jars in real time;
- Automated balance warnings if the account is low on funds or does not have sufficient funds to make forthcoming bill payments;
- Automated sweeps of funds between Jam Jars to support budgeting and improve bill payment behaviour;
- Timing of bill payments aligned with timing of income; and
- Support to set-up and manage payment of regular bills.

A review of consumer research reveals less expressed demand for these services, at least partly because of the current lack of awareness of such functions by both consumers and researchers, due to their rarity.

Evidence for the benefits of these functions comes from an understanding of how low income consumers currently manage their money and their desire to maintain control of their finances. This is evidenced in part by the high levels of cash management among groups not benefiting from banking. Over half (53%) of recently banked households in the lowest income quintile say that they take money out of their account and manage in cash, rather than leaving money to pay for bills in their account. (7)

Furthermore, many of those without bank accounts seem to be unbanked by choice, partly because of a preference for managing their finances in cash. (7)

If such consumers are going to be encouraged to open bank accounts and use them for money management, it seems reasonable to assume that the account must mimic the transparency and control of their current cash-management approaches.

### **Real time updates on balances, receipts and spending**

Cash is preferred by some people on low incomes because there is no margin for error – there is a sense that *“with cash you know exactly where you are”*. (7) Most existing bank accounts do not sufficiently accommodate low-income consumers’ need to keep constant track of their money – balance statements are often out of sync with their budgeting cycles. (24), (10) For example, purchases made on debit cards may not show up on the account straightaway. Consumers would benefit from real-time, remote access to up to date balance information. To a certain extent this is a function of the UK’s BACS payment systems. Prepaid cards offer one way of allowing consumers more transparency and control over their spending as deductions from card balances are made instantaneously.

Conversations with existing Jam Jar Account providers also indicate that customers value the ability to check their balance, receipts and transaction record quickly and easily wherever they are. Given the low levels of internet access among the target group, telephone and SMS messages may be an attractive way to manage such communications.

### **Subdividing the account into Jam Jars**

Qualitative research suggests that many consumers are ‘financial jugglers’, hoping they will have sufficient money to cover bills when they arrive, lurching from one priority to the next and prioritising which bills to pay when finances are tight. (9) Such consumers may benefit significantly from an account that supports them to divide their account balance into Jam Jars, for spending, savings and bill payment.

Such an account would also mimic the way that many ‘financial budgeters’ who keep careful track of their income and expenditure, currently manage their finances in cash. (9)

### **Ability to move funds between Jam Jars in real time**

While Jam Jars are a useful budgeting approach, consumers on low incomes may wish to retain the ability to make amendments to agreed budgeting arrangements, simply and at short notice.

For example, customers may need to delay the payments of low priority bills if they face a sudden and unavoidable expense. Without flexibility to move funds between Jam Jars, the potential benefits of a Jam Jar Account may be outweighed by the lack of flexibility meaning that low income consumers could risk having insufficient money for their basic needs.

Research indicates that such lack of flexibility would significantly deter low income consumers from opening such an account. (9)

### **Automated balance warnings**

Consumers express an interest in receiving an automated notification (e.g. via text message) if their account balance drops below an agreed sum, or if there are insufficient funds available to make a forthcoming bill payment. (9)

While not a feature that was explicitly specified in much of the research, its purpose – keeping up-to-date with finances and staying out of debt – were two much-quoted desires from low-income consumers. (11), (9) It seems fair to infer that such functionality would be widely welcomed.

### Automated sweeps of funds

To support consumers to improve their bill payment behaviour, we propose that as regular income enters the Spending Account, an agreed amount is swept into the Bill Account to enable scheduled bill payments to be made. This function will effectively align the frequency of bill payments with that of income receipts – a known stumbling block for many consumers not benefiting from banking. This should improve bill payment behaviour while avoiding the need for the account to extend credit to smooth bill payments.

### Timing of bill payments aligned with timing of income

One reason that low income consumers find automated payments difficult to manage is that they tend to be monthly or quarterly, whereas benefits and income may be weekly or fortnightly. (23) To better suit their needs, the timing of deductions for bill payments must be aligned with income.

### Support to set-up and manage payment of regular bills

It seems fair to assume that many individuals, particularly those on low incomes or with little previous experience of banking would benefit from support to set-up and manage their account to pay regular bills. Social Finance conversations with existing providers of Jam Jar Accounts have confirmed this assumption.

Such support should help account holders to work out how much to set aside for regular bills, to budget better if bill payment becomes a problem and to adapt to significant changes in customer circumstances.

## 2c) Account management

Consumer research suggests that most low income consumers currently use, and prefer, accessing their account through branches. The ability to access high street bank counters and cash machines is considered one of the most essential features by all consumers. (11)

An Office of Fair Trading (OFT) report found that when asked how important it was to have easy access to a local branch, 55% of low income and basic bank account holders rated it 'extremely important' and were more likely than other banking customers to say that discussions with branch staff were their most important source of information. (3)

The same OFT report found that vulnerable consumers\* use in-branch banking to deposit cheques (44%), to deposit cash (43%) and to withdraw money (41%). Such customers were less likely than all other current account holders to use telephone or internet banking – 41% used internet banking compared with 52% of all current account holders. (3)

There are two potential reasons why online and telephone management are not currently in high demand.

1. **Use of accounts for cash management only** – A significant proportion of low income consumers currently use their accounts purely for cash-in, cash-out transactions and choose not

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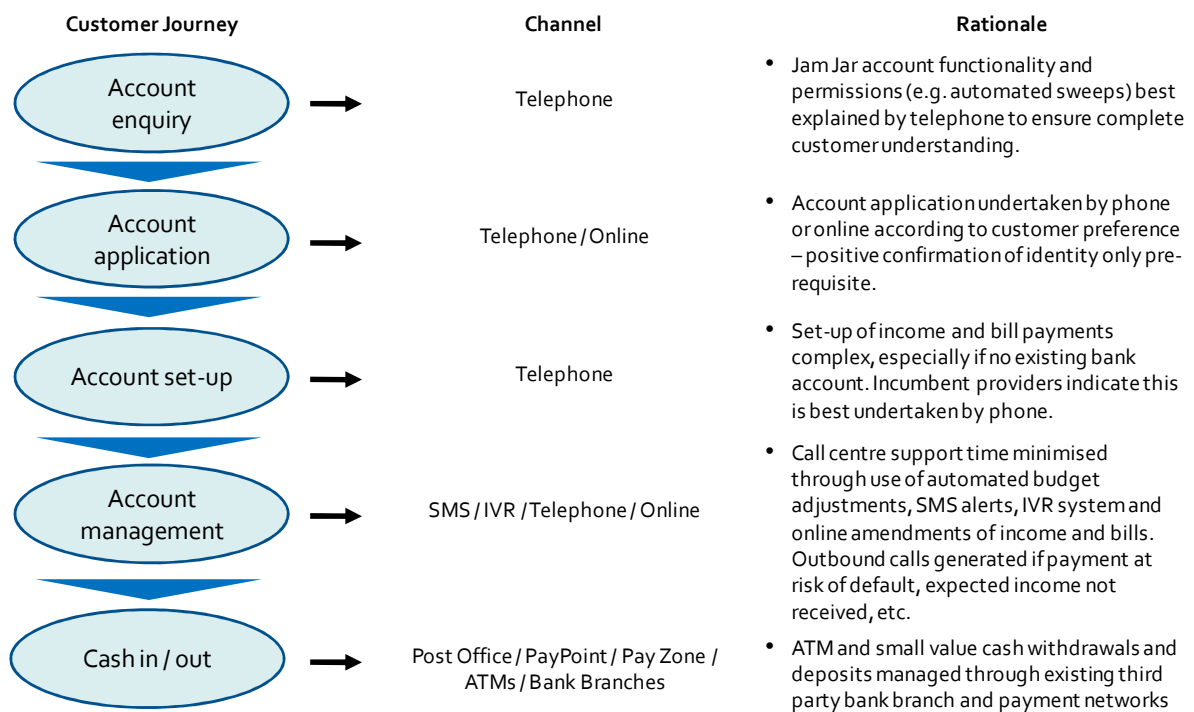
\* The OFT reports that factors that contribute to a consumer's vulnerability include age, disabilities and financial constraints. (3)



to use automated bill payment functions. If budgeting functions were introduced to support such customers to make automated payments, the need for more nuanced financial advice than would be available through most branch networks would significantly increase.

2. **High levels of digital exclusion** – Low income consumers are significantly more likely to be ‘digitally excluded’. Only 31% of unbanked consumers have access to the internet at home and 61% have no landline telephone. (7) Having said this, access to mobile phones is high (84% among unbanked consumers) (7). Qualitative research with small numbers of low income consumers suggests some demand for mobile phone-based account management. (9)

To ensure that Jam Jar Accounts are accessible and attractive to the widest possible range of potential consumers, we believe that the following customer account management would be optimal:



## Appendix 3 – Review of existing Jam Jar products

### *3a) Account review methodology*

Social Finance reviewed transactional bank accounts offered by private, public and social sector providers in the UK and internationally to identify the extent to which accounts with Jam Jar features already exist.

The review was based on an analysis of the extent to which the accounts offered the following core and budgeting features identified from consumer research:

#### **Core functions**

- Ability to receive funds from a range of sources (wages, benefits, cash, cheques and electronic transfers);
- Ability to withdraw money at anytime from free to use ATMs and to make smaller value cash withdrawals via payment networks (e.g. Post Office, PayPoint or Payzone);
- A payment card that can be used to buy goods and services in shops and online;
- Automated bill payment facilities (one-off payments, standing orders and direct debits); and
- No penalty fees or unauthorised overdrafts.

#### **Budgeting functions**

- Ability to get real time updates on balances, receipts and spending;
- Ability to subdivide account balance into Jam Jars for spending, saving and bill payment;
- Ability to move funds between Jam Jars in real time;
- Automated balance warnings if the account is low on funds or does not have sufficient funds to make forthcoming bill payments;
- Automated sweeps of funds between Jam Jars to support budgeting and improve bill payment behaviour;
- Timing of bill payments aligned with timing of income; and
- Support to set-up and manage payment of regular bills.

Bank account products offered by over 100 providers were included in the review.

### **3b) Long list of account providers reviewed**

#### **UK private sector providers**

- Advanced Payment Solutions
- Alliance & Leicester
- Barclays Bank
- Cambridgeshire County Council
- ClearCash
- Clydesdale Bank
- Cooperative Bank
- First Trust Bank
- Friends Provident
- HSBC
- Kalixa
- Lloyds TSB
- Marks & Spencer
- Metro Bank
- Nationwide
- Newcastle Building Society
- Northern Bank
- Norwich and Peterborough BS
- O2
- Post Office
- Royal Bank of Scotland/NatWest
- Sainsbury
- Santander
- Secure Trust Bank
- Spectrum Financial Group
- Tesco
- ThinkBanking
- Tuxedo
- Yorkshire Bank

#### **US Providers**

- Bank of America
- BB&T
- Citigroup
- Key Bank
- Metlife
- PNC
- Regions
- Taunus
- US Bank
- Wells Fargo

#### **UK Credit Unions and social sector providers**

- Cornish Credit Union
- Christians Against Poverty
- Glasgow Credit Union
- Greater Manchester Moneyline
- Hartlepool Credit Union
- Just Credit Union
- Llandudno Credit Union
- Leeds City Credit Union
- Lewisham Credit Union
- Newry Credit Union
- South Tyneside Credit Union
- Street UK
- Tower Hamlets Community Credit Union

#### **European Providers**

- Anglo Irish / Allied Irish Bank
- Banca Etruria
- Banca Marche
- Banca Popolare di Bergamo
- Bank of Ireland
- BNP Paribas (France)
- BNL (BNP Paribas Italy)
- BRED
- Caisse d'Épargne
- Crédit Agricole
- Crédit Lyonnais (LCL)
- Crédit Mutuel
- Dublin National Bank
- Intesa Sanpaolo
- Italian Postal Service
- Italian Credit Unions (various)
- La Banque Postale
- Money Advice and Budgeting Service (MABS)
- Postbank (GER)
- Société Générale
- UBI
- Ulster Bank
- Unicredit Banci di Roma
- ZKB

### 3c) Summary of findings

Our analysis revealed that, for the most part, available banking products:

- Offer the basic functions desired by the target population, such as the ability to receive funds from multiple sources, make automated payments and access all to free to use ATMs;
- Do not offer consumers budgeting features, such as the ability to subdivide accounts, generate automated balance warnings or provide personal budgeting support; and
- Tend not to be commercially viable on a stand-alone basis, exclude applicants based upon credit scores, or offer overdrafts, penalty fees and credit cards that place consumers at increased risk of getting into debt.

In general, the European bank accounts and credit union accounts reviewed offered only core account functionality. Of the US accounts reviewed, PNC's Virtual Wallet offered by far and away the most developed budget offering.<sup>\*</sup> It offers account holders the ability to divide their funds between three sub-accounts: Spend (daily expenditure), Reserve (major short term purchases), and Growth (long-term savings account with 1.1% interest). It provides sophisticated graphical representations of funds and spending in each account online or via a smartphone app. It also provides automated balance warnings and can automatically sweep funds between accounts to pay bills if necessary. This account is currently undergoing further scaling by PNC.

Our screening process also identified twelve UK accounts that offer customers significant budgeting features. Key features of these accounts are profiled below.<sup>†</sup>

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<sup>\*</sup> <https://www.pncvirtualwallet.com/>

<sup>†</sup> The information contained in the following tables is based on Social Finance's best interpretation of publicly available data on the profiled accounts and has not been verified by the account providers. To the best of our knowledge these profiles are accurate as of February 2011.

## Account functionality comparison

	Account Provider Name	Product Name	Core Features							Budgeting Account Features							
			Receives funds from range of sources	Access to all free to use ATMs	Ability to make smaller value cash withdrawals	Card able to purchase online, in shops etc.	Access to automated bill payment facilities <sup>(5)</sup>	Account offers penalty fees / overdraft facility <sup>(1)</sup>	Mimicking cash management			Automated balance warnings if account low on funds	Auto-mated sweeps of funds	Bill payments aligned with timing of income	Supported budgeting and bill payment		
									Ability to subdivide account	24/7 balance updates <sup>(2)</sup>	Ability to move funds between accounts in real time				Staffed	Software	
Banks	Barclays	Cash Card Account	✓	✓	✓	✓	✓			✓	D,E,F,G	✓	✓	F			✓
	HSBC	Bank Account Pay Monthly	✓	✓		✓	✓	✓	C		✓	D,E,F,G	✓				✓
	Lloyds TSB	Cash Account	✓		✓	✓	✓	✓	C		✓	D,E,F,G	✓	✓	F		✓
	The Royal Bank of Scotland	Key Account	✓	✓		✓	✓				✓	D,E,G	✓			✓	✓
	The Royal Bank of Scotland	Money Manager Account	✓	✓		✓	✓			✓	✓	D,E,G	✓			✓	✓
	Secure Trust Bank plc	Prepaid Account	✓	✓ <sup>(3)</sup>		✓	✓			✓	✓	D,E,G	✓				✓
	Secure Trust Bank plc	OneBill	✓				✓	✓ <sup>(7)</sup>	C		✓	E	✓				✓
Other providers	Advanced Payment Solutions	Cashplus Prepaid MasterCard	✓	✓		✓	✓ <sup>(6)</sup>			✓	D,F	✓				✓	
	ClearCash Ltd	ClearCash Prepaid MasterCard	✓	✓ <sup>(3)</sup>		✓	✓ <sup>(6)</sup>			✓	D,F	✓				✓	✓
	O2	Cash Manager	✓ <sup>(4)</sup>	✓		✓				✓	D,E,F	✓					✓
	Spectrum Financial Group Ltd	CardOne Banking	✓	✓ <sup>(3)</sup>		✓	✓ <sup>(6)</sup>			✓	D,E,F,G,H	✓	✓	F		✓	✓
	ThinkBanking Ltd	ThinkBanking Card and Account	✓	✓		✓	✓			✓	✓	D,E,F	✓	✓	F	✓	✓

(1) A = approved, B = unapproved, C = buffer (short-term small scale overdraft to provide cashflow flexibility).

(2) D = Online, E = Phone, F = SMS, G = ATM, H = Email.

(3) Charge of £0.50 levied by account provider.

(4) Accepts funds in cash or debit card from stores and online from bank transfers, but no other source.

(5) Refers to standing orders and direct debits unless stated otherwise.

(6) Only offers standing orders; no direct debits.

(7) Customer can temporarily go into deficit in case of which they pay 10-15% interest on deficit sum over term of deficit.

### Account management channel comparison

Social Finance defined account management channels as those that enable customers to establish and amend income and payments, and move funds between Jam Jars.

	Account Provider Name	Product Name	Management channels				
			Online	Telephone	Mobile Banking		Branch
					SMS	App	
Banks	Barclays	Cash Card Account	✓	✓		✓	✓
	HSBC	Bank Account Pay Monthly	✓	✓			✓
	Lloyds TSB	Cash Account	✓	✓		✓	✓
	The Royal Bank of Scotland	Key Account	✓	✓			✓
	The Royal Bank of Scotland	Money Manager Account	✓	✓			✓
	Secure Trust Bank plc	OneBill	✓ <sup>(2)</sup>	✓			✓
	Secure Trust Bank plc	Prepaid Account	✓	✓			✓ <sup>(1)</sup>
Other providers	Advanced Payment Solutions	Cashplus Prepaid Gold MasterCard Deluxe	✓	✓			
	ClearCash Ltd	ClearCash Prepaid MasterCard	✓	✓			
	O2	Cash Manager	✓				
	Spectrum Financial Group Ltd	CardOne Banking	✓	✓	✓		
	ThinkBanking Ltd	ThinkBanking Account	✓	✓	✓		

(1) Available at own branches and also Barclays for deposits.

(2) Email only. No online banking service available.

## Account fees comparison

	Account Provider Nae	Product Name	Account Set Up	Account Management			Transaction								
				Management Fees <sup>(1)</sup>	Mobile Services	Additional statements	Cheque issuance	ATM withdrawals	Direct Debit set up	Standing Order set up	Returns fees		Overdraft Fees		Other
											Amount	Terms	Breaching limit	Interest	
Banks	Barclays	Cash Card Account	Free	n/a	£2 per month	£5 each	n/a	Free	Free	Free	£8	Max per day	n/a	n/a	
	HSBC	Bank Account Pay Monthly	Free	M £15	Free	Free	Free	Free	Free	Free	Free	n/a	Free	19.9% EAR	
	Lloyds TSB	Cash Account	Free	Free	Free	£5-£10	n/a	Free <sup>(3)</sup>	Free	Free	£10	Max 3 per day	Variable	M £5 - £80	
	The Royal Bank of Scotland	Key Account	Free	Free	n/a	£5 each	n/a	Free	Free	Free	£6	Max £60 per month	n/a	n/a	Non-RBS cheque processing £5
	The Royal Bank of Scotland <sup>(4)</sup>	Money Manager Account	Free	Free	n/a	£5 each	n/a	Free	Free	Free	£6	Max £60 per month	£6 per day	19.89% EAR	
	Secure Trust Bank plc	Prepaid Account	£12.50	M £12.50	n/a	£2.50	£2.50	£0.50 each	Free	Free	Free	n/a	n/a	n/a	
	Secure Trust Bank plc	OneBill	No longer offered to new customers	W £4.35 M £15.50	n/a	Free	n/a	n/a	Free	Free	£20	Each	n/a	10-15%	£1.00 per budget amends
Other providers	Advanced Payment Solutions	Cashplus Prepaid MasterCard	£9.95	M £9.95	Free	n/a	n/a	Free	n/a	Free	n/a	n/a	n/a	n/a	
	ClearCash Ltd <sup>(5)</sup>	ClearCash Prepaid MasterCard	£4.50	M £9.99	Free	n/a	n/a	£0.50 each	n/a	Free	£10	Balance <0	n/a	n/a	Variable cheque loading fees
	O2	Cash Manager	Free	Free	Free	n/a	n/a	Free	n/a	n/a	n/a	n/a	n/a	n/a	
	Spectrum Financial Group Ltd	CardOne Banking	Free	M £12.50	Free	Balance SMS £0.15	n/a	£1.00 each	n/a	Free	Free	n/a	n/a	n/a	
	ThinkBanking Ltd	ThinkBanking Account	£25	M £14.50	Free	£5 each	Available Cost n/a	Free	Free	Free	Free	n/a	n/a	n/a	

(1) W = Weekly, M = Monthly

(2) Lloyds TSB highly complex overdraft fees.

(3) Withdrawals only possible at Lloyds TSB ATMs.

(4) Need to investigate what is described on website as "Cash Account".

(5) Pay monthly card fees; pay as you go card also available; account set up fee normally £10.00.

### ***3d) Detailed profiles of existing UK accounts with Jam Jar features***

Four accounts identified in the screening process seemed to most closely fit the needs of low income consumers not currently benefiting from banking.

#### **Money Manager Account – Royal Bank of Scotland**

(<http://www.natwestinternational.com/nw/money-manager.ashx>)

The RBS money manager is a budgeting bank account with a debit card facility. Each account operates using up to three sub-accounts: bills, spending and (optionally) savings. Income is paid into the bills account via cheque and cash in RBS / NatWest branches and direct bank transfer of wages or benefits. The customer is encouraged to establish a standing order to transfer funds from the bills account to the spend account immediately following their major income or benefits payment on a weekly, fortnightly or monthly basis. This divides funds to cover bill payments in the bills account and deposits any excess cash into the spending account for discretionary expenditure. At the end of the account cycle, an optional service called Regular Sweep transfers some or all remaining funds from the spending account into the savings account to encourage savings behaviour.

Customers can also use an additional function, called Safety Net, which automatically transfers funds from either the spending and / or the savings account if a shortfall is anticipated in the bills account. However, if the customer does not have enough money across all the Money Manager accounts to cover a payment from the bills account, Safety Net does not stop the customer from incurring standard charges, fees and interest. The account can be managed online, in branch and via the phone, but offers no automated warnings. Each customer is provided with a telephone-based Money Manager who encourages customers to use automated payments and the optional automated sweep functions, but the account is not actively managed by Money Manager staff. The Money Manager Account is currently only offered to existing RBS customers that have debt problems with the bank (through loans, credit cards or overdrafts). Fewer than 100 customers are added to this account each month, which is made available at no charge to customers. RBS has no existing plans to extend access to this account.

#### **Prepaid Account – Secure Trust Bank**

(<http://www.securetrustbank.com/prepaid-current-account/>)

Secure Trust Bank offers consumers a basic bank account with a prepaid card. The account allows consumers to subdivide their funds between a main account and a prepaid card. Cash can be deposited into the main account via the Payzone network and cheques over the counter at Barclays through a partnership arrangement. Funds can also be deposited through direct bank transfers. Funds are then transferred onto the prepaid card by standing order as defined by the customer. Customers are encouraged by Secure Trust's call centre staff to retain sufficient funds in the main account to allow regular bills to be paid. Customers can sweep funds back to the main account from the card, or vice versa, if required.

Consumers are charged £12.50 to set up a Prepaid Account and an ongoing £12.50 per month while the account is active. ATM withdrawals are charged at £0.50 each. The account is advertised as not having any overdraft facility and no penalty fees are charged for insufficient funds. Customers are supported with budget planning through an online budget calculator facility and links to the Consumer Finance Education Body online budgeting software. Secure Trust's phone banking operators also offer customers budgeting advice and guidance. . Since November customers have been able to earn 3-4%



cashback at more than 30 UK retailers offering a route to offset some of the fixed management fees. Around 10,000 customers are currently using this account.

### **CardOne Banking – Spectrum Financial Group**

(<http://www.cardonebanking.com/theAccount/Default.aspx>)

CardOne Banking offers customers a main account linked to a prepaid card account. The main account can receive funds via the NatWest in-branch 'Quick Deposit' payment system, the Post Office and through direct bank transfers. Funds can be sub-divided between the main bank account where income is received and bills are paid, and the card account which is designed to be used for discretionary expenditure. CardOne Banking is distinguished from others in the market by its sophisticated SMS service that offers customers a range of automated alerts including balance alerts, large deposit alerts, bill payment alerts and low balance warnings. This account only allows bill payments to be made by standing order so that if customers do not respond to insufficient funds warnings, bill payments can be stopped. The account will continue to try to pay the bill for three days, so bills will only remain unpaid if there continues to be insufficient funds to pay them.

Customers can use free SMS messages to transfer cash from the main account to the card account. The account balance can also be accessed via SMS at a cost of £0.15 per text request, online and by an automated phone service 24/7. CardOne Banking costs the customer £12.50 per month, a fee of £1 is charged for ATM withdrawals and no overdraft facility is offered. Customer budgeting is supported by personal account managers who offer, in addition to the budgeting service, bill grouping and smoothing advice.

### **ThinkBanking Account – ThinkBanking Ltd**

(<http://www.thinkbanking.co.uk/>)

This account allows customers to divide their funds between a main account accessed via a debit card for discretionary expenditure and a bill account. Funds are paid into the bill account via RBS / NatWest branches and direct bank transfers, a proportion of this income is retained to ensure sufficient funds are available for bill payment with the remainder swept into the main account for discretionary spending. Funds retained in the bill account are ringfenced and can be accessed by customers only through a conversation with a Money Manager. Money Managers also assist customers to set-up bill payments and automated sweeps from income into the bill account and to amend these if circumstances change. The account can be managed 24/7 online and during call centre hours by SMS and phone.

The account offers customers access to both direct debit and standing order payments. Around 100,000 customers are currently using this account in return for a set-up fee of £25 and flat monthly fees of £14.50.

## Appendix 4 – Jam Jar Account commercial viability analysis

If taken up at scale it seems likely that it would be possible to make Jam Jar Accounts available at a price that would be affordable to low income consumers.

### *4a) Core assumptions*

#### **Customer demographic**

On the basis that a significant proportion of the consumers that could benefit from Jam Jar Accounts are at the lower end of the income spectrum, the following commercial viability analysis assumes an account holder population that is, on average, slightly lower income than the customers of existing providers of bank accounts with Jam Jar features (e.g. Thinkbanking, Spectrum Financial Group, Secure Trust Bank, etc.). This results in slightly higher assumed costs, generated through assumed higher volumes of lower value payment transactions and a slightly higher customer support need per customer.

Given the high percentage of customers that are likely to be reliant on mobile telephones, we would suggest the use of geographic (non-revenue generating) telephone numbers for any call centres. We have not assumed any revenue from call volumes in our financial model.

#### **Customer growth**

In the interests of simplicity, our analysis assumes that the customer base grows linearly from zero over the first five years of operation, largely as a result of referrals by service providers (e.g. housing associations, utility companies, etc.). Our research leads us to believe that referrals of this kind would support Jam Jar Account use by those that would benefit from it most while managing the account provider's marketing costs.

#### **Organisational structure**

Our commercial analysis is based around a new entrant to the market and assumes that such an entrant has no existing banking systems, customer base or other financial product offerings at set-up. It is assumed that the new entrant purchases the fund holding services of an existing FSA-regulated deposit-holding bank rather than setting-up as a deposit holding entity in its own right. To assume otherwise would entail a significant amount of cost associated with regulatory capital requirements, compliance and similar. In the structure that we have explored, essentially that of a regulated Payment Agent, income from balances on deposits will be at least partially offset by service fees to the deposit holding bank.

#### **Cost inputs**

It should be noted that many of the costs in our analysis are included as quoted by providers. Wherever possible we have attempted to identify and reconcile multiple sources for each item. However, in reality, such quotations would be subject to commercial negotiations and as such the numbers included in our model are likely to be high end. Comparison with existing providers of Jam Jar Accounts indicates that they are right order of magnitude.

#### 4b) Commercial viability analysis

On the basis of the assumptions described above, we estimate that the revenue required per account per month to break even over the first five years of operation (cumulative costs equal cumulative revenues) are as follows\*:

Average number of accounts in year 5	Revenue required per account per month		
	Base case	Upside	Downside
100,000	£13.30	£10.00	£16.60
500,000	£6.80	£3.80	£10.20
2,000,000	£5.00	£2.00	£8.10

In the upside scenario, call centre minutes and transaction costs are assumed to be 25% lower than the base case, and the average card payment value 25% higher. The downside scenario assumes the opposite in terms of 25% higher call centre minutes and transaction costs, and the average card payment value 25% lower.

Our analysis indicates that, in all scenarios, a larger customer base results in significant economies of scale the reasons for which are outlined below. It is reasonable to assume that, to be an attractive commercial proposition to providers of capital, account providers would need to charge a margin on top of the required revenues outlined above. It is likely that the costs to account providers with existing systems, customers and financial products would be significantly less.

#### 4c) Operating cost / revenue categories

The core categories of cost incurred in operating a Jam Jar Account are as follows:

##### Banking platform development

To offer a Jam Jar Account with the functions outlined in Chapter 3, a new entrant would need to invest in the development or purchase of a secure IT platform to enable customer accounts to be administered and to interact seamlessly with the wider banking system.

Social Finance worked with the Fairbanking Foundation to develop a functional specification for this platform that was shared with FIS (Fidelity Information Services), a solutions and services provider to the global financial services sector, as the basis for a quotation. The FIS quotation was sense-checked through conversations with existing providers of Jam Jar Accounts to inform the final cost estimates included in the financial model. Ongoing system costs are reflected under 'Back office running costs' in the table in Section 4.d).

\* N.B. This revenue requirement is additional to interchange revenues and income on balances.

While the costs of banking platform development could theoretically be funded upfront, in our financial model we have assumed that the development costs would be distributed over the first five years of operation at a 9% cost of capital.

Specified core system functionality included management of:

- *In-Bound Funds*: wire transfer, BACS, payment network, issuer branches
- *Out-Bound Funds*: standing orders, direct debits, ATMs, merchants accepting cards
- *Bill Payment*: electronic payments to UK payees
- *Query*: SMS / IVR for balance, recent transactions, future payments scheduled
- *Alerts*: SMS / telephone for low balance or insufficient funds to make scheduled payments
- *Reporting*: postal statements
- *Internet banking*: basic query, alerts and reporting (as above)
- *Account set up and administration* (including bill payment set up) via call centre agent
- *No overdraft allowed / no credit facility*

Jam Jar functionality, which would require standard system customisation, included:

- *Segregation of account balance*: designate "Jam Jars" for specific purposes (e.g., bill payment, planned purchase, savings, etc.)
- *Transfers between Jam Jars*: move funds via automated or ad-hoc instructions between "Jam Jars" (e.g. 50% of payroll deposit automatically transferred for bill payment; via SMS, transfer funds to / from "savings" into "core account")
- *Ring Fencing*: bill payment funds transferred out only to pay bills or to other Jam Jars when initiated by a Money Manager following a budgeting conversation with the customer
- *Liquidity forecasts and system responses*: forecast bill payment funds (deposits / transfers and scheduled payments), notify customer and, if authorised, ring fence additional funds to provide necessary liquidity if deficit is predicted. Defer payments to all but priority payees if funds not available to meet all forecasted bill payments
- *Reporting*: provide monthly and year-to-date payments by category of expenditure (e.g. rent, petrol, groceries, etc.)

### **Back office running costs**

Accessing the banking systems needed to run the account, including the IT platform specified above, access to a regulated deposit account, card issuing and processing, etc. will represent an ongoing cost to a Jam Jar Account provider. However, as these costs are relatively fixed, the cost per account should reduce with greater customer numbers.

A small head office team of senior business managers and core back office staff (finance, strategy, marketing, risk, compliance, etc.) will also be required to oversee the provision of the Jam Jar Account. Conversations with existing providers indicate that the size of such a team is unlikely to change significantly with customer numbers, generating further economies of scale.

### **Customer acquisition costs**

Conversations with existing providers of accounts with Jam Jar Account features indicate that customer acquisition is a significant cost.

While customers would be able to research and apply for Jam Jar Accounts online, we anticipate that many customers may have low levels of access to the internet and may lack confidence about banking products. We therefore estimate that the majority will speak to a call centre agent about the account at some point during their application. Other costs incurred at this stage include anti-money laundering identity checks and marketing costs, although the latter could potentially be managed by utilising customer referrals from engaged service providers (housing associations, utility companies, etc.).

### **Account set-up and management costs**

Setting up the account – entering date-based income and bill payment details as the basis for scheduled transfers and sweeps between ‘Jam Jars’ – is likely to generate significant cost. Conversations with existing Jam Jar Account providers indicate that a series of telephone conversations with Money Managers is likely to be required to assess how much money should be transferred into the Bill Account and how to time such transfers. If necessary, Money Managers would also refer customers on to appropriate external services, such as Citizens Advice Bureaux and debt advice agencies, to address any fundamental financial problems.

We anticipate that ongoing account management costs will be higher than those incurred through basic or standard high street current accounts driven by higher levels of ongoing telephone support to support improved budgeting and bill payment behaviour. To manage these costs, customers would be encouraged and supported to manage their account through text messages, IVR telephone systems and online. We therefore anticipate that telephone support costs will be highest in the first three months following account opening.

### **Transaction costs**

The account provider will incur fixed costs for each customer transaction that requires interaction with the wider banking system (e.g. cash withdrawals, inter-bank transfers, cash deposits and card payments). As transaction volumes increase, it should be possible to negotiate lower unit costs for such transactions.

### **Interchange revenues**

The account provider will earn a percentage revenue from the card processor for payments made by account holders using the payment card. The level of revenue depends on both the value and type of payments made using the card. For the sake of simplicity we have assumed 1% revenues on card purchases in our financial model.

### **Income on balances**

In spite of the fact that funds will be held by the deposit-holding entity, the account provider would earn revenue on the funds in customers’ accounts. Because interest rates are low at the moment, we have assumed that income on the balances is low at the moment. Were interest rates to increase this could become a significant revenue source for the account provider that could potentially offset the additional revenue required for commercial sustainability.

#### 4d) Economies of scale

Our analysis in Section 4b) above suggests that the revenues required per account to ensure commercial viability decrease substantially as account numbers increase.

As can be seen from the cost analysis below, this is largely due to the high fixed costs involved in the banking platform development (row 1) and the ongoing maintenance of the banking systems and partner relationships (e.g. with card issuers, card processors, deposit-holders, etc.) required for effective operation (subsumed within row 2. Back office running costs).

In contrast the costs and revenues associated with customer acquisition (row 3), account set-up and management (row 4) and account transactions (rows 5 & 6) grow broadly in line with the size of the customer base.

The result is that the cumulative business costs grow more slowly than the customer base resulting in significant economies of scale (row 7).

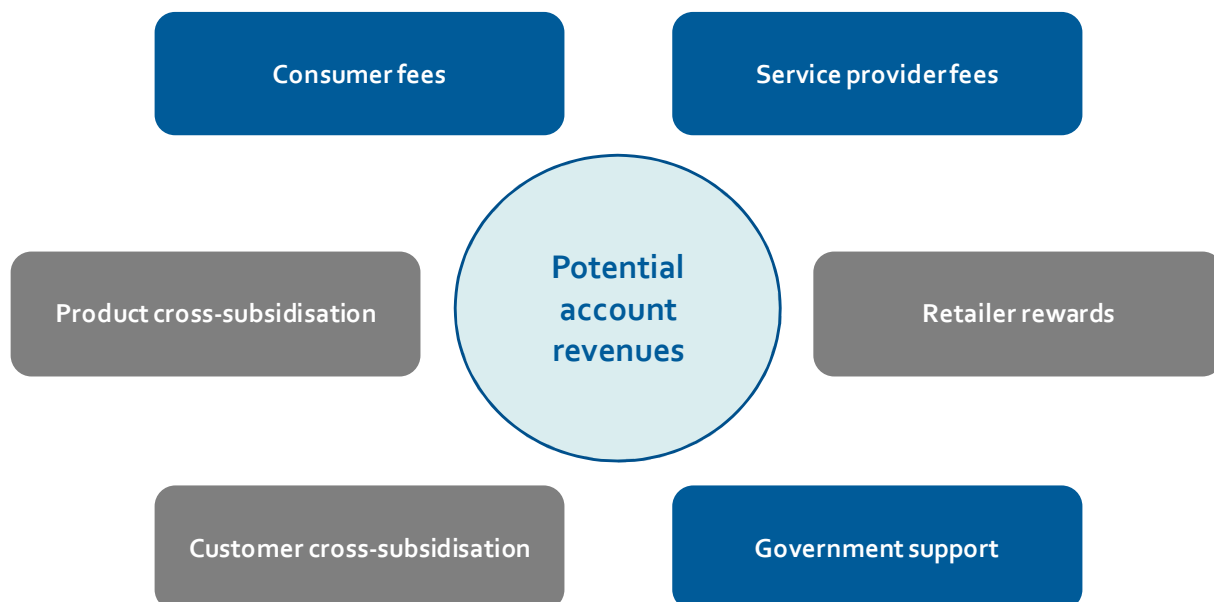
Cost/revenue category	Annual costs for a provider supplying 100,000 accounts by year 5					Cumulative costs over 5 years Average number of accounts in year 5		
	Year 1	Year 2	Year 3	Year 4	Year 5	100,000	500,000	2,000,000
<i>Number of active accounts – average of beginning and end of year</i>	18,000	42,000	64,000	84,000	103,000	<i>Multiples of costs compared to 100,000 scenario</i>		
<b>1. Banking platform development</b>	£1,350,000	£981,000	£915,000	£848,000	£782,000	<b>£4,876,000</b>	1x	1x
<b>2. Back office running costs</b>	£4,570,000	£4,620,000	£4,670,000	£4,670,000	£4,670,000	<b>£23,200,000</b>	1.2x	1.4x
<b>3. Customer acquisition</b>	£811,000	£841,000	£877,000	£910,000	£946,000	<b>£4,385,000</b>	4.6x	18.3x
<b>4. Account set up and management</b>	£1,130,000	£2,360,000	£3,510,000	£4,580,000	£5,590,000	<b>£17,170,000</b>	4.8x	19.1x
<b>5. Transaction costs</b>	£1,010,000	£2,350,000	£3,600,000	£4,760,000	£5,850,000	<b>£17,570,000</b>	4.3x	14.6x
<b>6. Revenue from interchange fees and interest on balances</b>	(£1,016,742)	(£2,359,100)	(£3,606,721)	(£4,772,876)	(£5,869,415)	<b>(£17,625,000)</b>	4.9x	19.4x
<b>7. Net costs</b>	<b>£7,854,300</b>	<b>£8,792,900</b>	<b>£9,965,300</b>	<b>£10,995,000</b>	<b>£11,969,000</b>	<b>£49,576,000</b>	<b>2.8x</b>	<b>8.1x</b>

## Appendix 5 – Potential Jam Jar Account revenues

The provision of Jam Jar Accounts will only be viable if sufficient revenues can be earned to cover costs and generate a sustainable surplus.

Potential sources of account revenue are outlined in Figure 5.1 below.

Figure 5.1: Potential sources of external revenue



In the course of this research, Social Finance has primarily focused on understanding potential revenues from consumer fees and service provider fees. Other potential account revenues are suggested as options that could also be examined to keep consumer fees low or to ensure commercial viability.

Penalty fees for missed bill payments – a large source of income for mainstream current accounts – are not considered a desirable source of revenue given their role in driving banking failure within conventional account models. (7)

### 5a) Consumer fees

While Jam Jar Accounts should not charge consumers penalty fees, consumer research indicates that charging consumers a fixed weekly or monthly fee would be an option. (11), (9)

Existing providers of accounts with Jam Jar features currently charge consumers a monthly fee to cover the full running costs plus a surplus (£12-15 per month). While such fee levels may offer value to many customers with middle and higher incomes, it seems likely that they would put Jam Jar Accounts out of the reach of many customers on low incomes or in financial difficulty.

Conversations with existing account providers indicate that fees of up to £1 – £1.50 per week would not overly restrict account uptake among those on low incomes and could drive increased engagement with budgeting / bill payment functions. Such fees would be in line with those currently charged by

Credit Unions for penalty fee free accounts offering basic functionality. (25) However, fees at this level may not fully cover the costs of running Jam Jar Accounts. To be sustainable, other sources of income may need to be available for these groups.

### **5b) Service provider fees**

Social Finance research with a range of core service providers – housing associations, utility companies, local authorities, telecommunications companies, etc. – indicates that there could be a commercial case for them to support the costs of Jam Jar Accounts for high cost to serve customers. Use of Jam Jar Accounts by such customers could significantly reduce service provider costs through:

- **Lower costs of payment collection.** The administrative costs associated with customers who pay their bills using prepayment meters, cheques or standard credit (monthly or quarterly cash / credit card payment) are substantially higher than they would be for those using Jam Jar Accounts to make automated bill payments such as direct debits.
- **Greater certainty of bill payment.** If customers are supported to budget and ring-fence funds for bill payment, service providers should benefit from greater certainty around the timings of their income.
- **Reduced probability of customer debt.** If payments are made automatically out of customers' accounts, the chances of them forgetting / neglecting to pay a bill could be substantially reduced.
- **Easier collection of customer debt.** Companies currently spend substantial resources chasing up payments from customers in arrears on their bill payments. Jam Jar Accounts could be used as a simple way to set up payments towards arrears as well as to keep on top of current bills.
- **Improved customer retention.** Some companies that have the power to disconnect consumers for non-payment nevertheless have high customer acquisition costs. The result is that profitability is dependent on customer retention – this can be a problem among individuals on low incomes or with poor financial management skills.

Conversations with a range of stakeholders across the energy, water, social housing and telecommunications sectors, as well as local authorities, indicated that there could be a commercial case for such service providers to support the costs of Jam Jar Accounts for certain high cost to serve customer groups. A summary of our conclusions is presented in the table below:

These service providers were selected because research among newly banked low income consumers identified them as the main recipients of direct debit payments. (7) A full list of interviewees is included in the Acknowledgements section of this report.



Table 5.2: Potential sources of external revenue

	Social Landlords	Water	Local Authorities	Telecoms / Entertainment	Energy
Assessment of interest in Jam Jar Accounts	<p><b>High</b></p> <p>Existing commitment to financial exclusion.</p> <p>More effective arrears prevention critical with introduction of Universal Credit.</p>	<p><b>High</b></p> <p>Reduction in customer debt a core industry priority.</p> <p>Strong potential to benefit from better bill payment behaviour</p>	<p><b>Medium</b></p> <p>Existing Council Tax arrears reclaim methods variably successful.</p> <p>Interest in more effective arrears prevention approaches.</p>	<p><b>Medium</b></p> <p>Interest in improving retention of low income customers.</p> <p>Could benefit from supported bill payment mechanisms.</p>	<p><b>Medium</b></p> <p>Some desire to migrate more customers to automated payments.</p> <p>Currently managing high cost to serve customers through pre-payments.</p>

Social Finance’s conversations indicated that there could be a case for service providers to financially support Jam Jar Accounts if:

- Eligibility for financial support is limited to high cost to serve customer groups;
- Jam Jar Accounts substantially improve bill payment behaviour among high cost to serve customer groups; and
- The risks of bill payment behaviour improving are shared between the account provider and the service providers.

To significantly reduce the costs of Jam Jar Accounts for eligible consumers, fees would need to be available from a number of service providers for each account. Social Finance has been unable to ascertain commercially viable fee levels in the course of this research.

Service provider findings and considerations are outlined in more detail in Appendix 6.

### 5c) Account provider generated revenues

It is currently unclear whether service provider fees would provide sufficient financial support for consumers on low incomes or in financial difficulty to cover the costs of operating Jam Jar Accounts. Other potential account revenues may be required to keep consumer fees low while ensuring commercial viability.

Account providers could potentially generate additional revenues themselves through customer or product cross-subsidisation. Customer cross-subsidisation would involve charging customers on middle and higher incomes more than the costs of account delivery for access to the account and using the surplus to reduce the rates offered to those on low incomes or in financial difficulty. Product cross-subsidisation would involve offering higher margin products, like affordable loans and insurance, to Jam Jar Account customers, and using the surplus to reduce rates for those on low incomes or in financial difficulty.

Such cross-subsidisation plays a central role in funding existing 'free if in credit' high street bank accounts. Products would need to be carefully considered to ensure that they are appropriate for the consumers being targeted.

Alternatively, account providers could seek to reduce consumer costs through retailer reward schemes, as currently utilised by Secure Trust Bank and O2. Through such schemes a percentage of the value of customer spending at given retailers is rebated either to the account provider or the account holder to offset costs. Such schemes may be attractive to consumers, but could potentially discourage saving behaviour.

#### **5d) Government support**

Given the potential social benefit of Jam Jar Accounts, there may be a compelling case for government support to make such accounts viable for providers and affordable for low income consumers.

With consideration being given to a move to monthly or 4-weekly payment of benefits, including housing costs, directly to recipients under Universal Credit, there may be a real need to support some consumers to stay on top of their bill payments and prevent slippage into debt. Housing associations have also raised concerns that such a move could send their rental arrears soaring to unsustainable levels. Jam Jar Accounts could play a valuable role in supporting both budgeting and bill payment in such a context.

Equally, Jam Jar Accounts could offer a more financially inclusive alternative to POCA accounts or the DWP third party deduction schemes that are currently funded by Government, whereby small payments are taken directly out of some benefits in cases of severe debt in order to help benefit recipients manage their payments to companies such as utility firms.

While further work would be needed to assess the potential economic value to Government of such support, it seems likely that it would have significant social value.

## Appendix 6 – Service provider fee considerations

### 6a) Potential for service provider fees by industry

Table 6.1: Summary of interest by different industries

Customer Journey	Social Landlords	Water	Local Authorities	Telecoms / Entertainment	Energy
<b>What is the financial benefit of a Jam Jar Account?</b>	Reduced debt and debt collection costs	Reduced customer debt and debt collection costs	Reduced council tax arrears and write-offs	Improved retention and lifetime value of low income customers	Reduced debt collection costs
<b>Which customers currently drive high costs?</b>	Those receiving housing benefits directly / paying rent costs from wages	Working aged individuals / single parents, privately rented accommodation, poor credit scores	Those on lower incomes, but not in receipt of housing benefit	Customers with poor credit ratings who would otherwise require a deposit	Standard credit customers with erratic bill payment behaviour
<b>How is the situation changing?</b>	Expected housing benefit cuts and increasing social rents may increase debts	Water debt levels are worsening	Council tax benefit cuts may leave those on full benefits facing debts without support	No immediate changes anticipated	Smart meters should make switch to pre-payment easier reducing debt and collection costs
<b>Assessment of interest in Jam Jar Account</b>	<b>High</b> Existing commitment to financial exclusion. More effective arrears prevention critical with introduction of Universal Credit.	<b>High</b> Reduction in customer debt a core industry priority.  Strong potential to benefit from better bill payment behaviour	<b>Medium</b> Existing Council Tax arrears reclaim methods variably successful.  Interest in more effective arrears prevention approaches.	<b>Medium</b> Interest in improving retention of low income customers. Could benefit from supported bill payment mechanisms.	<b>Medium</b> Some desire to migrate more customers to automated payments.  Currently managing high cost to serve customers through pre-payments.

### SOCIAL LANDLORDS

Control of rental arrears is a key consideration among social landlords. Historically, such arrears appear to have been relatively well managed (see Table 6.2). Housing associations evicted only 9,000 tenants from general needs housing in 2008-09, equivalent to 0.5% of total stock. (26)

Table 6.2: Tenant arrears as a percentage of total rental (26)

General needs housing <sup>1</sup>	2005/06	2006/07	2007/08
Current tenant arrears as percentage of total rental due	5.4%	5.4%	5.3%

Conversations with social landlords indicate that pensioners and young tenants are most likely to be in arrears. Further research would need to be done, but anecdotally it appears that there is significant overlap between those in rental arrears and those that are not currently benefiting from banking.

### *Potential benefits of Jam Jar Accounts*

Any reduction in customer debt resulting from greater uptake of Jam Jar Accounts among social tenants would be considered beneficial by housing associations from both a financial inclusion and rental arrears point of view. Housing associations predict that the value of Jam Jar Accounts to their industry will increase in the coming years as the planned changes in housing benefit kick-in. The potential impact of housing costs being paid directly to benefit recipients more often under Universal Credit arrangements is a particular cause for concern for social landlords given that historically most housing benefit has been paid directly to social landlords. Social landlords are also concerned about potential benefit cuts and social rent rises that may have a negative impact on their rates of eviction for non-payment of rent.

Social landlords are also keen to ensure that their tenants are financially included and view access to appropriate banking as an important stepping stone to savings, affordable loans and home insurance products.

## **WATER**

Debt is a significant and growing problem for the UK water industry, not least because their statutory obligation to provide water to all households means that bill payments are often a low priority for individuals on low incomes. About 5 million households are currently in arrears on their water bills. (27) The industry spends £76 million a year on debt recovery, recovering an estimated £350m annually.\* The amount of debt owed for more than 12 months – which is harder to collect – is growing (Figure 6.3).

In the UK water industry:

- 20% of debtors owe 70% of the total debt;
- 46 % of debtors are in the highest 10% credit-risk category; and
- A significant proportion of debtors live in rented accommodation. (28)

This implies that there may be significant overlap between water debtors and those that could benefit from Jam Jar Accounts if they were available at a lower cost to consumers.

### *Potential benefits of Jam Jar Accounts*

Given that arrears issues and debt collection are significant issues for the water industry, we believe that it is highly likely that there will be interest in a Jam Jar Account from water companies. As the Walker Review suggested into water charges, “*more regular and timely billing that suits customers’ financial arrangements could significantly reduce the amount and duration of outstanding revenue.*” (28)

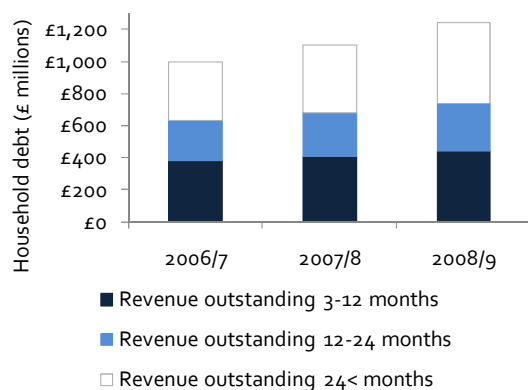
Evidence of the demand and need for this account can be seen in the use that the industry makes of the Department for Work and Pension’s third party deduction scheme, whereby deductions can be made directly from certain benefits to pay off bill arrears. The industry already makes more use of this scheme than energy companies (around 175,000 customers are on Water Direct, compared with fewer than 30,000 Fuel Direct customers). (29), (30) Our conversations indicate that the industry would like to utilise direct deductions from benefits for more of their customers. Jam Jar Accounts could offer a more

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\* Estimated using Ofwat figures on amount owed in 2007/8 (£1,266m) minus the amount of that debt still owed in 2008/9 (debts over 12 months = £804m) minus the amount written off in 2008/9 (£114m)

financially and socially inclusive means of improving water bill payment among high cost to serve customers.

**Figure 6.3: Water debt (29)**



## LOCAL AUTHORITIES

Council tax arrears in England and Wales remain high, largely due to the difficulty of recovering unpaid taxes from previous years (Table 6.4).

**Table 6.4: Council tax arrears in England and Wales (31)**

	% collected in 2009/10	Value at end of 2009/10
Council tax due in 2009/10	97%	£0.66bn
Council tax debt from prior years	21%	£1.57bn
<b>Total council tax debt</b>	-	<b>£2.23bn</b>

Councils also incur high collection costs when trying to recover unpaid council tax. Councils in England and Wales raised 10.8 million reminders and 3.1 million court summons with respect to council tax arrears in 2009/10. (31) It is estimated that for every £1 of court costs, local authorities recover only £0.72. (31)

Households that struggle to pay council tax are often in the third lowest income quartile, as those in the lowest income quartile are likely to receive significant council tax benefits. Further work would be needed to establish the extent to which this population overlaps with those not currently benefiting from banking. Furthermore, paying council tax by direct debit is cheaper for local authorities but currently only 48% of customers pay in this way. (31)

### *Potential benefits of Jam Jar Accounts*

Jam Jar Accounts would enable Local Authorities to move more customers to automated payments, reducing the costs of bill collection and reducing the risk of payment arrears. An expected increase in

future debt levels is likely to increase support for the Jam Jar account, as council tax benefits begin to be set locally, and reductions in benefit levels are expected.

Local authorities are also keen to promote financial inclusion among their residents and may also see wider benefits to supporting financial inclusion through use of appropriate bank accounts.

## **TELECOMMUNICATIONS**

Customer retention is a key driver of profitability in the telecommunications industry due to the high costs of customer acquisition. This involves a credit check for every customer, hardware installation and, in many cases, introductory discounts and incentives.

While levels of payment arrears are low due to the potential for disconnection, telecommunications companies can struggle to retain some customer groups on low incomes or with poor financial management skills due to inconsistent and erratic bill payment behaviour.

### *Potential benefits of a Jam Jar Account*

Jam Jar Accounts would enable telecommunications companies to move more customers to automated payments, reducing the costs of bill collection and improving retention of customers with poor credit scores.

To foster this retention, there is potential interest in launching new tariffs specifically linked to the Jam Jar Account for those on low incomes. Other services to increase customer retention would also be welcomed, such as advance warning for service providers of likely bill non-payment that could be used to stimulate customer outreach services.

The trend towards all-inclusive telecommunications packages (with fixed regular payments) would also work well with Jam Jar Accounts.

## **ENERGY**

Official figures suggest that, because of the potential for disconnection, debt is less of an issue for the energy than the water industry. However, the published data only shows the number of customers repaying a debt, not the total level owed. So while officially 5% of energy and 5% of gas customers were repaying a debt in 2009, a 2010 uSwitch survey found that 21% (5.5 million) are in arrears on their energy bills, owing £728m. (32), (33)

Energy companies can respond to high cost to serve customers by installing pre-payment meters to recover debt and as a bill payment mechanism. These are risk-free from the companies' point of view: once on a pre-payment meter, customers cannot use energy that they have not paid for. Therefore the riskiest customers are not those on pre-payment meters, but a proportion of the third of customers that pay by 'standard credit' (bill-prompted cash, cheque or card payments). (34) Conversations with energy companies indicate that only a small subset of this group are at risk of falling into arrears. Social Finance has been told that little is currently known about the characteristics of energy debtors.

### *Potential benefits of Jam Jar Accounts*

While energy companies often have the option of using pre-payment meters to reduce and collect debt, and the functionality of these is likely to increase as 'smart meters' are rolled out, there is still an

expressed ambition within the industry to encourage more customers to pay their bills using automated payments.

### 6b) Considerations for service provider fees

Social Finance conversations with a range of service providers indicate that there could be a case for service providers to financially support Jam Jar Accounts if:

1. Eligibility for financial support is limited to high cost to serve customer groups;
2. Jam Jar Accounts substantially improve bill payment behaviour among high cost to serve customer groups; and
3. The risks of bill payment behaviour improving are shared between the account provider and the service providers.

We consider each of these in turn below.

#### 1. Eligibility for service provider fees is restricted to high cost to serve groups

To ensure that it is commercially beneficial for service providers to contribute towards the running costs of Jam Jar Accounts, fees may need to be restricted to high cost to serve customers. Social Finance has undertaken initial analysis of a number of potential criteria for identifying these customers. When assessing potential criteria the following factors have been considered:

Factor	Rationale
<p><b>Captures the high cost to serve population</b></p>	<p>Service providers are more likely to contribute towards the running costs of the account if it reduces the arrears, collection and payment method costs of their high cost to serve customers.</p> <p>To maximise benefit, 'gating' criteria would need to capture those who are at risk of getting into, or are already in, arrears due to both low income levels and poor financial management.</p>
<p><b>Applies across service provider industries</b></p>	<p>To significantly reduce consumer fees for Jam Jar Accounts will require multiple service providers across a range of industries to contribute to the running costs of each eligible account.</p> <p>To enable this, 'gating' criteria will need to effectively capture the high cost to serve population across the range of contributing industries.</p>
<p><b>Practical and cost-effective to administer</b></p>	<p>Assessing customer eligibility against the chosen 'gating' criteria should be possible objectively, simply and quickly with minimal set-up and ongoing costs.</p>

Factor	Rationale
<p><b>Sensitive to ongoing eligibility</b></p>	<p>'Gating' criteria need to be capable of capturing changes in customer circumstances that would render a customer ineligible for fees.</p> <p>In practice, to manage administrative costs and ensure an attractive consumer offering, it may be necessary to limit the frequency of reassessments of customer eligibility.</p>

Taking into consideration the factors above, Social Finance undertook initial analysis of five potential 'gating' criteria for fee eligibility. A summary of our analysis can be found in Appendix 6c.

Of the criteria evaluated, credit scoring currently seems to offer most potential although further analysis would be needed to assess the extent to which credit segments overlap with high cost to serve customers for core service providers (e.g. water, energy, social housing and local authorities) and whether different criteria would be needed for different service providers.

*2. Jam Jar Accounts substantially improve bill payment behaviour among high cost to serve customer groups*

Information shared with Social Finance in the course of this research indicates that Jam Jar Accounts could potentially have a significant impact on the bill payment behaviour of high cost to serve customers.\* The impact of Jam Jar Accounts on bill payment behaviour could be evidenced through a pilot of a low fee Jam Jar Account.

*3. The risks of bill payment behaviour improving are shared between the account provider and the service providers.*

To offer a Jam Jar Account to consumers for a fixed monthly cost, the account provider will need to have a good degree of confidence around the likely levels of service provider fees. On the other hand the service provider will want to ensure that the account holder is incentivised to help people pay their bills. An appropriate balance of risk will need to be negotiated to make it attractive to both parties.

A blend of fixed and variable service provider payments may be the best option, providing a balance of service provider and account provider risk.

A summary of pertinent considerations is outlined below.

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\* Indicative statistics seen by Social Finance in the course of this research indicate that missed bill payments could potentially reduce from 1 in 4 to 1 in 20 among individuals on low incomes or with poor financial management skills.



Account funding	Service providers		Account provider	
	Pros	Cons	Pros	Cons
Fixed fee paid by service providers per account <sup>(a)</sup>	Easy to calculate	Fees not directly linked to improved customer payment behaviour	Predictable income stream	Little incentive to drive innovation and improvement in bill payment mechanism
Blend of fixed fees and variable fees based on bill payment behaviour <sup>(a)(b)</sup>	Risk that customer payment behaviour does not improve is partially mitigated by lower levels of fixed fees	Fees only partially linked to improved customer bill payment behaviour	Proportion of income guaranteed while creating incentives to drive / maintain bill payment behaviour	Lack of certainty around variable fees could create operating deficit if bill payment levels not maintained
Fully variable fees based on bill payment behaviour <sup>(a)</sup>	Fees fully linked to improved customer bill payment behaviour	—	Strong incentive to drive improved customer bill payment behaviour	Lack of certainty around variable fees could create operating deficit if bill payment levels not maintained

Notes: a) Fees would likely be paid based on the number of qualifying customers  
 b) This would include a fixed service provider fee per customer along with a variable contribution for each service provider bill successfully paid from this account

### 6c) Service provider fee eligibility criterion analysis

Social Finance undertook initial analysis of five potential criteria for identifying customers that should qualify for service provider account fees. Of the criteria evaluated, credit scoring currently seems to offer most potential although further analysis would be needed to:

- Determine the extent to which high cost to serve credit segments overlap across different service provider industries (e.g. water, fuel, social housing and local authorities); and
- Identify an appropriate criterion and threshold for eligibility for service provider fees.

Key conclusions from Social Finance’s initial analysis are presented below:

#### Gating criterion analysis – poor credit scores

Credit scores seem practical and cost-effective. They should capture individuals with a history of poor financial management and those that are financially excluded due to low incomes.

#### *Captures the high cost to serve population?*

Credit scoring is an effective method of identifying individuals with a history of poor financial management. Low credit scores are also generated for individuals that have had little access to mainstream credit and should also capture those on low incomes.

In the UK scores range between 300-850 and capture information such as:

- Frequency of missed credit payments;

- Total debts compared to income;
- Previous bankruptcy/county court judgments;
- Past credit checks and the reasons for them (e.g. check by a debt collection agency).

Further analysis would need to be conducted to understand the correlation between low credit scores and high cost to serve customers to identify appropriate thresholds for eligibility

*Applies across service provider industries?*

Credit scoring is a consistent metric that is used by service providers in a number of industries to segment their consumer base by credit risk.

*Practical and cost-effective to administer?*

Credit scores are standard checks that should be easy to implement and cost-effective if procured at scale. Scoring tends to be accurate and is aggregated to a single number that could quickly and objectively be used to determine customer eligibility for service provider fees in line with agreed thresholds across a number of service providers.

Credit scoring services can be competitively procured from 3 UK service providers: Experian, Equifax and Call Credit.

*Sensitive to ongoing eligibility?*

Credit scoring appears to offer a potentially effective and practical method of restricting account holders' eligibility for service provider fees. However, use of the Jam Jar Account could itself serve to improve customer credit scores. While this could have a positive impact on their ability to access credit, it may mean that other metrics would be necessary to assess ongoing account holder eligibility for service provider fees.

### **Gating criterion analysis - eligibility for means-tested benefits**

The receipt of means-tested benefits would not capture the full high cost to serve population. This measure would be hard to apply across services and seems impractical to administer.

*Captures the high cost to serve population?*

As a metric, eligibility for means-tested benefits would help to identify the financially vulnerable on low incomes. Means-tested benefits are available to individuals on very low incomes that are in need of some financial support – around 16 million individuals in the UK. (35) Means-tested benefits include income support, working tax credit, housing benefit, council tax benefit, discretionary housing payments, and social fund payments.

However, the criterion will not be adequate to identify other high cost to serve populations such as those on slightly higher incomes with poor financial management skills.

*Applies across service provider industries?*

Further work would be required to determine the extent to which high cost to serve customers overlap with receipt of means-tested benefits across different service provider industries.

It seems reasonable to assume that recipients of means-tested benefits may not be considered high cost to serve by some service providers (e.g. local authorities around council tax where recipients likely to be exempted; fuel where low income consumers may be on pre-payment meters).

*Practical and cost-effective to administer?*

Eligibility for means-tested benefits is calculated in a uniform way by the Department for Work and Pensions. Nevertheless, data regarding eligibility for means-tested benefits is highly sensitive and is not publicly available.

The rules for benefits eligibility are subject to regular review and are likely to change significantly with the introduction of Universal Credit. It therefore seems unlikely that this criterion would be practical as a gating mechanism for service provider fees.

*Sensitive to ongoing eligibility?*

Eligibility for means-tested benefits is reviewed on a regular basis and can change at short notice (e.g. if a recipient manages to find employment). Sudden changes in benefit eligibility may not reflect changes in customers' cost to serve in relation to service providers. This may mean that other metrics would be necessary to assess ongoing account holder eligibility for service provider fees.

### **Gating criterion analysis - low income levels**

Income levels are strongly correlated to financial exclusion but may be hard to verify and will not capture high cost to serve consumers on higher incomes.

*Captures the high cost to serve population?*

Conversations with service providers indicate that while low income levels are strongly correlated with being high cost to serve, poor financial management or sudden changes in life circumstances also play a significant role. 18% of the UK population is defined as 'low income', including 14 million adults living in 7.2 million households in the UK. (36)

However, as a criterion, 'low income' would capture the most financially vulnerable, but would fail to capture those on higher incomes that struggle to pay their bills. The criterion would therefore only capture part of the high cost to serve population from a service provider perspective.

*Applies across service provider industries?*

Further work would be required to determine the extent to which high cost to serve customers overlap with low income levels across different service provider industries. It seems reasonable to assume that those with low incomes may not be considered high cost to serve by some service providers (e.g. local authorities around council tax where those on low incomes are likely to be exempted; fuel where low income consumers may be on pre-payment meters).

*Practical and cost-effective to administer?*

Income levels may be complicated and time consuming to verify objectively, particularly for individuals that have multiple income streams (e.g. benefits and casual work, etc.) or have not previously made use

of bank accounts. Self-verification may not be suitably compelling to form the basis for service provider fees. Ultimately, it should be possible to verify income levels for most people, but this may be a costly and time consuming process.

*Sensitive to ongoing eligibility?*

Sudden changes in income may not necessarily reflect changes in customers' cost to serve in relation to service providers. This may mean that other metrics would be necessary to assess ongoing account holder eligibility for service provider fees.

**Gating criterion analysis - service provider referrals**

Referrals from a service provider would accurately capture the high cost to serve population for that service, but may not be sufficiently transferable to trigger payments from other industries.

*Captures the high cost to serve population?*

Service provider referral would be an effective means of capturing high cost to serve customers for the referral company. Referrals would capture both those on low incomes and those on higher incomes with poor financial management skills.

*Applies across service provider industries?*

The high cost to serve population may vary between service providers making it difficult to base fees from other service providers on a referral from one. For example:

- In the water industry the high cost to serve population tend to be those on low incomes;
- However, council tax debtors tend to have slightly higher incomes as those on the lowest incomes receive council tax benefits.

*Practical and cost-effective to administer?*

Given the subjectivity of the decision, it is difficult to see how a referral from one service provider could be used as the basis for fees from other service providers for that customer. To make this criteria applicable in practice, standard referral criteria would need to be agreed across multiple industries.

*Sensitive to ongoing eligibility?*

As a referral to a Jam Jar Account could only be made once, other metrics would be necessary to assess ongoing account holder eligibility for service provider fees. This might include the customer's history of making successful payments once using the account or improvements in income levels.

**Gating criterion analysis - use of non-automated bill payment methods**

Use of automated payments does not seem to be a viable gating criterion as customers may choose to pay for different services in different ways.

*Captures the high cost to serve population?*

Not all customers who choose to use non-automated payments will be high cost to serve. Many customers on higher incomes (such as older people) may choose to pay their bills through non-automated payment channels in spite of having access to automated banking services.

In addition, the use of non-automated payments may actually represent a less risky payment option for some services. For example, many social tenants use pre-payment electricity meters either by choice or at the request of the service provider as a way of avoiding bill payment arrears

*Applies across service provider industries?*

Some consumers may choose to use automated payments for some services and not others, making it hard to apply across all industries. Further work would be required to determine the extent to which high cost to serve customers overlap with those making non-automated payments across different service provider industries.

*Practical and cost-effective to administer?*

This criterion is likely to be difficult to administer as customers may use different payment methods for different services.

For this criterion to operate effectively, service providers across all industries would need to agree to pay fees for a customer that qualifies for the account based on the payment method they use for a single service. If a consumer already pays fuel bills by direct debit, it is hard to imagine that there would be a commercial case for fuel companies to support the account because they pay for their water by cheque. As a result, as a gating metric this does not seem to be feasible or attractive.

*Sensitive to ongoing eligibility?*

As use of a Jam Jar Account would be expected to increase automated payments, other metrics would be necessary to assess ongoing account holder eligibility for service provider fees.

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Payzone	Energy Retail Association	East Lancs Moneyline
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