



Toynbee Hall

Learning from local action
developing national solutions

Banking the unbanked - a snapshot

November 2005

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Banking the unbanked - a snapshot

By Adam Clark and Alexandra Forter, with Faith Reynolds

A snapshot on the institutional barriers to banking for people experiencing financial exclusion by SAFE, part of Toynbee Hall

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November 2005

Foreword

“The Government recognises that financial exclusion imposes real costs on those who can least afford them and is committed to working to address this problem. Access to banking is key to promoting financial inclusion as it enables families to benefit from the savings associated with being able to cash a cheque for free and with being able to pay bills by direct debit. A bank account can also act as a key to further engagement with financial services. In recognition of this the Government and the banks have agreed to work together to halve the number of adults in households with no access to a bank account and to have made significant progress in two years. The work of organisations like SAFE is important in improving access to banking amongst individuals who face particular hurdles. I have taken a particular interest in the work SAFE has done in parts of London where financial exclusion presents a real challenge and the problems faced are very acute. Lessons learned by SAFE in undertaking this work represent a valuable practical contribution to tackling financial exclusion.”

Ivan Lewis MP

Summary of recommendations

Free, independent and accessible services, such as those provided by SAFE, should be more widely established to facilitate access to banking for vulnerable consumers or people on low incomes.

A certification for marketing material should be created by an independent regulator.

Research should be undertaken to consider ways in which innovation in product design can facilitate financial inclusion, serve client needs and remain commercially viable.

The basic bank account product should be designed with the needs of the target group at its core to prevent discrimination and 'exclusion within inclusion'.

The financial services industry, Government and others should invest in support for newly banked people.

To increase the likelihood of full and consistent compliance with the Banking Code the Banking Code Standards Board should publish the findings of its mystery shopping exercises.

The financial services industry should empower its customers to enable them to know when banks' behaviour is unacceptable and to be able to challenge this when it happens.

The financial services industry should take full responsibility for enabling and incentivising its staff to sell its products and provide a good level of service to all, no matter what their background.

Clear, transparent and comprehensive guidelines on acceptable documentation for account opening purposes should be published in each branch and made available to customers.

All frontline branch staff should receive regular comprehensive training on procedures for account opening and how these can be adapted for people without traditional documentation for identification verification.

Applications for basic bank accounts should always allow at least the option for identification verification at branch level but preferably full account opening at branch level.

The British Bankers' Association Financial Inclusion Advisory Panel should undertake to produce and publish guidelines for branch staff on how people experiencing financial exclusion can best be served in relation to account opening.

Preface

Most of society takes for granted the existence of 'tools' for managing, saving and investing money. Indeed, it is difficult to imagine what our financial strategies would be like if there were no bank accounts, pension plans or insurance cover available. But this is the reality today in the UK for many people who cannot gain access to even the most basic products. For others, previous negative experiences and/or lack of financial literacy effectively exclude them. The financial services 'revolution' has passed them by. Coming on top of existing deprivation and disadvantage, financial exclusion can be the difference between a household staying in control or spiralling into decline. Even for those families and individuals who are coping at the moment, it may take very little for that situation to deteriorate.

SAFE (Services Against Financial Exclusion), part of Toynbee Hall, promotes financial inclusion among disadvantaged groups of people by working to increase financial capability and access to financial products. SAFE carries Toynbee Hall's strapline at its heart – learning from local action, developing national solutions.

Since 2002 SAFE has developed a range of practical services primarily serving the local community of Tower Hamlets, but now more widely serving London. Alongside its practical work SAFE has always sought to use its own experience to benefit that of others working in the field, either informally through meeting and sharing best practice with others or more formally through developing resources like the Personal Finance Handbook, developed in partnership with Child Poverty Action Group. Most recently SAFE launched FIF, the national Financial Inclusion Forum. FIF provides a space for organisations, associations, policy makers, financial institutions and funders across the UK to come together, share ideas and build a network to increase the awareness of the crucial role financial inclusion plays in wider social inclusion.

It is in this vein of sharing its experience that SAFE presents this snapshot detailing its experience of working among especially vulnerable groups of people to help them access mainstream banking services for everyday money management. This report was an additional outcome of a project whose primary aim was to help people transition to Direct Payment. SAFE Project Workers worked at a grass roots level with customers and financial institutions on a daily basis but have always remained aware of how their local work fitted into the 'bigger picture' of promoting financial inclusion at a national level. It is due to the additional effort and committed nature of SAFE Project Workers that SAFE can share its findings and ultimately hope to increase financial inclusion.

It is hoped that this snapshot will provide a useful insight into the reality of accessing mainstream financial services for people on low incomes and spur on industry, Government and the voluntary sector to pursue true financial inclusion for the benefit of all society.

Introduction

This report provides a snapshot of how people experiencing financial exclusion are accessing financial services and how the industry is facilitating that. The data is based on:

- a database of 2400 client records;
- 83 surveys completed by SAFE project workers during April – June 2005 recording their experiences of single interactions with bank branches; and,
- a focus group made up of SAFE Project Workers.

The work is focused on institutional barriers rather than the basic bank account product itself. (Recommendations on product development have been made by the National Consumer Council and SAFE endorses the nature of this work.)

The focus of SAFE's work was to deliver a service to its clients and not to undertake research which could be rigorously analysed. However, it is hoped that this report which details and gives some evidence to SAFE's experiences of working with hard to reach groups will inform the debate on access to banking for low income groups of people and provide constructive feedback to the financial services industry on areas where they can improve their service.

Financial exclusion

Financial exclusion can be described as the circumstances in which a person does not have access to appropriate financial products or services which give them the opportunity, ability and confidence to make informed decisions about their financial situation or organise their money effectively¹.

Experience of financial exclusion is concentrated among people on low incomes living in disadvantaged areas². Product holding alone does not imply full financial inclusion. For instance, simply owning a basic bank account does not imply that a customer has left the cash economy as they may just empty the account as soon as they receive their benefits or wages. However, account holding is widely recognised as a common indicator of the degree of financial inclusion across a society. Indeed, the government and financial institutions have established this measurement as their goal: to halve the number of adults in households without a bank account, and of having made significant progress in that direction within two years³.

In the United Kingdom, most recent statistics available demonstrate that bank accounts are not equitably distributed among the population. The 2002/2003 Family Resources Survey⁴ shows that 1.9 million households are without any

¹ *Beyond Bank Accounts*, IPPR/CAB, 2003

² See *In or Out*, FSA, July 2000 for more information about financial exclusion and who it effects

³ Stated Terms of Reference for the Financial Inclusion Taskforce: visit www.financialinclusion-taskforce.org.uk

⁴ Given the Government's recent drive to increase transition to Direct Payment the number of people with bank accounts is likely to have risen. However, more recent data is not yet available to give us a clear indication of how the take-up of bank accounts has changed over the last two years

kind of account. This equates to 8% of the total population but, among those households in the bottom three income deciles, this percentage rises to 65%⁵. For those without transactional accounts:

- Money management is more expensive. For instance, without an account it is not possible to take advantage of direct debits which offer discounts on bills and cheques may have to be cashed at significant cost.
- Entrance into employment is more difficult because increasingly employers wish to pay wages directly into an account.
- Opportunities to secure and save money are few. Saving cash in a jam jar or under the bed leaves individuals vulnerable to theft.
- Opportunities to borrow are limited. Bank accounts often act as a gateway to other financial products. Without a bank account individuals are forced to rely on alternative, sometimes illegal, and usually expensive forms of credit.

Policies and products

Financial services are becoming increasingly sophisticated as technological advances make allowances for increased cost and time efficiencies and thus increased competition among financial services providers. Alongside market forces Government itself also has a vested interest in seeing people take greater personal responsibility for their financial future as it too can make savings in the way it administers and funds the welfare benefits system. For example, the state pension will become ever more costly with an ever increasing elderly population. Encouraging people to save for their own long term security relieves some of the cost burden and encourages personal financial responsibility. Government also has goals to reduce social exclusion and poverty. In 1999 Policy Action Team 14 published their report *Access to Financial Services*. This showed how financial exclusion effected people on low incomes and how better access to more appropriate financial products could increase social inclusion.

Since PAT 14 and the recognition of wider economic interests the financial inclusion agenda has seen increasing momentum. Government policies have obliged the financial services industry to respond by providing simplified products to meet the perceived target groups' needs. The development of Individual Savings Accounts, Stakeholder pensions, the Child Trust Fund and the Basic Bank Account (and associated Post Office card account) have all been paid for largely by the financial services industry. The extent to which Government has achieved its aims through these products varies, as does the extent to which the financial services industry has backed the policies which underlie their own product development.

Direct Payment

A case in point is the automated transfer of welfare benefits, known as Direct Payment. The original concept was to allow people a no-frills banking service

⁵ *Family Resources Survey, 2002/2003*

through the Post Office. Known as the Universal Banking initiative, it was largely driven by the fact that automated transfer of benefits would reduce the costs of administration and the level of fraud, while at the same time revitalise the Post Office and increase financial inclusion. The costs proved too high for both Government and the financial services industry who compromised on the development of Post Office card accounts and basic bank accounts.

The Post Office card account works effectively like an electronic benefits book: people may withdraw their benefits from the account, a little at a time if they choose, but no money can be deposited and there are no transactional facilities. Basic bank accounts were developed so that people could access their benefits through the Post Office⁶ and have access to basic transactional banking facilities. As well as investing in the development of its own products, at the Government's suggestion, the financial services industry also paid £180million over five years towards the Post Office card account.

However, despite banks and building societies investing in their basic banking products specifically for this market there is no great appetite to sell the product. This is largely because the product itself and the low-income target group are not considered particularly profitable. The consequence of this is that people get caught between a policy requiring them to open an account to make a transition to Direct Payment on the one hand, and the high street bank branch whose aims do not traditionally include serving less profitable groups of people. At the sharp end, this means people experiencing financial exclusion are still not always able to access bank accounts.

Bridging the gap

SAFE, part of Toynbee Hall, aims to act as a bridge between Government and industry, by providing support and advice to individuals, to help them understand the options available to them and to help them action their choice. To this end, SAFE has worked over the last three years to help people access appropriate accounts for everyday money management and it continues to do this work. However, between October 2004 and August 2005 SAFE expanded this service pan-London to support the Department for Work and Pensions in its drive to increase the take-up of Direct Payment within some of the most vulnerable and hardest to reach groups.

During the course of SAFE's work it undertook informed choice discussions with people on very low incomes from typically hard-to-reach groups to help them understand Direct Payment and the options for receiving their benefits (including opening a Post Office card account or a current or basic bank account). Appropriate to their decision, SAFE discussed different types of basic bank accounts available using comparative information, encouraging the individual to make their own informed decision. SAFE then helped its clients to access an account by helping them prepare their identification, fill out application forms and accompany clients to banks as appropriate. SAFE continued to offer follow-up support to the client to ensure an account was

⁶ All basic bank accounts have this feature. However, some have been developed to allow their customers the possibility of depositing money through the Post Office into a known bank account as well

opened and the client was happy in using the account. SAFE provided additional financial capability training as appropriate.

Alongside the practical service SAFE provided to clients it also provided training on this particular area of work and broader financial inclusion messages to over 150 partner organisations across London. It provided additional resources including a guide to opening accounts for people on low incomes and a guide on how to obtain sources of identification and address verification.

Methodology

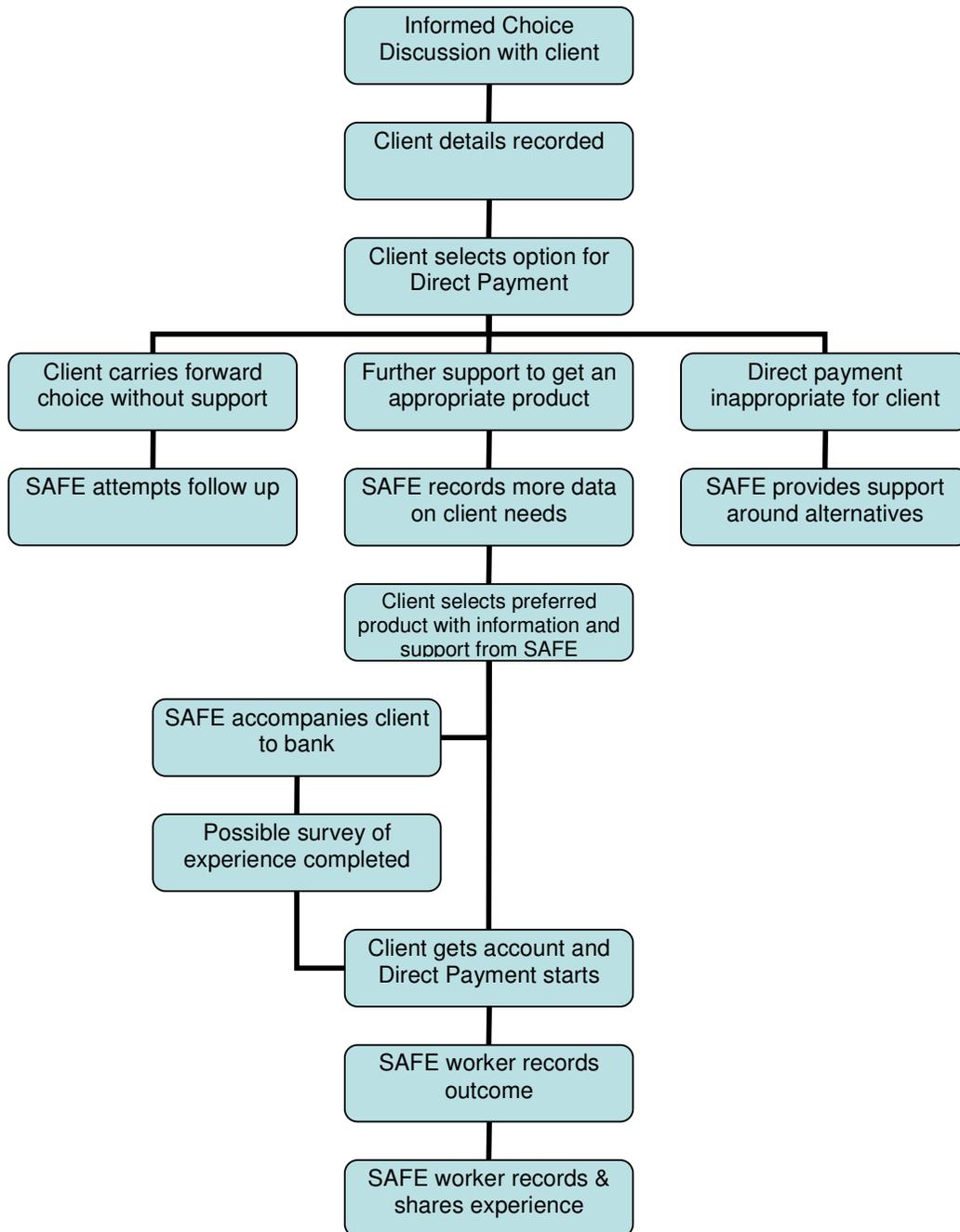


Fig. 1: Flow chart describing interaction with client and points of data collection

The data for this snapshot was taken from the main management information system of SAFE's Access Project, with some additional input from its project workers in the form of surveys and focus groups. This section deals with the methodology for data collection and processing specific to each chapter. First, some general points.

Overall 2437 people were seen by the project. However, their situations varied, needs and choices with regards financial products varied, and consequently SAFE's interactions with them did too. Notably, while all clients engaged in an Informed Choice Discussion, or ICD, (see section below), there was only concrete information about the transition to Direct Payment in around 1000 cases. Of those, information about the specific account that they chose is limited to around 800 accounts.

Data was collected with the needs of these clients and the targets of the project uppermost in mind. It was not usually collected for research purposes. So, while collection procedures were clearly explained to all data collectors and reviewed for consistency and reliability there is introduced some bias and inconsistency into recording data.

One example of this is that more information was gained where more support was required by a client. So the data and surveys tend to reflect the needs of the most vulnerable groups of people SAFE works with, and are not as focussed on the experience of financially excluded groups with lower support needs. That said, when looking at issues like experience of service in bank branches, it should also be taken into account that an experienced advisor from SAFE with high levels of knowledge about products and account opening procedure was present.

Due to the client focus of SAFE's work, the number of surveys is skewed to the bank branches where clients wanted to open accounts or felt they would be more likely to succeed in account opening. SAFE Project Workers filled out 83 surveys on branch visits covering 10 bank brands over a six month period between March and August 2005. However, a consistent amount of data is not available across all bank brands and as such SAFE can only provide generic information regarding bank performance in this report.

Nor is it possible to understand how geographic proximity of different branches interacted with account opening. We simply cannot tell if, for instance, a customer opened an account with one bank rather than another purely because another bank branch was not available in their location.

Where data recorded is about products or institutions providing products, the work covers those institutions providing basic product to a low-income/financially excluded market. This information was largely recorded by surveying project workers.

This is a genuine snapshot, and as such is unable to take account of potentially important changes that took place during the period of data collection. For example, there is no attempt to make comparisons pre and post changes to the Banking Code, or to take account of changes a bank has made to its product or internal processes.

Informed Choice Discussions (ICD)

The ICD tended to act as a first point of contact for the client. At the end of the initial meeting a client's personal details pertinent to the project's objectives (rather than research objectives) were recorded on a management information system.

The data regarding ICDs is derived from the main database of SAFE's Access Project. Where available this recorded the information gathered by project workers at the time of first contact, and is based on self-reporting and project worker assessment. The focus of data collection was to ensure that clients were able and supported to exercise a suitable option for Direct Payment. This means that the data and bases used are not always consistent and that there are some anomalies in the figures. However, the data collected does provide broad overviews of the client base, their attitudes and preferences for Direct Payment and banking options.

Application process

Project workers completed a feedback form⁷ after each visit to a local branch. All ten project workers completed forms documenting their experience with branches. Project workers were asked to evaluate each visit separately and rank their experience in terms of quality of service in several categories. This covered the behaviour of the staff and the procedures that were encountered, including requirements around identification and address verification documentation.

It is worth mentioning again that the number of surveys is skewed to the bank branches where clients wanted to open accounts or felt they would be more likely to succeed in account opening.

Knowledge reflects the possession of knowledge by staff, the comprehensiveness of this as provided to them, and thence on to prospective and actual clients. This extends to products and procedures, but also the needs of clients. SAFE surveyed on specific areas of knowledge such as the provision of identification and address verification documentation, account opening procedures and likely outcomes.

Communication concerns all of the ways that the banks have of interacting with clients, from marketing materials, telephone and internet provision, and branch staff's behaviour. In this rating SAFE considered how well information was communicated to customers and project workers, concerning bank account options and features, as well as the processes involved in opening accounts. This also factors in 'softer' considerations about the way that staff engage with the clients and supplements the analysis of the marketing materials found earlier in this report.

Flexibility measures the adaptability of the banks, and the ability to take account of the widely differing circumstances of customers, rather than insisting on a strict adherence to inflexible procedures. Clearly this is constrained by procedures, but it measures the efficacy of implementation of procedures that do exist, taking into account the needs of the individual.

Procedures is an assessment of the officially designed processes that banks have that facilitate account opening, covering the elements of whether the application materials are available, whether a suitable account is actually

⁷ Please see Appendix A

made available, and whether credit scoring is factored into decisions for basic bank account applicants⁸.

These different elements are derived from the factors measured in the surveys by project workers. A copy of the survey can be found in Appendix 1.

In addition to these factors, data was gathered on the basic details (time, location, staff involved and duration) of the visit, the purpose of the visit, and the outcome. This allows for some tentative conclusions about the interaction of these variables with the key parameters for financial inclusion achievement (for instance, is account opening more likely during quiet times within a branch?). However, this type of information is clearly limited by the size of the samples and the other limitations of the exercise.

Identification/address verification

This information is again derived from the main project database, and the work of the project workers in facilitating access to Direct Payment. It needs to be borne in mind that obtaining information from individuals, as a result of the type of groups SAFE was engaging with, was on occasions impossible. This means that the information on accounts that SAFE does have is unlikely to be either from the most excluded or the least. The former often do not engage with ongoing support which prohibits our finding out what (if anything) they have achieved, while the latter are least likely to require ongoing support.

The main information gathered included the type of account used for Direct Payment, and is limited to where an account was made available for this purpose where it had not previously been. Mostly this means opening a new account, but in some cases (less than 50) this would mean facilitating access to an existing account, through reactivating a dormant account or tackling issues such as debt or loss of access. Anecdotal information about the types of intervention required (such as helping a client to apply for a passport, or ensuring that the client's concerns about charges on the account and consequent debt were addressed) to achieve account opening in these cases was captured, however it cannot be easily amalgamated for analytical use.

Marketing materials

This analysis was limited to basic bank account publications and application forms and it was therefore assumed that the target market was the unbanked or those with limited financial products. Analysis was also considered in the light of the Banking Code of March 2005 key commitment:

- We will make sure that our advertising and promotional literature is clear and not misleading and that you are given clear information about our products and services.

and also the specific guidance that:

⁸ Whilst basic bank accounts should not include a traditional 'credit score' many banks are obliged to run checks to ensure that their prospective customers are not bankrupts or holding unresolved debts (according to terms on different accounts). However, anecdotally SAFE found on some occasions staff in certain banks would consistently put basic bank account applications through as current account applications, thus attracting credit scores.

- We will make sure that all advertising and promotional material is clear, fair, reasonable and not misleading.

Marketing materials and application forms for basic bank accounts were collected from 8 banks and 1 building society during the first half of 2005. The institutions' literature, meaning leaflet and application form if separate, was assessed by a team of six project workers. The process was informed by the experience of the SAFE Project Workers who used the materials on a regular basis with people from the target group.

Ratings of 0 (poor) to 2 (good) were given to each brand for their materials on the basic bank account. A focus group was then held to discuss individual assessments and determine an average rating for each brand's materials. The areas considered were as follows:

Format of Material

The general format of the various materials was considered, whether it was a brochure, a flyer, an A4 booklet etc, measuring how effectively this worked for financially excluded clients. This extended to an analysis of the layout of the publications, how easily navigated they were, whether sections were clearly delineated, and whether they cross-referenced to other publications.

Higher marks were awarded for:	Lower marks resulted from:
<ul style="list-style-type: none"> • Dedicated basic bank account literature • Clearly signposted sections • Good legibility • Clear fonts • Materials which indicated a positive approach to the client group 	<ul style="list-style-type: none"> • Basic banking information being difficult to locate within other literature • Multiple cross-references to other sources of information • Dense or difficult to read text • User-unfriendly formats • Materials which marginalised or stigmatised the client group • Inclusion of irrelevant information such as information about other products

Writing Style

There was an analysis of the writing style within the various documents. It covered the language used in terms of vocabulary, syntax and jargon. It also covered the style of the text. As financial exclusion intersects with such issues as basic skills and English as a second language there is an

importance in ensuring that materials are easily understood and facilitate access.

Higher marks were awarded for:	Lower marks resulted from:
<ul style="list-style-type: none">• Simple communication of key messages• Easily understood words	<ul style="list-style-type: none">• Complicated sentence structures• Proliferation of jargon or complex terms• An overly formal writing style which reinforces negative perceptions of banking

Basic Bank Account Features

The specific way in which features of the basic bank accounts were presented in the documents was considered. It is important that full information is provided in a clear way so that customers are able to obtain crucial information about what an account in question does, and equally importantly, does not do.

Lower marks were awarded where information was incomplete, avoided mentioning restrictions on the account, or assumed more knowledge than is likely amongst unbanked people.

Disclosure of key terms and conditions

Terms and conditions contain a lot of information of a technical nature, and therefore there is only a certain amount that can be done to make this accessible to everyone. However, this challenge can be overcome by well thought-out literature, which promotes accessibility rather than confusion and barriers to entry.

Higher marks were awarded for:	Lower marks resulted from:
<ul style="list-style-type: none">• Good accessibility• Good legibility• Comprehensiveness	<ul style="list-style-type: none">• Excessive use of jargon• Use of 'small print'• Missing or impartial information

Contact Information

Availability of contact information is particularly important as customers may wish to inform their decision by asking questions about the product. Clients new to financial services are often more likely to have questions and need additional support in opening an account. Vulnerable consumers or those with disabilities need to have different options available to them when

contacting the branch which are appropriate to their needs (for instance, internet and phone access when a customer has limited opportunity to leave the house).

Higher marks were awarded for:	Lower marks resulted from:
<ul style="list-style-type: none">• Obvious and easily located contact details• Provision of variety of contact methods• Provision made for people with different needs (e.g. Braille)• Freephone numbers and detachable cards	<ul style="list-style-type: none">• No contact details• Address only• No provision for people with different needs• Premium rate telephone number only

Overall accessibility for clients

The mark for overall accessibility reflects all of the other categories listed above. It is intended to give an overall suggestion of how the various published literature either facilitates or hinders access to basic banking facilities amongst people who are traditionally 'financially excluded'.

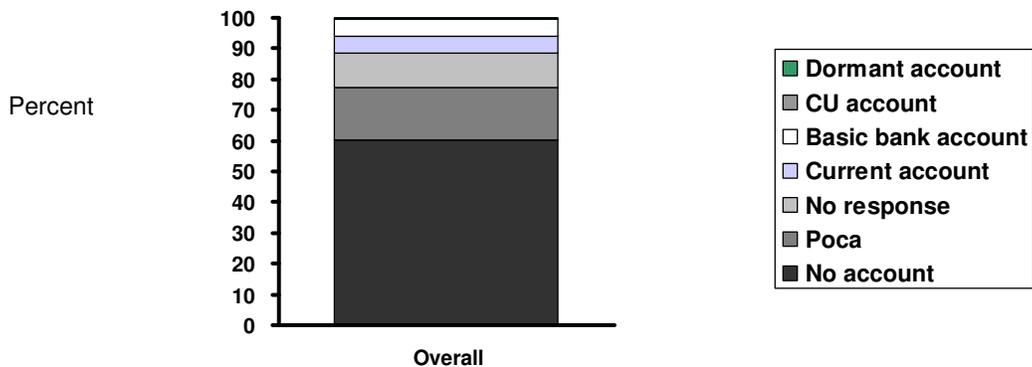
About the people

Whilst SAFE has helped people open bank accounts over the last three years and continues to do so, this specific report is based on data collected over 9 months during the course of a project helping people transition to Direct Payment. 2437 people were seen.

SAFE worked primarily with particularly hard-to-reach and vulnerable groups of people, for instance, people experiencing homelessness or in temporary accommodation, refugees, offenders and ex-offenders, those with substance mis-use or mental health issues and the long-term unemployed, among others. Clients came into contact with the service through SAFE's presence in job centres and community centres as well as through referrals from community, housing or other organisations. SAFE worked with over 150 organisations in the course of its outreach.

The following graphs provide details of the group of people SAFE worked with.

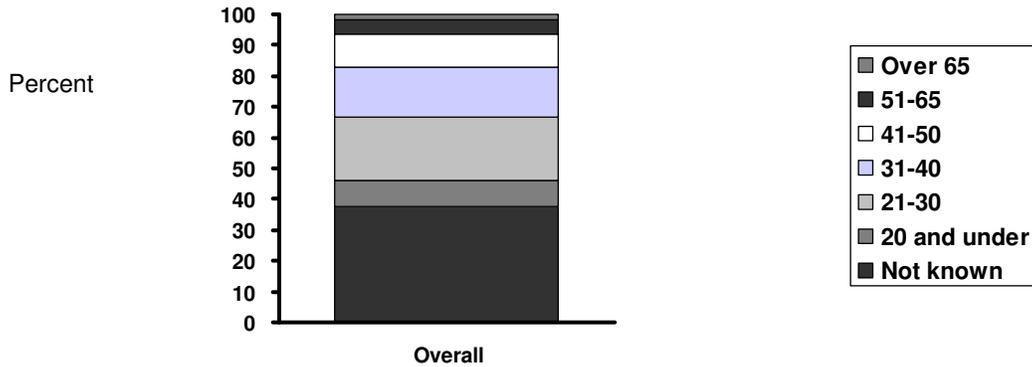
Fig 2: Account ownership at first contact meeting



Base: 2437 cases

60% of clients did not have an account of any kind when they first met with SAFE. 17.2% already had a Post Office card account and 0.2% had dormant accounts.

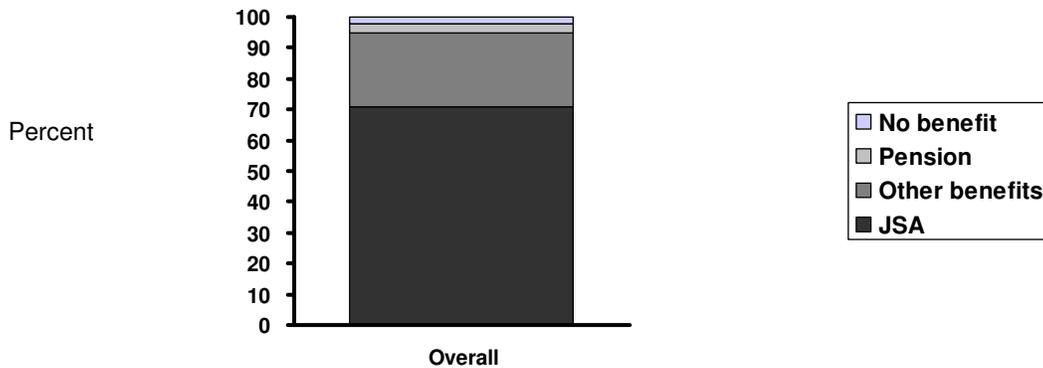
Fig 3: Age of clients



Base: 2437 cases

Where age is known the majority of SAFE's clients were between the age of 21 and 50.

Fig 4: Clients by type of benefit received



Base: 2437 cases

71% of SAFE's clients were on Job Seekers Allowance.

Whilst SAFE recognises that not everybody on Job Seekers Allowance is actively seeking work, the fact that 71% of clients were on the benefit suggests that it would be to their advantage to have access to transactional banking facilities, since an increased number of mainstream employers state this as a prerequisite for being given a job.

The Informed Choice Discussion

Recommendations

Free, independent and accessible services, such as those provided by SAFE, should be more widely established to facilitate access to banking for vulnerable consumers or people on low incomes. The provision of these services should be evaluated over the long term to gain an understanding of what the impact is on longer term account holding and financial capability.

Introduction

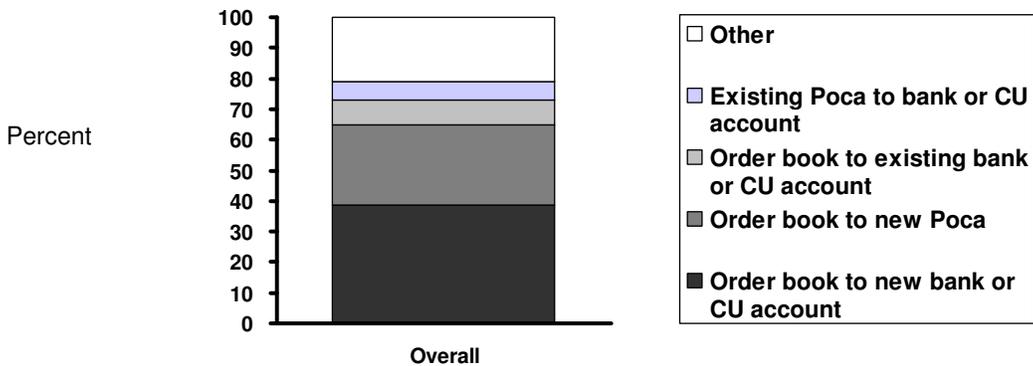
In helping people access financial services SAFE believes in the importance of empowering the individual to make their own informed decision. To this end SAFE provides independent information and a discussion framework to inform its clients' understanding of the different variables involved in the decision and to help them understand what choices they have.

In the case of helping people open basic bank accounts, SAFE provided one-to-one impartial information about Direct Payment, the options available for receiving benefits directly and what processes were involved in each option. Where clients wanted to open a basic bank account, SAFE project workers used comparative tables to explain the different features and terms and conditions of accounts. Clients were then encouraged to make their own decision based on preferred features as well as personal circumstances (for instance, geographic proximity to the bank). Once clients had made a decision SAFE helped them to gather further information about their chosen account, as well as start the application process.

Data

The following graphs show clients' stated preferences for account opening. The preference may have been recorded at any time during the informed choice discussion. Available data does not show a 'before and after' discussion preference.

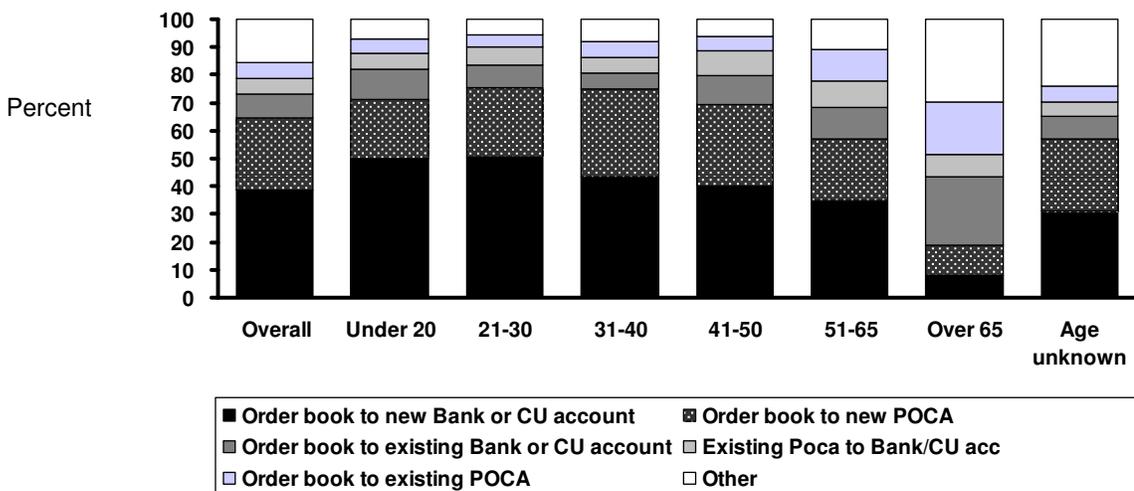
Fig 5: Stated preference for Direct Payment



Base: 2437 cases where an account has been opened

Overall preference among the group SAFE served was for a bank or credit union account (53%). Of the total 45% wanted to open a new bank or credit union account and 8% wanted to use an existing bank account. However 32% stated the POca as their first preference, with 26% wishing to open a new POca.

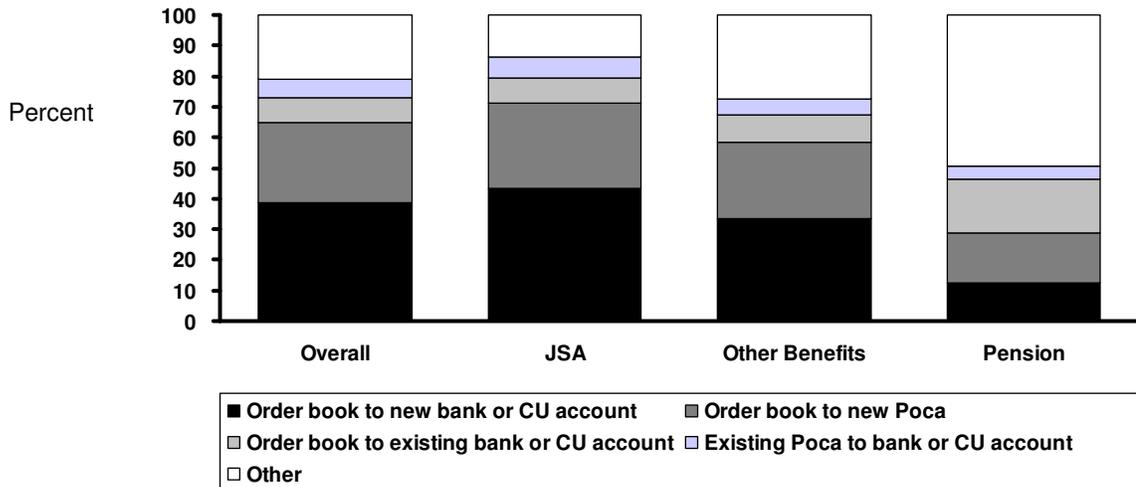
Fig 6: Stated preference for Direct Payment by age



Base: 2437 cases: 914 age not known, 215 20 and under, 497 21-30 years, 399 31-40 years, 254 41-50 years, 121 51-65 years, 37 over 65

Preference for a basic bank or credit union account for Direct Payment was most prevalent in people up to 30 years of age.

Fig 7: Stated preference for Direct Payment by benefit received



Base: 2437 cases: 1730 on JSA, 585 on other benefits, 73 on pension, 49 not on benefit (not shown here)

Stated preference for a basic bank or credit union account was most strong among those on Job Seekers Allowance.

Key findings and wider interpretation of data

- The majority of clients did not have access to transactional banking facilities before contact with SAFE
- There was an overall preference for a bank account over POca stated during the course of the informed choice discussion
- Most resistance to opening new accounts of any kind was displayed by people over 65 years of age, but existing account holding in that group was also more likely
- 52% were given assistance in opening an appropriate account, with a further 13% given support in requesting an invitation letter for a POca⁹

Direct Payment and the options available for transitioning to it are various. The products for receiving Direct Payment are also numerous. For instance, the Post Office card account does not allow for wages to be credited to the account whilst bank accounts do. However, whilst all basic bank accounts allow withdrawal of benefits at the Post Office, not all current accounts with the same bank do. Again, whilst all basic bank accounts allow withdrawals at the Post Office, only some allow deposits. Some current accounts also allow withdrawals and deposits at the Post Office. Obviously competition is an important driving market force and product differentiation of this kind is ultimately an advantage to the customer. However, the decisions to be made

⁹ 3.4% were recorded as ‘not known’ and the remaining 31.6% were not recorded as having support needs above and beyond the information provision of the informed choice discussion

regarding Direct Payment and what sort of an account to use for it require complex information to be understood and decoded so that an informed decision can be made.

The informed choice discussion provided an accessible space for people to find out more about Direct Payment and the choices available to them. It gave them the opportunity to talk about particular barriers that they perceived in stopping them from either making a decision about Direct Payment or actioning their choice. Providing free, independent and impartial advice on a one-to-one basis can be particularly helpful in informing a decision. It also allows individuals to discuss their perceptions, needs and opinions. This is particularly important among hard-to-reach groups of people who are often vulnerable, feel disenfranchised and excluded. Such provision of information promotes inclusion and facilitates access.

Marketing

Recommendations

A certification for marketing material should be created by an independent regulator. The criteria for this should be developed with the needs of people who are most financially excluded at their core.

Introduction

Marketing and materials associated with bank products and services can have an impact on the perceived accessibility of the product. Existence and availability of product information along with key marketing messages form a significant first point of access for consumers. It is important to consider the content and vehicles for delivering information and how well they reflect the needs of the target group. The analysis of basic bank account marketing and materials was undertaken to approximate their appropriateness in reaching people experiencing financial exclusion. Analysis was considered in the light of the Banking Code of March 2005, which makes the following commitments:

- We will make sure our advertising and promotional literature is clear and not misleading and that you are given clear information about our products and services
- We will make sure that all advertising and promotional material is clear, fair, reasonable and not misleading

More detail about rationale for scoring can be found in the section on methodology.

Data

Fig 8: Rating of different banks' marketing materials where 0 = poor, 1 = acceptable and 2 = good¹⁰

Bank	Format of material	Writing style	Basic bank account features	Disclosure of key terms and conditions	Contact information	Overall accessibility for clients
Bank A	0	0	1	2	0	1
Bank B	1	2	2	2	2	2
Bank C	0	1	1	0	2	1
Bank D	1	1	2	2	2	2
Bank E	1	1	2	2	2	2
Bank F	1	1	1	0	2	1
Bank G	2	2	2	1	1	2
Bank H	0	2	0	1	1	0
Bank I	0	0	1	0	0	0

Key findings and wider interpretation of data

- There is wide variation in the provision of marketing and application materials for basic bank accounts
- A number of existing marketing tools appear limited in facilitating access for the group basic bank accounts are intended to serve

Some banks' materials clearly facilitate access whilst others do not. It would appear that in those instances where the materials are good, thought has been given to the target group in question. Conversely, where materials do not perform well, it would appear that this is because little thought has been given to the target group and materials are simply 'stripped down' versions of current account literature. The financial services industry needs to recognise

¹⁰ It should not be inferred from this table that the order or ranking corresponds to other orders or rankings in other parts of the report.

lower income customer base and profile and orient marketing and application materials towards the target group.

Basic bank account materials should be written in clear, concise English in readable print with carefully organised formats. Information should include:

- Features of the product, including what the product does not do
- Key terms and conditions, including charges and penalties
- Information about how to open the account, including guidelines on the types of less traditional identification and address verification that can be used; offering a free helpline where clients can discuss their own situation
- Opportunities for upgrading after a period of time
- Contact information

NB: It is important to note that since SAFE's work was done it has met with banks individually regarding this information. SAFE has received positive feedback from its work and steps are being made by individual banks to improve their literature. Other banks may also have updated their literature since SAFE's analysis.

About the product, the basic bank account

Recommendations

Research should be undertaken to consider ways in which innovation in product design can facilitate financial inclusion, serve client needs and remain commercially viable.

The basic bank account product should be designed with the needs of the target group at its core to prevent discrimination and 'exclusion within inclusion'.

The financial services industry, Government and others should invest in support for newly banked people to enable them to use the account in a way that is appropriate to their needs but which remains commercially viable.

Introduction

The question of products offered to those on low incomes is not the main focus of this report. Research by NCC/Policis¹¹ analyses the needs of low income customers, how well these are being met currently and what product innovations may improve the situation. However, the basic bank account product itself has an important role to play in facilitating financial inclusion and is therefore worthy of mention.

Data

Fig 9: Basic bank account product features (following page)

¹¹ NCC/Policis factsheet 'Basic Banking. Getting the First Step Right', August 2005

Bank Name & Account Name	Post Office Access - withdrawal (w) or deposit (d)	Minimum Amount to Open Account	Cash Machine Card	Alternative to Chip & Pin Card Available	Free Buffer Zone	Direct Debits and Standing Orders	Charge for unpaid Direct Debit	Debit Card (Solo or Electron)	Counter Service	Statements
Impact on Financial Inclusion	Provides local network, with personal contact. Should not be only face-to-face provision	Important to be zero, so that lack of ready cash is not a barrier to banking	Increasingly essential, but should not be only access to account	Alternatives to chip and pin facilitate choices and access	Allows for small element of security for those unused to banking and on tight budgets	Facilitates cost savings on regular bills, and builds budgeting skills	Can be significant portion of monthly income and start debt spiral. No charge can indicate other penalties, such as account closure	Promotes wider financial capability through non-cash transactions, but acceptance in shops and over the internet is limited	Restriction or prohibition implies 2nd class customers, removes support, opportunities for increasing financial capability, access to financial advice and sales opportunities	Infrequent statements hinder money management and differentiates from other account holders
Abbey National Basic Account	w	None	Yes	Chip & Sign	No	Yes	£35	No	No	Quarterly
Alliance & Leicester Basic Cash Account	w & d	None	Yes	Chip & Sign	No	DD only	£34	No	No	Quarterly
Barclays Cash Card Account	w	None	Yes	Paying in book	No	DD only	£15	No	Yes	Quarterly
Co-operative Bank Cashminder	w & d	None	Yes	Chip & Sign	No	Yes	£19.50	Yes	Yes	Flexible
Halifax Easycash Account	w	None	Yes	Chip & Sign	No	Yes	£39	No	No[1]	Quarterly
HSBC Basic Bank Account	w	None	Yes	Chip & Sign	£10	Yes	No Account closed if 3 unpaid	No	No	Quarterly
Lloyds TSB Basic Bank Account	w & d	None	Yes	Chip & Sign	£10	Yes	No Account closed if 3 unpaid	No	No [2]	Quarterly
Nationwide FlexAccount Cash Card	w	£1	Yes	Yes	No	Yes	£30	No	Yes	Quarterly
NatWest Step Account	w	None	Yes	Chip & Sign	No	Yes	£38	Yes	Yes	Monthly
Royal Bank of Scotland Key Account	w	None	Yes	No	No	Yes	£38	No	Yes	Monthly

[1] Branch counter can only be utilized to withdraw more than £300 in cash from account.

[2] Branch counter can only be utilized to withdraw more than £200 in cash from account.

Key findings

- There is little differentiation between basic bank accounts offered.
- There are a number of restrictions placed on basic bank accounts which customers are not often made immediately aware of in marketing literature and which cannot therefore inform their decision as to which account to open.
- There is little opportunity for banks to profit from basic bank account customers as a result of the attendant risk of including features (such as overdrafts) that would enable this.

The basic bank account product has been developed primarily in response to the Government's Direct Payment initiative. Its aim is to provide an introduction to banking and its technologies as well as a step towards greater financial inclusion. It is therefore important that the product itself is set up in such a way as to facilitate greater skill and confidence among its users in managing their money through an account. This means that the ways in which customers access their accounts need to be as unthreatening and appropriate as possible (within commercial considerations) and not further reinforce existing feelings of alienation from banking and banks, whilst allowing for a small element of leeway as customers adjust to non-paper transactions.

However, banks have begun to restrict certain features of the basic bank account, such as the buffer zone and counter service, suggesting a tendency to underserve the needs of low-income clients. Whilst, this is understandable in the context of the perceived current profitability of these customers, these restrictions hinder access, undermine the likelihood of increased financial capability and therefore mitigate against future profitability.

Restriction of branch access to large transactions, or even total prohibition, is detrimental on several levels:

- It clearly distinguishes basic bank account holders, thus creating exclusion within so-called 'inclusion';
- It effectively excludes those who have issues with technology or remembering PINs, and
- It hinders secondary branch functions, such as marketing and sales.

Those accounts that provide the widest range of functions and access optimise the potential for building financial capability, but also maximise the potential for mistakes and consequent problems. Thus direct debits, debit cards and buffer zones can all be useful features, but misuse can be excessively penalised through high charges or account closure.

The application process

Introduction

Visiting the bank and applying for an account are key milestones on the path towards achieving financial inclusion. The financial services industry has a particularly important role to play in promoting positive messages about financial inclusion and ensuring that these messages are reflected in the experiences individuals have when they interact with banks. More often than not a client will come into contact with a bank through its local high street branch. Alongside their corporate activities, the performance of banks at a local level is particularly important in defining how well they contribute towards financial inclusion. In this section SAFE considers how well financial institutions engage with customers experiencing financial exclusion and whether any improvements can be made.

In particular SAFE considers the procedures of the bank with regard to its implementation of guidelines to reduce money laundering and the performance of its staff across four parameters: knowledge, communication, flexibility and procedures for account opening (more detail is provided in the methodology section). In developing these criteria for measuring bank performance SAFE used the Banking Code. In the Banking Code¹², standards are set for good banking practice around processes and products. For the purposes of this report we have considered those that impact on low income customers and those seeking basic bank accounts, in particular the following key commitments:

- Before you become a customer we will give you clear information, explaining the key features of the services and products you tell us you are interested in.
- [We will] offer you a basic bank account if you specifically ask, and meet the qualifying conditions for one.
- When you have chosen an account or service, we will give you clear information about how it works [and] the terms and conditions.
- We will deal quickly and sympathetically with things that go wrong and consider all cases of financial difficulty sympathetically and positively.

These were the basis for the various criteria by which the project workers assessed their visits to the banks and building societies, as explained in the methodology section.

¹² The current edition of the Banking Code took effect in March 2005, and is available through the British Bankers' Association.

Practical Barriers

There are various ways in which applications for basic bank accounts have been hindered.

Examples of this include:

- Branches instituting an appointment system for basic bank accounts that ensures that a client will not be able to open the account for a significant period of time. Instances of this were noted that included a three month waiting list;
- Not having the application materials for a basic bank account available in the branch and not being able get hold of these within a short period of time; and,
- Explicit statements like 'we cherry pick our customers'.

Visiting the financial institutions

Recommendations

To increase the likelihood of full and consistent compliance with the Banking Code the Banking Code Standards Board should publish the findings of its mystery shopping exercises.

The financial services industry should empower its customers to enable them to know when banks' behaviour is unacceptable and to be able to challenge this when it happens. To this end, the Banking Code should be more widely available and produced in different formats (interactive screens in branches for instance).

The financial services industry should take full responsibility for enabling and incentivising its staff to sell its products and provide a good level of service to all, no matter what their background.

Introduction

The kind of customer service that a bank's staff provides is important in enabling the bank to differentiate itself from competitors who, by and large, provide similar products. This is especially the case in the basic bank account product range where there is little product differentiation.

Frontline branch staff will often be the first point of contact for a prospective customer. The member of staff they encounter has the ability to reinforce negative views of the industry or the opportunity to positively promote the bank's brand and the concept of financial *inclusion*.

Practical Barriers

A client seeking employment met with a SAFE project worker, as he had previously had to turn down work due to not having a bank account. He was manifestly wary of banks, having been refused several times due to lack of adequate documentation, as he does not hold a tenancy or pay bills in his own name. He does, however, have a passport and a benefits entitlement letter.

After discussing options with the SAFE project worker, he liked the idea of opening a specific basic bank account for which he could apply over the phone and would only have to visit the branch to present his ID and address verification documentation.

The phone application went smoothly and he was told that the two forms of ID that he was able to produce would be acceptable, as long as he signed a 'financial exclusion' form when he went into the branch, which would suffice in lieu of producing the normally required third or fourth. However, at the branch he was told that he would need a letter from his GP as a 3rd piece of ID documentation.

Despite this setback, the client felt confident after this experience at the bank and duly returned with the letter from his GP. His documents were photocopied and 'sent off to head office'. However, a few weeks later he received a letter from 'head office', saying that he could not open the account as he had not produced sufficient documentation.

The client became disillusioned, as he had done as instructed at every turn, and had still failed to open the account, and therefore was no longer interested in opening an account for future employment.

Throughout the account opening process it is imperative that staff are aware of their bank's policies and wider commitments. It is also important that branch staff demonstrate wisdom in the way in which they balance conflicting priorities and procedures in the light of individual customer's needs.

In order to analyse the data collected, SAFE used four parameters to measure branch activities which promote financial inclusion: knowledge, communication, flexibility, and procedures. An outline of these is included in the section on methodology. These are derived from the spirit of the commitments in the Banking Code that are mentioned above.

Data

Across all visits where the purpose was account opening, a basic bank account was made available on 89% of occasions. Where an account was not made available, it means that some action of the bank or its staff prevented the individual applying for a basic bank account where it was required, for example being required to wait three months for an appointment to apply for a basic bank account. Where the account opening process was successful, this rose to 100%, where the decision was pending it was 94% and where no account was opened it was 62%. There is a clear correlation between an account being offered and the likelihood of the account being

opened (as one would expect). Where basic bank accounts are not being made available it could be argued that this contravenes the Banking Code.

There does not seem to have been significant variation in the waiting time or length of queues between those occasions where an account was opened and where it was declined, but there was a significant difference in the length of the conversation. Where an account was opened the average conversation length was over 35 minutes, compared with around 10 minutes when the application was unsuccessful. How busy a branch is does not appear to be a factor in the likelihood of an account being opened, however the length of time staff are prepared to invest in the encounter with the customer does.

Anecdotally, SAFE project workers felt that there was a better response from bank staff in the morning, but this does not seem to correlate with account opening success rates, which remain fairly constant throughout the day, and is clearly subjective. On average, clients waited 7 minutes to be seen by anyone. They waited 13 minutes to be seen by a person who could help them. In some cases clients waited up to an hour to be seen by a person who could help them. The average length of conversations was 25 minutes.

The following tables show the results from project workers' surveyed experiences. The scale (for all tables) simply rates 0 for a project worker's perception of a bad experience in this area, 1 for an acceptable experience and 2 for a good experience.

Fig 10: Amalgamated ratings across all banks, all visits and all purposes, representing 83 visits:

Knowledge	1.2
Communication	1
Procedures	1.3
Flexibility	1

This table shows that on a broad scale project workers had acceptable interactions with branch staff.

Fig 11: Ratings for those visits where the purpose of the visit was to open an account (as opposed to information gathering or account follow-up), representing 63¹³ visits:

Knowledge	1.2
Communication	1.1
Procedures	1.4
Flexibility	1.1

This table highlights the knowledge and implementation of procedures over any of the other parameters.

¹³ On 3 of these occasions the outcome of the application process was not recorded

Fig 12: Ratings for the occasions on which the purpose of account opening was realised and an account was opened successfully, representing 25 visits:

Knowledge	1.5
Communication	1.5
Procedures	1.5
Flexibility	1.4

Where account opening was successful branch staff were rated higher across all parameters.

Fig 13: Ratings for the occasions on which no decision on the application was reached, and a decision was still pending, representing 18 visits:

Knowledge	1.1
Communication	0.8
Procedures	1.5
Flexibility	1.2

This table shows again that branch staff have a better than acceptable awareness of the branch's procedures. However, this sits in contrast with their less than acceptable level of communication and may account for the pending decision in these cases.

Fig 14: Ratings for the occasions on which the application was declined, representing 15 visits:

Knowledge	0.8
Communication	0.6
Procedures	1
Flexibility	0.4

Interestingly, this table highlights again that staff are generally aware of the procedures involved in account opening. However, their limited communication and flexibility resulted in applications being declined.

Key findings and wider interpretation of data

- Basic bank accounts are not always made available, even where they are offered. This contravenes the spirit of the Banking Code.
- Branch staff tend to have a reasonable awareness of their bank's procedures and products but are not always able to communicate these to the target group as well as might be expected.

- Branch staff tend to be less good at applying flexibility to these procedures or communicating effectively with customers.
- The commitment in the Banking Code to 'consider all cases of financial difficulty sympathetically and positively', does not seem to extend to prospective customers, with customers on low incomes often facing barriers that hinder their accessing even a basic bank account.

Overall the surveys show branches performed at an 'acceptable' level. This level of service can perhaps be more easily accommodated by the majority of bank customers. However in relation to vulnerable groups this level of service has an impact on the accessibility of the service and reinforces negative views of the financial services industry among low income groups. Without further research it would be difficult to evidence whether the level of service was as a result of the fact that the clients SAFE worked with required additional flexibility which staff were simply unused to providing; or whether the level of service resulted from staff's perception of the client group as unprofitable and therefore simply not worth the effort. In SAFE's judgement it is a mixture of the both.

All the surveys showed that branch staff had a reasonable understanding of their bank's procedures. However, branch staff scored lowest marks for flexibility and communication, confirming SAFE's experience that staff can improve in their ability to serve people with minority needs. Given the commitments in the Banking Code to give 'clear information', this is an area that should be looked at more closely. Future staff training should ensure these aspects of the Banking Code and how they can be practically implemented are covered.

Staff behaviour correlates to achieving financial inclusion. Where staff were most knowledgeable, most able to communicate effectively with the customer and most able to apply flexibility to their bank procedures more accounts were opened.

Implementing identification and address verification guidelines

Recommendations

Clear, transparent and comprehensive guidelines on acceptable documentation for account opening purposes should be published in each branch and made available to customers. Additional information about how the guidelines are implemented by individual institutions and the use of discretion should be made available to intermediaries, like SAFE, or alternative providers of identification like employers or housing associations

All frontline branch staff should receive regular comprehensive training on procedures for account opening and how these can be adapted for people without traditional documentation for identification verification. This training should include information on the use of discretion.

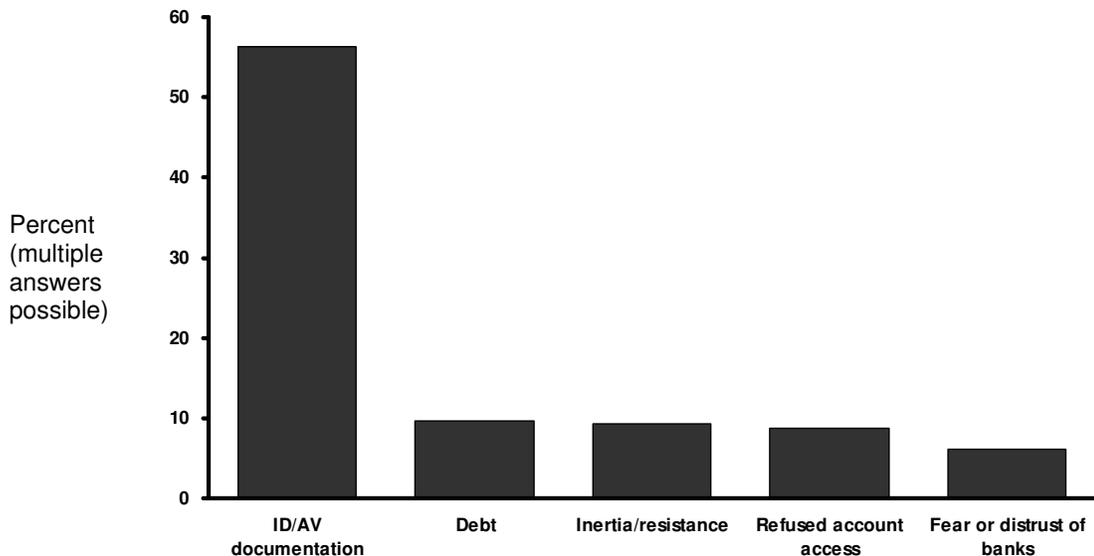
Introduction

The provision of documentation by customers to prove who they are and where they live is well known as a particular barrier to entry for people experiencing financial exclusion. This is largely due to the tension which exists between anti-fraud (and anti-terrorist) policies on the one hand and the difficulty that people on low incomes have in providing more traditional documentation on the other. However, guidelines are set out by the Joint Money Laundering Steering Group which make provision for both interests. The challenge that industry faces is in applying those guidelines appropriately and ensuring that it cascades its policies to frontline staff. At present, individual branches of banks may use their discretion in the way they apply the guidelines. Furthermore individual branch staff are held responsible for the way in which guidelines are implemented and may be held personally liable if something proves to go wrong. For staff personally there is a balance to be found between over scrupulously implementing guidelines on the one hand and customer service on the other.

A large part of SAFE's work in helping people open bank accounts was in preparing individual's identification. This included working with banks individually to find out what kinds of documentation they would accept. All banks have both a short and extended list of documentation which they will accept for account opening purposes. The short list includes primary and 'most trusted' forms of identification (e.g. passport) and the extended list includes less traditional forms of identification, multiple forms of which can be used to build up a case of identification for someone in the absence of more traditional forms of identification. The extended list includes items like a housing association tenancy agreement, national insurance number etc. Over time SAFE Project Workers built up extended lists of acceptable identification by branch.

Data

Fig 15: Stated barrier to not previously opening an account for Direct Payment



Base: 471 cases where barrier was reported by project worker. (Other answers available not above 5.5%)

Over 56% of customers considered the provision of identification and address verification a barrier in transitioning to Direct Payment. Nearly 10% had already been refused access to an account. While 6% of customers registered fear or distrust of banks as a reason why they had not previously opened an account. Interestingly only 1.3% stated their preference for working in cash as a reason for not having taken up an account before. Fear of loss of social interaction was also low (0.8%).

The following tables give average ratings across all bank brands on the utilisation of the short and extended lists of identification. This information is gathered from the surveys completed by project workers after their visits to banks. There were 83 visits in total and 63 of these were with the aim of account opening. The remaining were information gathering and account follow up exercises.

The scale (for all tables) simply rates 0 for the project worker's perception of a bad experience in this area, 1 for an acceptable experience and 2 for a good experience. It is important to note that the ratings are based on the experiences of project workers who knew about the existence of extended lists and were able to prompt staff to use them.

Fig 16: Ratings for those visits where the purpose of the visit was to open an account (as opposed to information gathering or account follow-up), representing 63 visits:

Utilisation of short list	1.5
Utilisation of extended list	1.2
Clarification of Requirements ¹⁴	1.2

On average there was an acceptable level of use of the extended list. Slightly more use, however, was made of the short list.

Fig 17: Ratings for the occasions on which the purpose of account opening was realised and an account was opened successfully, representing 25 visits:

Utilisation of short list	1.7
Utilisation of extended list	1.6
Clarification of Requirements	1.5

In this case increased utilisation of both lists led to accounts being opened. There is also higher incident of staff clarifying the requirements, thus enabling the customer the opportunity to respond positively and provide a different form of identification.

Fig 18: Ratings for the occasions on which no decision on the application was reached, and a decision was still pending, representing 18 visits:

Utilisation of short list	1.6
Utilisation of extended list	1.3
Clarification of Requirements	1

In contrast with the last table, where a decision regarding the account was still pending there was less utilisation of the extended list. There was still reasonable use of the short list. Staff were also less likely to clarify their requirements with the customer.

Fig 19: Ratings for the occasions on which the application was declined, representing 15 visits:

Utilisation of short list	0.9
Utilisation of extended list	0.4
Clarification of Requirements	0.9

¹⁴ Clarification of requirements measures how well the project worker perceived that the member of staff clarified the exact nature of the documentation and the criteria that were required in order to conform to bank requirements. This could include such issues as the format of the document, the date of the document and the way in which this needed to be presented to the bank.

In this instance it is clear to see that where an application was declined there was less overall usage of the short list, and an unacceptable utilisation of the extended list. Staff also did not seek to clarify their requirements as much as in other instances.

Fig 20: Ratings comparing the utilisation of the lists by staff, compared with the outcome of the account application being opened (25 visits) or declined (15 visits).

	Account opened	Account declined
Utilisation of short list	1.7	0.9
Utilisation of extended list	1.6	0.4
Clarification of Requirements	1.5	0.9

This clearly indicates the impact of staff behaviour on the individual application, showing that in each category there is a marked correlation between better performance and account opening.

Key findings and wider interpretation of data

- Where there was greater utilisation of the extended list account opening was more likely

From the surveys it is clear to see that there is some usage of the extended lists in helping people open bank accounts. However, identification and address verification requirements are still a significant barrier. Based on the surveys only 40% of applicants were able to open their account first time round. It is important to note that applicants would have received help in preparing their identification in advance of the visits and would not have attended 'empty-handed'. Just under a quarter were refused outright and 29% would need to re-visit the bank in order for the account to be finally opened or denied.

The extended list allows for a wide variety of documentation to vouch for an individuals identification or address. However, forms of documentation, like a letter from somebody recognised in the local community as being in a position of responsibility is rarely used. Branches need to become more aware of the local communities of which they are part. In doing so, they should make themselves known to local social landlords, employers, education and health providers thus enabling people in positions of responsibility to reliably and safely vouch for applicants.

Successfully implementing money laundering guidelines for the benefit of the individual as well as the protection of society is challenging. Added to this there are questions around the profitability of low income customers and the incentive that branch staff are given to ensure these customers receive the best service possible. SAFE has anecdotal evidence which suggests that the guidelines are, on occasion, used as a reason for rejecting and thus 'filtering out' or excluding certain customer groups.

Practical Barrier

A SAFE Project Worker accompanied a customer to a branch to open a basic bank account. The client had a current residence permit and local authority letter along with his benefits entitlement letter.

The process was to speak with the receptionist before being referred, if necessary, to other staff. The receptionist only seemed interested in looking at a passport or driving licence – she was quite adamant that the client's identification was not acceptable, even though experience and the bank's published literature show that this is not the case. She was also not interested in looking at the internal intranet provided for this very purpose. The project worker requested to speak with the manager who was apparently 'unavailable'. The receptionist claimed that the same conclusion would be reached anyway, implying that speaking to the manager would be a waste of time.

Ultimately, they went to another bank as they were unable to get past this barrier.

Accounts Opened

Recommendations

Applications for basic bank accounts should always allow at least the option for identification verification at branch level but preferably full account opening at branch level.

The British Bankers' Association Financial Inclusion Advisory Panel should undertake to produce and publish guidelines for branch staff on how people experiencing financial exclusion can best be served in relation to account opening.

Introduction

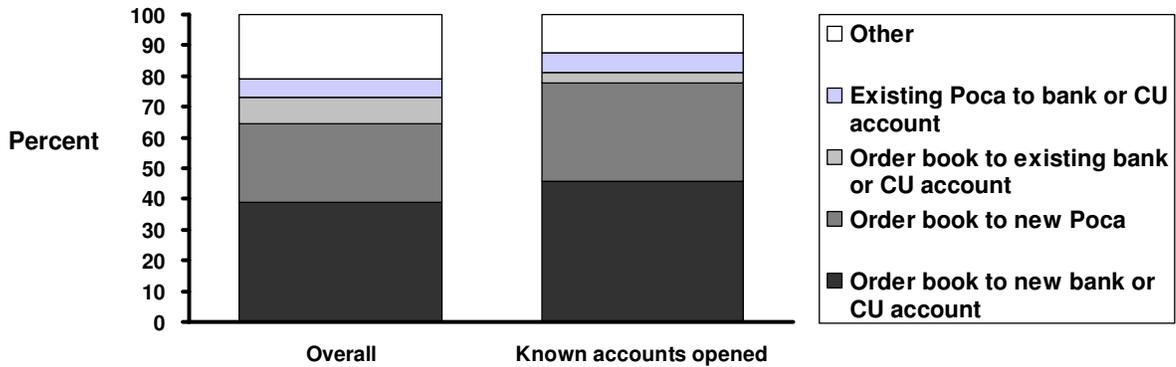
Holding a bank account of any kind is a first step towards financial inclusion. Whilst account holding does not mean complete financial inclusion and financial capability, it can act as an indicator. Basic bank account holding provides an opportunity for further financial inclusion as customers begin to use their accounts and become more familiar with financial institutions. Basic bank account holders also pose a low risk opportunity to banks who can increase their customer base and over time target reliable customers with other products.

This section reflects data that SAFE has available on the number and types of accounts opened through the course of its work with particularly hard-to-reach groups of people. As such, it provides information about what kind of first step towards financial inclusion has been achieved by the customer and the role different financial institutions have played in facilitating that.

Data

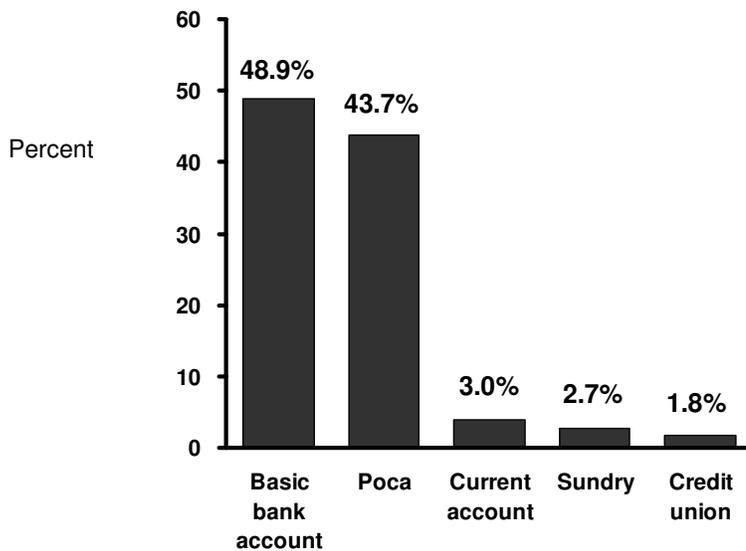
From 2437 original informed choice discussions with customers 45% cited a preference for opening a new bank or credit union account, whilst 26% a Post Office card account. The following tables show information about clients' original preferences for Direct Payment and the types of accounts that were opened.

Fig 21: Stated preference for Direct Payment shown by overall figures and by 1035 cases where SAFE knows an account was opened for Direct Payment



Base: 2437 informed choice discussions, 1035 cases where account for Direct Payment known

Fig 22: Accounts opened for Direct Payment



Base: 1035 cases where type of account opened for Direct Payment is known.

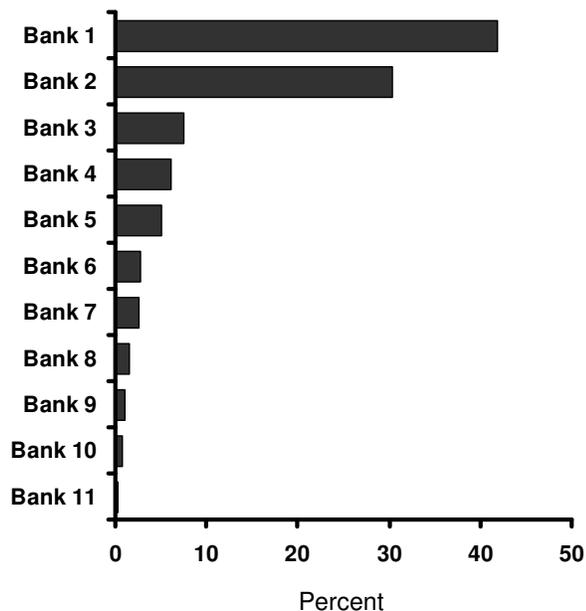
These graphs show that in most cases, with SAFE’s help, people were able to fulfil their preferences. However, further analysis of the data shows that in 8.3% of 963 cases where people said they wanted to open a new bank or credit union account, they were not able to do so, even with additional support from SAFE.

The fact that basic bank accounts were opened far more consistently than any other form of bank account reflects the type of individuals that SAFE was

working with, and the fact that credit histories, the current situation or self-perception would preclude them applying successfully for a current account. It should not be supposed that all those who had opened a basic bank account had been unsuccessful in applying for a current account.

Whilst full data on the spread of branches that the bank accounts were opened with is not available, an idea of the numbers can be derived from the range of branches that were visited during the course of the 83 assessed visits. These covered 53 different branches, and the 25 accounts opened were all with different branches.

Fig 23: Accounts opened by brand where known



Base: 389 accounts where the specific brand was known

Where the brand is known

- Just under 13% of accounts were opened via postal applications
- Less than 3% of accounts were opened where more than 2 documents were required for identification and address verification

Key findings and wider interpretation of data

- Questions of marketing, product features and branch location did inform individual's choices in the first instance, but for many opening an account of any kind was preferable to not having their first choice account if this was not made available to them.
- Some brands facilitated access to accounts to significantly more people than others
- Among hard to reach groups procedures like postal applications can act as a significant barrier to account opening

Those brands with whom more accounts were opened appear to have better processes for account opening and dealing with non-traditional forms of identification and address verification. Ultimately this was of more importance in facilitating access than the product itself. However, the features of a product have an impact on account usage and it will be important to note, over time, whether those accounts which offer the least features or heavily penalise misuse continue to be managed well or used at all.

The variation in accounts opened by brand may be explained by the fact that SAFE was able to broker effective local partnerships with some brands over others. It is important to note that SAFE does not receive funding and does not have any particular relationship with the brands where more accounts were opened at a regional or national level. Partnerships at a local level would have been dependent upon the scoping exercises¹⁵ of SAFE Project Workers and the receptiveness of branch staff. The variation in accounts opened would still however suggest that patterns were discernable and that barriers to entry operated at an institutional level and were not simply the product of individual staff.

Where the only option for account opening is by postal application, this acts as a severe deterrent for hard-to-reach customer groups. As well as the initial difficulty in providing two or three suitable items to prove their identity, there are also associated issues of cost and security. For instance, for some the only valid form of identity they may have is a girocheque. They would simply not be able to send this off in the post and wait for it to be returned an unlimited number of days later. Postal applications also have an impact on those who have higher need of support such as language or literacy issues and lack of confidence with forms, which staff in branches are able to assist with face to face. Postal applications rely on the proactivity of branch staff to offer support in this respect or on the confidence of the customer to ask for it.

Low income groups of people are more likely to have difficulties in providing traditional identification. SAFE's data shows that where additional documentation is sought (either through postal or branch applications) people are less likely to be able to open an account.

¹⁵ Project workers worked in different locations and undertook exercises to assess which banks were located in those areas, visited them, made staff aware of SAFE's project and what they would be doing. They also collected information about accounts available and identification necessary for opening accounts.

Possible next steps and conclusion

Possible Next Steps

This snapshot arises as a by-product of service delivery, but it is clear that a more complete picture is required with more rigorous and coherent research. In order to measure the achievement of financial inclusion from an institutional perspective, it is necessary to collect consistent quantitative and qualitative information.

To understand the real impact of interventions, it is important to know how much has changed so that efforts can be measured for success. In particular:

- Has better access been facilitated among hard-to-reach groups of people?
- Have barriers been removed or overcome through provision of support or increased financial capability?
- Has people's financial capability (knowledge, skills and confidence) increased as a result of account holding and usage?

SAFE has already engaged in dialogue with several high street banks to discuss specific findings, and to offer relevant recommendations. Other organisations involved in helping people open bank accounts and/or transition to Direct Payment like *change* and Impact Housing are also sharing their findings. This conjunction of community and commercial organisations provides a basis for genuine improvement in this area, as well as a test-bed for any future widening of access to financial services. Further involvement of other stakeholders, including Government, or community and research organisations can only benefit this process.

Future research could focus on the use of accounts opened and how this impacts on financial capability. This would require measurement over time. Investment here could yield new information on:

- How individuals starting off with basic bank accounts develop into consumers of wider financial products, and
- How this relates to their developing wider financial capability.

Research into basic bank account usage could provide significant insight into both the commercial viability and success of the product in promoting financial inclusion. It would also allow banks to consider where accounts can be upgraded or other products offered (like savings accounts).

Finally, work could also be undertaken among POca holders to help ensure that the POca is truly a 'first step towards financial inclusion'. The DTI state that the intention of the account is to act as a stepping stone to financial inclusion¹⁶ yet little work has been done to see how migration from a POca to a basic bank account may work. Research could inform which practical steps could be taken to ensure people transition as smoothly as possible. For instance, ensuring wider acceptance of statements from the POca as proof of address or allowing POca account management to inform credit scores could promote wider financial inclusion.

¹⁶ *Universal Banking Services at Post Office*, website: www.dti.gov.uk/postalservices/universal_bank.htm

Ultimately, universal access to basic bank accounts is not the final goal. As discussed, these products are limited in numerous ways. However, there is a pressing need for access to them to be widened, not least because of the ongoing pressure from Government on both individuals and institutions.

Without increased access, there is little hope of addressing wider issues such as access to affordable credit, increasing financial capability and the advice gap.

Conclusion

The introduction of Direct Payment has brought about a considerable change in the financial services industry regarding the way in which they serve people on low incomes. Banks and building societies have risen to the challenge and progress has been made to reduce the number of people without bank accounts. Credit should be given for this.

The Government and financial services industry's shared goal of halving the number of unbanked is a laudable one which SAFE supports. Yet there remains work to be done if very vulnerable groups of people are to become financially included.

This report has highlighted those things which act as palpable barriers to the very individuals for whom basic bank accounts were originally intended. These include:

- Uninformative literature
- Limited or penalising product features
- Inflexible implementation of identification and address verification guidelines
- Restrictive application procedures
- Less than acceptable customer service

The degree to which banks are able to overcome these barriers varies and it is clear that some perform very well in regard to some of these aspects whilst others do not.

What has become most clear over the course of this project is that, whilst the product features are very important, accessing an account in the first place is of more importance to SAFE's clients in the short term. Good products need to be accessed easily.

Conversely, where procedures for accessing the product are good, they need to be married up with an excellent product. Striking the balance between these two seems to be the most significant challenge the financial services industry faces in this area of work.

It should not be supposed that SAFE expects all of the issues raised to be addressed by the financial services industry alone. This report focuses on the role financial institutions play but, equally, other reports could be written on the role Government and others should be playing. It is manifestly a matter that requires a joined-up approach that includes banks, Government and

community organisations working together to improve the situation for and with individuals. Banks and building societies have a pivotal role to play in achieving financial inclusion. That said, the onus is on us all to ensure that people experiencing financial exclusion can overcome the barriers to access and begin to use appropriate products in a way which fulfils their needs. Ultimately, this is about starting people on the path towards greater financial inclusion.

SAFE has been pleased to work with banks to facilitate access to banking for people on very low incomes. It has also been grateful for the opportunity to share its findings with the British Bankers' Association and individual banks. Whilst the issues for different brands vary accordingly, the general receptiveness of the banks has ensured that SAFE can use its findings in as constructive a way as possible. It is hoped that this full report will be taken in the spirit in which it is intended; that of sharing the aim to reduce the number of unbanked people and of highlighting where hindrances to this goal exist. SAFE hopes this report informs the debate about access to banking and initiates change for the better.

Appendix A

INSTRUCTIONS:

Please complete this form after you have visited a bank branch and not in front of bank staff.

GENERAL INFORMATION

Bank Location			
Bank Brand (tick one)			
<input type="checkbox"/>	Abbey National	<input type="checkbox"/>	Halifax
<input type="checkbox"/>	Alliance & Leicester	<input type="checkbox"/>	HSBC
<input type="checkbox"/>	Barclays	<input type="checkbox"/>	Lloyds TSB
<input type="checkbox"/>	Co-operative Bank	<input type="checkbox"/>	Nationwide
<input type="checkbox"/>	Credit Union:	<input type="checkbox"/>	Natwest
<input type="checkbox"/>		<input type="checkbox"/>	Royal Bank of Scotland
<input type="checkbox"/>	First Trust Bank	<input type="checkbox"/>	Other:

Name of SAFE Worker	
Date of Visit	
Time of Visit	

Reason for Visit (tick one)	
<input type="checkbox"/>	Introductory Research
<input type="checkbox"/>	Information Gathering
<input type="checkbox"/>	Account Opening Please note any specific client needs:
<input type="checkbox"/>	Account Follow-up

Contact Name at Bank	
Position of Contact	
Location of Bank Staff (tick one)	
<input type="checkbox"/>	Information & Enquiries or Reception Desk
<input type="checkbox"/>	Behind counter
<input type="checkbox"/>	On floor
<input type="checkbox"/>	In cubicle
<input type="checkbox"/>	Back office

Outcome (tick one)	<input type="checkbox"/> Account Opened	<input type="checkbox"/> Denied Account	<input type="checkbox"/> Decision Pending
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Knowledge about benefits and banking by branch staff

Select the most appropriate rating for your visit. A rating of 0=poor, 1=acceptable, and 2=excellent.

Overall knowledge of bank staff	0	1	2
Awareness of extended ID/AV List	0	1	2
Communication of range of bank account options	0	1	2
Communication of bank account features	0	1	2
Availability of application materials for basic bank account	0	1	2
Utilization of head office ID/AV list	0	1	2
Availability of extended ID/AV list	0	1	2
Credit score all clients	0	1	2
Offer basic bank account	0	1	2
Adapt products to client needs (NOTE: offer chip & signature card, passbooks etc.)	0	1	2

Customer service

Select the most appropriate rating for your visit. A rating of 0=poor, 1=average, and 2=above average.

Willingness to help	0	1	2
Engagement with client such as eye contact, etc.	0	1	2
Clear explanation of account options	0	1	2
Clear instructions as to account opening process	0	1	2
Clear explanation of reasoning behind decisions	0	1	2
Clarification of ID/AV requirements	0	1	2
Check for client understanding during the application process	0	1	2

Processing of Application

Check the appropriate indicator of what occurred during your visit.

In Branch	
By mail	
On Computer	
On Paper	
Time to wait to speak with bank staff (anyone)	
Time to wait to speak with bank staff who is helping you	
Length of conversation about account (in minutes)	
Length of queues when you enter (in # of people)	