

New Policy Institute

MEANING CHOICES: THE POLICY OPTIONS FOR FINANCIAL EXCLUSION

Executive Briefing

Significant numbers of people in the UK operate on a strictly cash only basis, increasing their costs and reducing their choices.

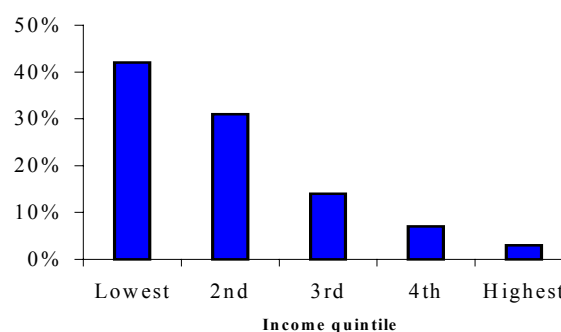
All available UK research concludes that there are many people in the country who do not have a current bank account but who say that they need the services that it offers:

- To pay income into.
- To hold that income until it is needed.
- To cash cheques.
- To pay bills easily and economically.
- To make other purchases.
- To provide access to affordable credit.

Some commentators conclude that this is simply a matter of ‘self-exclusion’. But this assumes that the options currently available in the marketplace actually meet the needs of low income consumers. In practice, some people worry about overdrawing, some worry about losing control over their finances, and some are not fully aware of the advantages of having a bank account. So, ‘need’ is not always translated into actual ‘demand’.

Our report provides some overall direction to the debate, in terms of the strategic solutions to which all the interested parties should be aiming. In that sense, it aims to complement other recent research, such as that undertaken by the Office of Fair Trading and the Personal Finance Research Centre at the University of Bristol.

Benefit Units With A Current Account By Income



Practical action is possible to increase choice, but it will not happen automatically and will require leadership and a clear direction.

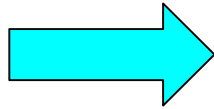
One challenge is to ensure that options exist that meet a clear need, currently unmet, for basic banking services for people currently outside the banking system.

The key is universality. In addition to encouraging take-up of existing offerings, it is widely agreed that simple money transmission accounts, with no overdraft facilities, have an important role to play.

A second challenge is to ensure that options exist for accessible and affordable credit for people for whom the current offerings in the marketplace are not suitable.

Credit Unions, community reinvestment legislation and intermediary ‘gateway institutions’ all have a potential role to play, but seem unlikely to offer a potential solution of sufficient scale in the short term. Rather, direct government action is, in our view, also required.

**Current problems
for low income
consumers**

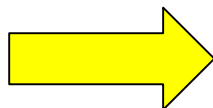


BASIC BANKING SERVICES FOR MONEY TRANSMISSION

Problems Of Choice And Expense

Many low income consumers do not have current bank accounts and conduct all their transactions on a strictly cash only basis. This restricts the choices available to them on a day-to-day basis: they cannot pay bills by using direct debit, cash cheques or buy goods using the telephone or computer.

**A potential way
forward**

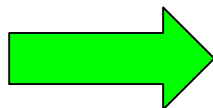


The Finance Industry Working To A Clear Goal Of Universality?

The key issue is whether market processes are such that the problems of financial exclusion will automatically disappear over time.

We suggest that the financial services industry itself should be given the opportunity of achieving the goal of universality, with simple facilities which have no overdraft facilities being an important part of the solution. Only if this 'voluntary' approach does not deliver should the government then legislate.

**Our suggested
agenda for
government
action**



Provide A Target And A 'Threat'

1. Set a clear, timetabled objective for the universal provision of money transmission facilities.
2. Consider the need for some rules for the provision of simple accounts.
3. Set a checkpoint at which rate of progress towards this objective is reviewed.
4. Outline a credible 'threat', that of imposing an universal service obligation, for implementation if adequate progress is not being made.

METHODS FOR DELIVERING BENEFITS

Risks Of Restricted Choice

There is a potential conflict between initiatives to lower the high costs of current manual methods of delivering benefits and the adverse social consequences of any wholesale move to cheaper electronic methods of electronic transfer via banks (in particular, the possible closure of many sub-post offices).

Banks As 'Back Office', Post Offices As 'Front Office'?

In such a scenario, benefits would be paid into accounts operated by banks but with customers being able to access these accounts via post offices.

Such an initiative is potentially in the interests of all parties. But it will necessarily take some time, and maybe some encouragement, to develop.

Manage The Pace Of Change

1. Ensure policy on this subject is adequately coordinated between DSS, DTI and Treasury.
2. Avoid precipitate action to impose compulsory automated credit transfer via banks.
3. Encourage partnerships between the Post Office and the banks.
4. Regulate the end result so that there are no dis-benefits to the consumer (e.g. no charges).
5. Ensure that the necessary automation of post offices is successfully implemented.

ACCESS TO AFFORDABLE CREDIT

Problems Of Choice And Expense

Whereas most of the population use credit cards, overdrafts and other banking facilities for credit, those without such facilities have to rely on money lenders and, where eligible, the Social Fund.

Requires Government Involvement In Delivery?

We do not see this as a subject which is likely to be resolved by the financial services industry. Rather, we suggest that any solution will require direct government action and, as discussed below, it has the means at hand to do something about it at relatively low cost.

Re-position And Expand The Social Fund

1. Re-position the Social Fund to be a source of affordable credit to low income consumers.
2. Extend the possible applicants from those on Income Support to other benefit and tax-credit recipients.
3. Increase the funds available to make loans accordingly.

These reforms would build on recent changes, whereby the Fund has been expanded in size and less discretionary assessment criteria have been introduced focusing on 'who you are' rather than 'what you want to spend the money on'.

A CHECKLIST FOR EVALUATING OTHER PROPOSALS

Basic Banking Services For Money Transmission

- Is the objective clear?
- Does the objective include universal access to electronic methods of money transmission?
- Does the objective include an overall timeframe for its achievement?
- Are there clear means for achieving the objective?
- Will consumer choice be increased as a result?
- Is there a fallback plan?

Benefits Delivery

- Does it address the risks of the closure of many post offices?
- Does it achieve the objective of reduced government costs for benefits delivery?
- Will consumer choice between banks and post offices be maintained?
- Does it avoid the risk of unilateral action by individual government departments?

Access To Affordable Credit

- Does it address the issues of accessible and affordable credit to low income consumers?
- Are there clear means for achieving the objective?
- Will consumer choice be increased as a result?

THE NEW POLICY INSTITUTE

The full report, '*Meaningful Choices: The Policy Options For Financial Exclusion*' by Nick Donovan and Guy Palmer is available from the New Policy Institute, XXX Brune Street, Tel: 020 7721 8421.

Other New Policy Institute publications include:

- Financial Exclusion: Can Mutuality Fill the Gap?
- Quality Assurance or Benchmarking? Presenting Information About Pensions.
- Housing Risks and Opportunities: Reforming Mortgage Finance.
- Fair And Sustainable: Paying for Water.
- Beyond Privatisation: Government Strategies for Influencing Outcomes.
- Monitoring Poverty and Social Exclusion: Labour's Inheritance.
- Second Chances: Exclusion from School and Equality of Opportunity.
- Breakfast Clubs: How Useful?
- Islington: A Real Chance for Partnership Between Council and Voluntary Sector?

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