December 2014

Submission:
Financial Inclusion Commission

Summary of key points

- Tenants in social housing make up about 60% of the financially excluded population.
- Around 14% of social tenants do not have a transactional bank account while 5% have no account of any kind.
- The roll out of Universal Credit is likely to require much more intensive support for benefit recipients in order to avoid greater financial exclusion.
- The National Housing Federation, along with housing association sector, has led on developing flexible products aimed at helping those on low incomes to access financial services.

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Submission to the Financial Inclusion Commission

The National Housing Federation is the voice of affordable housing in England. We believe that everyone should have the home they need at a price they can afford. Our members provide two and a half million homes for more than five million people. And each year they invest in a diverse range of neighbourhood projects that help create strong, vibrant communities.

Introduction

The National Housing Federation ('the Federation') welcomes the opportunity to respond to this call for evidence from the Financial Inclusion Commission. The Federation has worked closely with housing association members to understand the state of financial exclusion among social tenants in England, particularly in the context of welfare reform and the large-scale procedural changes being introduced through the roll-out of Universal Credit. It is thought that tenants in social housing make up about 60% of the financially excluded population.

The Federation has also developed a number of products aimed at tackling financial exclusion among housing association tenants. These include:

- My Home Finance[1] – Our not-for-profit, responsible credit business which offers an alternative to payday lending and high cost credit.
- My Home Energy Switch[2] – A free, impartial energy comparison site which finds tenants the best price for their gas and electricity.
- My Home Contents Insurance[3] – A special insurance scheme provided in conjunction with Thistle Tenant Risks and Allianz Insurance offering affordable insurance to tenants on low incomes.

What impact, positive or negative, does the increasingly digital delivery of financial services (e.g. prepaid cards, online banking) have on financial inclusion?

Universal Credit will see a shift to an online benefits system. In May 2014 the Federation commissioned Ipsos MORI[4] to survey tenants in an attempt to understand their readiness for the digitisation of services. 750 interviews were carried out with 'general needs' tenants of working age currently receiving either full or partial Housing Benefit and affected by the bedroom tax. Of those interviewed, 40% did not have internet access. 51% of those who did have access felt that they would not be confident applying for benefits online. Whilst this survey was specifically concerned with tenants accessing benefits online, the results infer the much wider point that many tenants will find it difficult to use other digitised financial services, such as

[1] For more information on My Home Finance, see: http://myhomefinance.org.uk/
[2] For more information on My Home Energy Switch, see: http://nhf.sbmswitch.co.uk/
[3] For more information on My Home Contents Insurance, see: http://www.thistlemyhome.co.uk/
[4] National Housing Federation (2014), Fears Universal Credit will leave tenants struggling

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online bank accounts, direct debits or payment services. Even those with access to the internet may be unable to use these services unless they receive further support or training.

Given that Universal Credit is digital by default a number of housing associations have invested in running training programmes and digital inclusion initiatives designed to get tenants online and confident at using the internet. However the slow roll-out of Universal Credit has meant they have found it difficult to get tenants to engage with these programmes as many tenants do not yet feel that having digital skills is an imperative when they are not yet directly affected by Universal Credit. Of course digital training will become more and more important as Universal Credit is rolled out further and we approach the DWP's target date for completing national rollout by spring 2016.

How has the financial downturn changed the nature of financial exclusion?

In 2012 the Federation commissioned Policis to produce the report, *Optimising welfare reform outcomes for social tenants*[5]*.* The aim of this work was to understand how tenants manage their finances and therefore how housing associations could best support them in the face of welfare reform. The report, which used evidence from interviews with almost 2,000 social tenants, uncovered some striking examples of financial exclusion. It found that the majority of tenants manage their budgets over short periods of time and often have very little in the way of savings:

> 'the prevalence of weekly cash budgeting is not simply a reflection of the current timing of benefit income flows, as is evidenced by the high proportion of monthly-paid social tenants in work who manage in cash. Fundamentally, weekly cash budgeting reflects the effort to ensure that, on the one hand, spending is closely controlled, by being limited to cash in hand, and, on the other, that the risk of running out of funds is minimised, by limiting the timescale over which budgets are managed.' (P. 2)

It is difficult to say whether such budgeting practices have been exacerbated by the financial downturn but it is clear that they have been developed as a response to dealing with the difficulties of living on a very low income. At core they are designed to avoid a cash flow crisis. Of course, the necessity of budgeting with cash has a knock-on effect on the amount a person is likely to save, which has clear consequences for financial resilience. The report found that 78% of social tenants had no savings, whilst the remaining 12% had only saved an average of £125.

If tenants are to be encouraged to move from cash budgeting to more use of bank and savings accounts then it is clear these products will need to be aimed specifically at the needs of people with low incomes and low levels of saving. For example, people with minimal deposits in their bank account are at a greater risk of penalty charges for missing direct debits and exceeding

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[5] Policis (2012), *Optimising welfare reform outcomes for social tenants: Understanding the financial management issues for different tenant group*

their overdrafts. The Policis report argued that the cost of banking becomes disproportionately high for social tenants as a result of these charges.

What is the impact of welfare reform on financial inclusion and what support should be available to people as a result? Also, what transactional services for households on low or unpredictable incomes need and want?

Housing association tenants have been greatly affected by welfare reform and the interplay between the benefit cap, the bedroom tax, changes to council tax and the wholescale reforms brought about by Universal Credit. In the recent report, *Universal Credit: One Year In*[6], one member of staff at a housing association remarked on the increasing use of food banks and need for food vouchers amongst tenants:

> 'We never used to give vouchers out, it wasn't necessary till this last twelve months, so yeah we're doing that quite regularly now. I think with Universal Credit it's that first five weeks before [tenants] get any money when they've got no money whatsoever, I don't know how people are expected to live. Obviously they're coming in, they can have up to three vouchers, so they probably have been maxing that out in that first five week period.'

Increasing levels of poverty as a result of changes to welfare can lead to a greater degree of financial exclusion and tenants relying on credit to get by or running into financial difficulty. Other characteristics of Universal Credit such as payments of the housing element to tenants, rather than direct payment to the landlord under Housing Benefit, risks getting some tenants into problems with rent arrears. The Ipsos MORI poll mentioned above found that 92% of the tenants surveyed would prefer direct payment to the landlord to be retained.

The Federation supports many of the principles behind the introduction of Universal Credit, including making sure that work pays and simplifying the benefits system. However the scale of the changes introduced by Universal Credit, including the single monthly payment and consequent changes to budgeting patterns, digital by default delivery and changes to conditionality and sanctions will be challenging for some people and there is concern amongst housing associations around how people will manage their rent payments.

Universal Credit also requires the claimant to have a transactional bank account to receive the payment. The intention is to transfer responsibility for making payments such as rent to the benefit recipient. However, the Policis report, mentioned above, found that 'some 14% of social tenants do not have a bank account with the banking functionality to make direct debits, having only a Post Office Card Account (POCA), while 5% have no account of any kind'. POCAs are only

[6] National Housing Federation (2014), *Universal Credit One Year In: The experiences of housing associations*

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opened to receive benefits and with the benefit recipient making cash withdrawals. They are not transactional and therefore do not increase the financial skills of the people who use them, but they are favoured as being low-risk as they do not provide credit or an overdraft.

In 2012 the Federation commissioned Toynbee Hall to look at *Universal Credit and Financial Products*[7] which explores the options for social tenants to receive and manage Universal Credit payments with a transactional account. The main options recommended were Basic Bank Accounts and Budget Accounts:

- With a Basic Bank Account (BBA) tenants can receive benefits and payments and also make payments out. They can also withdraw cash, but importantly the account does not have a significant overdraft facility or penalty fees for missing direct debits. This lowers the risk of getting into debt with the bank.
- Budget Accounts are similar to a BBA but also allow tenants to 'split their account balance into "Jam Jars" for spending, saving and bill payment' so that budget management can be made more automated. However there are relatively few providers currently offering Budget Accounts.

Is there scope to bring people into mainstream credit who are currently excluded, while also ensuring that this does not risk financial difficulty?

It is important to note that a large number of people in social housing are already experiencing financial distress and debt problems. However it is also critical to note that most of these tenants are in debt with mainstream credit providers due to overdrafts and credit cards. The Policis report found that:

> 'More than one in five social tenants (21%), rising to more than a quarter (27%) of social tenants living in family households, have at some point consulted debt advice. Of social tenants consulting debt advice, six in ten (60%) are making minimum payments on credit card debt they cannot pay down while 56% have overdrafts they cannot pay'.

There is a segment of about 2% of social tenants who use high cost pay-day lenders. However research carried out by My Home Finance's Affordable Lending campaign uncovered worrying practices amongst some of these borrowers. In particular a significant proportion (47%) of the borrowers surveyed stated that they did not do any research before taking out a loan and applied straight away. More worryingly, many borrowers are not aware of what constitutes fair credit, with 'nearly one in five people who took out a loan [thinking] it is absolutely normal to pay back at least £780 back on a £300 loan'[8].

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[7] Toynbee Hall (2012), Universal Credit and Financial Products: Developing financial products to help mitigate the impact of welfare reform

[8] Affordable lending campaign launches as research reveals people are jumping into quick credit without realising the true cost (2014)

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Seeking to address these issues the Affordable Lending campaign brings together 22 partner organisations including housing associations, My Home Finance, credit unions, community organisations, the Community Development Finance Association and Toynbee Hall. The aim of the campaign is to raise awareness of the need for affordable lending for all and for access to financial education to be made a priority.

Products to promote financial inclusion

My Home Finance - A social enterprise set up by the National Housing Federation in 2010 with backing from the Government, Royal Bank of Scotland, Wates Giving and many housing associations. They now operate across the country, working closely with housing associations to offer affordable credit and related services to financially excluded individuals.

My Home Contents Insurance – Offers affordable insurance to tenants on low incomes. Instant cover is available over the phone, with affordable premiums, no minimum security requirements for the property, no excess – which means that tenants don't pay the first part of the claim - and a flexible pay as you go option allowing tenants on low incomes to buy insurance as and when they can afford it.

My Home Energy Switch - Provides a comparison and switching service that compares all energy suppliers simply and quickly to find customers the best price for gas and electricity. It is a completely free and impartial service.

Conclusion

The National Housing Federation welcomes the Commission's focus on making financial inclusion a national priority. Whilst the evidence shows that people on low incomes, including social tenants, are disproportionately financially excluded, it is also clear that such people are very skilled at budgeting with the limited money they have. As such, products and services need to acknowledge the reality for people on low incomes. Housing associations and the National Housing Federation have been at the forefront of improving access to bank accounts for social tenants and developing flexible insurance and other products to help bring down the cost of both borrowing and energy services. In the run up to the roll out of Universal Credit they are also providing intensive support to equip their tenants with the digital skills needed to access modern online financial services.

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