EVIDENCE FROM THE SCOTTISH FEDERATION OF HOUSING ASSOCIATIONS

FINANCIAL INCLUSION COMMISSION

CALL FOR EVIDENCE

December 2014

1. Introduction

1.1. As the national representative body for housing associations and co-operatives in Scotland, the SFHA welcomes the opportunity to respond to the Social Security Advisory Committee's consultation on the proposal to take account of surplus earnings from the prior 6-month period when a person reclaims Universal Credit.

1.2. Housing associations and housing co-operatives in Scotland own and manage 46% of the country's affordable rented housing stock. This represents 274,996 homes across Scotland, concentrated in some of the poorest communities in our country. Our members have had first hand experience of advising and supporting tenants who have for one reason or another had to seek assistance from the benefits system and the challenges tenants face in order to survive.

1.3. Housing associations and housing co-operatives are:

- Independent businesses providing and managing high quality affordable accommodation and housing related services;
- Responsible for accessing and managing public and private resources for house building and reliant on rental income to cover operating costs;
- Able to demonstrate added value through care and support, wider role and financial inclusion activities;
- Managing businesses imaginatively and inventively to benefit housing and communities through their not-for-profit ethos;
- Regulated by the independent Scottish Housing Regulator.

1.4. Our sector is extremely diverse, with organisations formed from a variety of different circumstances and in varying shapes and sizes. They range from large ex-local authority stock transfer organisations with tens of thousands of properties to small community controlled organisations owning a couple of hundred homes. Whatever their shape or form, all have seen the effect of recent welfare reforms on a significant number of their tenants.

2. Response

2.1. The SFHA's response to the questions raised in the call for evidence is as follows:

1. What policy change would most support increased financial inclusion for the client group you represent?

- Quite simply steady employment with a living wage. Over the past five years, Scotland has seen the number of those in work and having to claim housing benefit more than double over the past five years[1]. In work benefits are a hidden subsidy for business owners and shareholders.
- Action to counter the poverty premium would also be beneficial. The poorer tend to pay more for basic services like gas and electricity because of their reliance on pre-paid meters, which usually charge the highest rate.

2. What do you see as the role of the regulator, government, and financial services in promoting inclusion?

- The main role of government and the regulator is to see that the savings and deposits of investors are adequately protected; there is no abuse of competition by market leaders and to open up the market to new entrants and competition. In particular the breaking of the 'oligopoly' and removing barriers to new entrants as suggested in the report of the Parliamentary Commission on Banking Standards[2] currently the preserve of the larger

[1] The number of HB recipients in Scotland in work was 30,036 in May 2009 rising to 62,461 in May 2014. Source DWP benefit statistics.
[2] http://www.parliament.uk/documents/banking-commission/Banking-final-report-vol-ii.pdf

banks and building societies, would help increase the range of services on offer. The role of financial services is to be transparent in its operation, to offer a suitable suite of products, plus the opportunity to step up as an individual's financial circumstances approve, and to offer appropriate advice if an individual suffers a setback.

3. *Do you have any practical examples of financial inclusion initiatives that have been successful?*

    - Many housing associations offer financial inclusion support to tenants often in partnership with Credit Unions or other financial services providers. An excellent example is Easthall Park Cooperative that has joined with Grand Central Savings to provide a range of transactional and savings products for its tenants[3].

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

    - The negative aspect of digital delivery is if an individual does not have digital access either through choice or are put off by the cost. There is also a suspicion over the integrity and security of digital technology through scams such as phishing. It is therefore important that an option is retained for those who want to opt out of digital access.

5. *What opportunities are there to use technology to facilitate financial inclusion?*

    - The growth in the use of mobile phones in general and smart phones in particular offer tremendous potential. Many years ago Girobank offered an ideal transactional account in that the account holder not only received frequent statements (every 10 transactions and every time a deposit was made) that enabled them to monitor their money closely, but also they were able to pay key bills very easily as major services like the utilities and local authorities also had Girobank accounts, so the user just had to

[3] http://www.easthallpark.org.uk/rent-main-header/easthall-park-community-bank/

complete the transfer slip and post it to the Girobank in a pre-paid envelope. Mobile banking technology offers a modern day equivalent, with many banks offering a suite of texts that can be sent to an account holder's mobile phone (e.g. low balance alert, deposits received etc.). Services like Pay-M and Barclays Pingit enable account holders with smart phones a very convenient way to pay bills. The growth in the use of smart phones is such that they are likely to reach a saturation point in the near future, so it is a technology that in theory is available to most.

6. *How has the financial downturn changed the nature of financial exclusion?*

- It has affected more, as evidenced by the growth of those in work receiving benefits and the growth in food bank use.

7. *What is the impact of welfare reform on financial inclusion and what support should be available to people as a result?*

- For some, as illustrated by the report of Sheffield Hallam University's Centre for Regional Economic and Social Research (CRESR)[4] to the Holyrood Parliament's Welfare Reform Committee, the result has been severe. While the loss to every working age adult in Scotland was estimated to be £460 per annum, the loss was far greater in wards with higher Scottish Indices of Multiple Deprivation (SIMD) scores and where the financially excluded are more likely to live: for example the loss for each working age adult in Calton Ward, Glasgow, is £880 per annum, compared to a more prosperous ward such as St. Andrews, Fife, where the loss is £140 per annum.

- The best support that could be given is the prompt payment of benefits – one of the main causes of recourse to food banks was benefit delays. The other thing that would help is a rethink around the idea that benefits should be paid monthly, in arrears. Weekly or at least fortnightly payments would enable easier money management by claimants.

[4] http://www.scottish.parliament.uk/S4_Welfare_Reform_Committee/Reports/wrR-14-05w.pdf

- Financial services could help by an appreciation of how tight money is, by having ATMs in certain areas dispense £5 notes rather than £10 or £20 notes. It should also be appreciated that if an account holder has £9 in their account, which may be all that they have to survive on for the next few days, they may not be able to access that money without going into an overdraft and incurring unauthorised overdraft charges that are typically £35.

8. *What transactional services do households on low or unpredictable incomes, or who have experienced a life shock, need and want?*

   - Households need to be able to know easily how much they have in their account and to prevent automatic payments going out when there is no money to pay them. (A mobile phone based bank account as described above would allow this). The rules around direct debits could be reviewed – so that if there are insufficient accounts to cover them the debit would simply be declined, as happens with debit card transactions

9. *What improvements are needed to make basic banking fit for purpose?*

   - Basic banking needs to be open to all, that is to say that every adult has a statutory right to a basic bank account, similar to what happens in the Netherlands. If functions such as direct debits are to be included in the account features, there needs to be a period of grace to allow for delayed credits to arrive, or for the account holder to stop promptly the direct debits if there has been a change of circumstances, possibly through the use of mobile phone technology.

10. *Can technology help deliver better transactional banking services for people on low or unpredictable incomes?*

    - Yes – an example is mobile phone based banking as described above.

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

- There needs to be provision for small loans: as a rule banks and building societies will not offer loans of less than £1,000 seeing arranged overdrafts or credit cards as adequate for providing smaller sums for customers. By offering smaller personal loans of, say, £250, it would be an opportunity for the customer to build up a relationship with the loan provider whilst limiting the risk to a lender.

12. *For people who are unlikely to qualify for mainstream credit, what might affordable alternatives be? Should banks, building societies and others play a role in provision?*

    - The major banks and building societies could support CDFIs like Scotcash to provide affordable credit for those unlikely to qualify for mainstream credit, with a pathway to mainstream credit for borrowers who had proved that they were capable of maintaining repayments.

13. *How does credit scoring contribute to financial exclusion, and are there viable alternatives to traditional credit scoring?*

    - Tenant rent payments have not in the past been taken into account in credit scoring – the Rental Exchange project being run by Experian[5] could demonstrate the value of doing so.

14. *What reforms could be considered to ensure consumers getting into financial difficulty are protected including those who become insolvent?*

    - Support for money advisers such as those employed by housing associations and expansion of these services would help address problems before they get out of hand. Funding of such services is a challenge as the only sure source of income for housing associations is tenants' rent. Services could be supported via a levy on the banking industry, as is already happening in part via support from the Money Advice Service for the Scottish Legal Aid Board's Making Advice Work programme.

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[5] http://www.experian.co.uk/rental-exchange/

15. *What role should the state and the insurance sector play in providing a financial safety net in the event of an unexpected life event? e.g. bereavement, family breakdown, unemployment and illness.*

- No Comment

16. *Is the insurance market functioning appropriately and competitively?*

- No Comment

17. *How can we ensure that people on low incomes, especially private tenants, have access to appropriate and attractive insurance products for their possessions and property?*

- Housing associations have long provided cheap home contents insurance this is something that could be extended to a properly regulated private rented sector.

18. *Will pension reforms enable inclusion, and what further improvements could be made?*

- No comment

19. *Should policy makers enable and encourage people on low incomes to save, particularly in the economic downturn?*

- There should be a general encouragement of saving – even if only for minimal amounts. There should also be a reward in terms of high dividends for small scale savings as an incentive. An example of this is Easthall Park's Super Saver Account, where a saver putting aside £10 per month for a year gets a dividend of 50%. Obviously this is not an economic rate, but it achieves a purpose of encouraging regular saving and it gives those a financial buffer which may have social and economic benefits that justify such an investment.

20. *To what extent can savings act as a preventative measure, helping people to avoid debt?*

21. What incentives to save work best for people on low incomes, and how might the costs of these incentives be met?

- Those on marginal incomes will find it hard to save, so schemes such as Easthall Park's Super Saver may have wider benefits of both helping the avoidance of debt and incentivising saving.
- Another interesting initiative is that operated by Grampian Housing Association and North East Scotland Credit Union (NESCU) where tenants needing to purchase white goods can get a loan from the credit union with loan repayments which include a proportion that goes into a savings account, so that at the end of the payment plan, borrowers not only have paid off the loan but also have a small savings pot.

22. What practical steps could be taken to foster a savings culture in the UK?

- One bank advertised recently a scheme whereby when a customer paid a bill, the cost was rounded up with the change being automatically transferred to a savings account. For example if the debit was £10.50, £11 was taken from the current account - £10.50 to pay the debit and £0.50 going to the savings account. If such a scheme was widely adopted, with perhaps options of rounding up to the nearest £1, £5, or £10, it may help introduce a culture of saving.
- As referred to earlier, Easthall Park's Super Saver is an example of a catalyst to a savings culture.