

**Household Finances Seminar
One Great George Street
September 8, 2009**

Attended

Alison Fernando, Financial Services Authority
Alison Donnelly, Consumer Council for Northern Ireland
Axel Heitmueller, Prime Ministers Strategy Unit
Ayesha Owusu-Barnaby, Independent Consultant
Cameron Robertson, Help the Aged and Age Concern
Cara Brown, Resolution Foundation
Carole King, Provident Financial
Chris Hobson, Transact
Chris Tapp, Credit Action
Christa Masbruch, Turn2us
Gareth Wallace, The Salvation Army
Gary Millner, pfeg
Helen Aynsley, Resolution Foundation
Jane Vass, Age Concern and Help the Aged
John Cray, Department for Work and Pensions
Jon Trigg, A4E
Kat Ashby, Work Foundation
Kathy Wade, Capitalise
Kirsty Robinson, Centrepoint
Kristina Leonnet, Quaker Social Action
Lee Savage, Resolution Foundation
Louisa Darian, Resolution Foundation
Louise Bamfield, Child Poverty Unit
Marie Burton, Consumer Focus
Marie Kemplay, Transact
Matt Harris, HM Treasury
Matthew Little, HM Treasury
Rachel Seal-Jones, ippr
Robert Yuille, Financial Services Authority
Sam Cook, Equality and Human Rights Commission
Sharon Collard, Personal Finance Research Centre
Simon Horner, Shadow Treasury Team
Victoria Burr, HM Treasury
Will Sandbrook, Personal Accounts Delivery Authority
Yasin Ahmed, Financial Inclusion Champions Initiative

Speakers

Adam Clark, Transact
Matthew Whittaker, Resolution Foundation
Sophia Parker, Resolution Foundation (Chair)

Seminar aims

- Examine the challenges that the recession presents to low earners in relation to their household finances
- Discuss the opportunities for how these challenges might be minimised and overcome
- Consider the role that government, private, public and third sector service organisations can and should be playing, and discuss what more can be done
- Explore ways low earners can be supported through the recession and into a period of recovery more generally, including the relationship between household finances and other key issues such as employment, skills and housing

Minutes of Seminar

Introduction

Sophia Parker, Director of Policy and Research at the Resolution Foundation, welcomed everybody to the seminar. She set out the objectives for the morning including how the seminar fits in with the other work the Foundation is doing on household finances as part of their wider 'Low Earners through Recession and Recovery' programme. She then invited Matthew Whittaker to speak on this programme as well as talk a bit more about low earners in general.

Presentation – Matthew Whittaker, Senior Economist, Resolution Foundation ***'Who are low earners?'***

Matthew talked about how low earners are currently squeezed, exposed and overlooked in the current system. There are currently 7.6 million households in the UK considered to be on a low income, comprised of 13.7 million adults and 4.3 million children. Low earners are more at risk than benefit-dependent households of a drop in income due to loss of work and also more likely to have credit commitments. They are less likely than higher earners to have a safety net of savings and insurance. Matthew then talked more about low earners' experiences of spending, credit and debt, costs of living, pensions and the economic downturn.

Presentation – Adam Clark, Co-ordinator, Transact ***'Membership Survey 2009: Change, challenges and opportunities'***

Adam shared the results from Transact's Annual Membership Survey. In particular he highlighted the impact that the recession has had on both clients and organisations and the concerns that are most pressing at this time. Unemployment and making ends meet were some of the key issues reported by organisations although interestingly, some organisations reported that the recession had not had too much of an impact on their clients.

After the presentations Sophia announced that the seminar would move into breakout groups. The purpose of the breakouts was to examine the key areas of household finances and to look at how low earners can best be supported through the recession. The groups were asked to consider what it means to be financially healthy on a low income. They were also asked to think about what support is needed – from government, employers, financial service providers and others – for low earners to survive the recession and to avoid bearing the brunt of the economic downturn. To structure the conversation, the breakout sessions were divided into three parts: Yesterday, Today and Tomorrow.

Breakouts

What's the best way for the group to cope with the consequences of yesterday?

The Challenges

People today have a more complex set of debts than in previous recessions. It's not just mortgages that are of concern, but credit cards, store cards and a variety of other loans. Sub-prime lending has also been a key factor in this recession. Some people have persistent debt problems because they simply don't have sufficient income and many of these debts are associated with unpaid utility bills rather than credit.

There is currently not enough funding for the free advice sector to be able to respond to growing debt and finance issues. There is also a lag time between when government money is given and when the advice actually becomes available, which means people often have to wait to get help. This means that if someone needs to see an advisor quickly, they will potentially have to pay. Not only is this an extra cost to someone on a low income, but fee-charging advisors often have links with other companies and so may show bias in deciding what the priority debts are for clients. Accessing advice services is also an issue because many debt services are funded through the Legal Services Commission, which places an income threshold on entitlement.

People who were dependent on credit before the recession were often able to manage by changing deals. With the tightening of the credit market, this option is no longer available. They therefore having to turn to high cost alternatives which drives up the cost of repayment, compounding existing problems. Doorstep lenders have always been trusted and favoured by their clients as sources of credit despite their bad name; customers like their familiarity and accessibility and feel like high street banks don't want their custom. However, doorstep lenders have been facing problems themselves in getting access to wholesale credit. The decline of Cattles was described as a 'disaster' for many people at the low earning end of the economy.

Within mainstream banks, interest rates on unsecured loans have gone up even though bank of England rates have fallen because banks want to rebuild their balance sheets. Although this is short term, it is compounding the situation for low earners who aren't able to move debt or access credit. Issues around access and repayments to the Social Fund are a concern. Customers used to be able to negotiate repayment rates but cannot anymore and access to the Social Fund is via telephone which can be expensive for individuals.

Problems with employment or loss of employment compound these issues. Some low earners previously relied on overtime or supplementary work but this is no longer available. Those experiencing unemployment as a result of the recession are often unaware of what help is available to them: for example, less than 1 per cent turn to relevant charitable organisations. Everyone is expecting Jobcentre Plus to raise awareness of services, but they are already overstretched and need to be focusing on other more pressing employment issues such as provision of advice staff.

The Opportunities

Debt advice should come with a component of financial capability training so as to prevent problems in the future. Some schemes abroad already make financial education a compulsory part of getting help with debt and this model could perhaps be replicated in the UK.

Going forward, industry needs to rethink how credit scoring is worked out so that people with a stable record but the odd blip now and again can still access mainstream credit. This will require a concerted effort from the banking industry and credit rating agencies to review indicators to ease the burden on low earners. There is also the opportunity to review the legislation surrounding credit rating. Credit rating agencies are hamstrung by the legislation because personal insolvency follows you around and lenders are not able to exercise a judgement call.

On-going financial capability work and particularly with regards to risk is required. Previously people accessed credit to improve their standard of living. There isn't anything inherently wrong with this, except where people borrow too much and end up in financial difficulty. If people understand financial risk a bit better, perhaps this issue can be avoided in the future.

There also needs to be better signposting in place as people often don't know where to go for help. There is a potential role for the Charity Commission in this as they have all the information and knowledge on all the charities that offer benevolent funds and grants etc.

What will help low earners meet the challenges of today?

The Challenges

In general, there is the sense that cultural issues play a big role in 'financial health'. For example, consumers in the EU would not use their credit cards to buy clothes, but only use them for large, one-off payments for big items like a washing machine. The groups were concerned that the general consensus in the UK is that it is 'OK' to be in debt and there is the question of how influential peer group behaviour is in this attitude shift. The example of students was raised – there is the expectation that they will be in debt which potentially legitimises it in the eyes of many, maybe even normalises it. Putting a positive spin on this, this has apparently led to a 'thrifty is the new black' attitude – people aren't embarrassed about buying basics and pride themselves for thriftiness.

Availability and suitability of financial products is key in helping low earners meet their day-to-day living costs. This is especially true when it comes to paying bills. It is widely known that

paying bills via direct debit can be cheaper for consumers – companies prefer this method of payment and so incentivise its use by offering better deals. However, some consumers are reluctant to use direct debits in case they get into debt i.e. by not having enough money in their account when the direct debit comes out and therefore getting charged by their banks. They are also scared of changing their debt plans in case it results in them losing their bank account or overdraft facility. And when it comes to switching to get a better deal, those with existing debts to one supplier are unable to switch to a different supplier which means that existing competition in the market does not benefit them.

When it comes to shopping around for a better deal, it seems that people will change from Asda to Aldi to save money on food but that when it comes to financial products they won't try and down grade, they will just stop using the product altogether. For day-to-day living costs it seems that consumers are willing to trade down but with financial services they instead opt out.

On the industry side, a lot of credit unions have been expanding the range of products they provide but these changes need to be made more mainstream if they are to make a big enough impact. A big issue is the cost effectiveness of loans made through credit unions. In some credit unions the cost of making a loan can be £75-£100 which makes the model difficult to scale up.

Access to the household budget is a key issue and there isn't always equal say and responsibility for money. Finance is often a huge point of stress and can potentially lead to mental health problems, relationship breakdown etc. We need to look beyond the term 'household income' to understand who is earning and controlling the money.

The Opportunities

As regards payment of bills there is a need for more flexibility in the direct debit system to help people take control of their budgets. We therefore need to think about what interventions will allow people to make decisions that won't hurt them in the long-term. Could we introduce a statutory right for a payment holiday for instance? This could relieve pressure in the short-term and then allow the customer to pick the payment up again when they are back in work or when their working hours are extended. This would allow people breathing space to recover and in the meantime the interest could be linked to the base rate so that they're not storing up problems for the future. This could help people smooth over the difficult periods.

The role of government regulation of/intervention in the credit market was raised. For example, credit could be restricted to those over the age of 21. Access to affordable credit could be improved by using government subsidies or life savings accounts could be introduced. This is already being done in the Netherlands. Other ideas raised included the People's Bank and personal capital ratios (similar to banks' asset ratios and something of a return to the era of maximum mortgage-income ratios). Although a role for regulation was identified, it was pointed out that heavy-handed regulation would lead people to turn to more dubious forms of lending.

The new Money Guidance service will be crucial in enabling people to make better financial decisions. The key with any advice/intervention service is making sure that access points relate to people's real lives.

How can low earners plan for tomorrow?

The Challenges

There is a big question about whether it is actually possible for low earners to save in the current economic climate. Some people doubt it, pointing to evidence that people have stopped their pension contributions. Others are more positive and point to research showing that low income households are very good at budgeting and are able to put money aside, even if it's just £1 a week. It is likely that the ability to save will be different for different sub-groups within the low earner group. For example, home owners have generally seen their housing costs go down over the last few months as their mortgages have been reduced. Those in the private rented sector, in contrast, have experienced increased costs and are also less able to create savings by making their homes more fuel efficient.

Time frames are important when it comes to savings initiatives. Getting a return on the Saving Gateway after two years is good because people see it as a manageable amount of time within which they will see the benefits. The Child Trust Fund, on the other hand, is problematic as 18 years is a long time and people don't know what their children will be doing at that point. Similar problems arise with pensions and research has shown that 50 per cent of mothers stop paying pension contributions when they have a baby because other financial pressures become more important.

There's also an issue in getting people to think about their future before it's too late. Insurance is an important safety net that many low earners are lacking. It is often one of the first things to be cut from their portfolio because its benefits are not immediately apparent. Insurance products also often come as a package so it can be difficult for someone to purchase one kind, such as home contents insurance, on its own. These issues also have implications for pensions. In particular, people often don't know how much money they will need to save now in order to have enough in their pension. Studies have also shown that giving people more information about pensions does not change their behaviour whereas the more direct approach of auto-enrolment is expected to make a significant change. In general, there is a need for more longitudinal research into how changes in attitude can be made.

A loss of trust in financial institutions is also an issue. Government and private providers of financial services will need to re-establish trust if people are to regain the confidence to invest in savings and pensions.

The Opportunities

It's important to set up savings initiatives with time frames in mind. Also to target people at key points and continue to make the case for savings even when household finances are squeezed, like with the arrival of a new baby. The amount saved also has implications. The success of the Saving Gateway pilots demonstrates that people are able to find small amounts to save which then creates a savings habit. There is concern that take up of such

schemes may be low down the income scale so such schemes should be well marketed and linked via other channels such as the Child Trust Fund and basic bank accounts.

In relation to take-up of insurance products, one remedy could be to go through social landlords to offer a package of insurance where contents insurance is part of the rent. People would be able to opt out but it would offer a way to educate social housing tenants about the importance of insurance and make it easy for people to participate. We could also think about developing a no-frills life insurance policy when they have children, with contributions from as little as £5 a month. It could be packaged as a way to protect your family and not so much as a financial product.

Where further financial education makes an impact to low earner savings habits, there is potentially a greater role for technology. For example, could people get savings advice via television or a computer? Is there scope for more functionality in bank accounts so that statements are split into spending, savings and investments?

Employers are set to play an increased role in pensions through the roll out of auto-enrolment in 2012 and there is potentially scope to extend their role further. Low earners spend a lot of time at work and employers often act as trusted sources of information. Employers could play a greater role in disseminating information to their employees, i.e. about grants and support available.

It could also be possible to extend the auto-enrolment pensions scheme to cover savings. Under such a scheme, employees would have a portion of their wages deducted and perhaps matched by their employer. A Save As You Earn (SAYE) scheme currently exists where employees can save between £5 and £250 per month. They enter into a savings 'plan' where they agree to save for a certain amount of time, and are eligible to use the money to purchase shares in the company after that time. A similar scheme could be set up for low earners, perhaps with lower amounts saved each month and a more flexible savings plan which allows them greater access to the money saved. It is important to note that many low earners work for SMEs so implementing such schemes would take more work than with larger employers. It was suggested that employers generally need some help to overcome their nervousness about taking on such roles and that evidence that demonstrated the benefits to the company of providing assistance to their employees would be a big help.

Financial capability and economic well-being are now part of PHSE and this will soon be a compulsory module in schools. However, there is a need to make financial capability more appropriate to individual target groups. Prevention from financial hardship should be built from a young age and as there is not much other work of this kind it's important to support it. There is also little preventative financial capability work at the minute so this is another area that could be explored. The Child Trust Fund could be a resource for the next generation as they will be aware that they have one. Young people know all the different mobile phone deals etc. so we should build on this understanding of finances and products.

Plenary Session

After the breakouts, Sophia invited the facilitators to report back on some key points that came out of the discussions. A few of these are listed below:

- There is support out there, but it needs joining up and better communication.
 - Signposting can come from employers, Jobcentre Plus, welfare to work programmes etc.
 - People sometimes don't seek help because of the perceived stigma or because they're not aware that they qualify for assistance.
 - Debt services should be used to help build financial capability for the future.
- There is a balance to be struck between market regulation and individual choice.
- Issues around access to credit are not limited to affordability, but also to appropriateness. Therefore, advice on credit use needs to be tailored and needs to reach people in the right places.
- Future financial health is definitely related to financial capability. We need holistic approach to ensure people view financial products in the round. There are two key ways to build financial resistance – asset building and insurance.
- There is a question over the best approach to take regarding people's attitudes – i.e. compulsion vs incentives.
- Also need to ensure we are not too reactionary and instead learn more fundamental lessons from the credit crunch and the recession. In particular, the tax and benefits model needs joining up.