2018 Big Lottery Fund research report

Understanding the decision making of people who are experiencing financial exclusion

Dormant Accounts – Financial Inclusion Programme

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Adam’s story: Spiralling high-cost credit

Adam left prison around 18 months ago.

He’s currently receiving welfare benefits, and is struggling to make ends meet, and when he was refused a bank loan - due to his low credit score - he applied for a ‘payday’ loan.

“The interest rate was about 1,000% APR or something like that, it was before they clamped down on them. I kept going back and getting more and more from different companies. I got one to pay off another one. I got eight or nine out in the end... I won't make that mistake again”.

He has now paid them off and hopes to be able to save in the future.

Adam received budgeting advice and counselling while in prison, knowledge which he is now using to manage his money. Nowadays, he’s wary of all credit, even mainstream credit.

“I've never had a credit card. Never wanted one. I'm worried I might spend it.”

1. Introduction

In 2018, the Department for Digital, Culture, Media and Sports (DCMS) and the Big Lottery Fund announced that £55 million of new funding was to be awarded to initiatives to tackle problem debt and to improve access to financial products and services for people on lower incomes. The funding comes from bank and building society accounts that have not been used for fifteen years (known as ‘Dormant Accounts’).

This report is part of the evidence-base underpinning the Dormant Accounts work. It was designed to provide up-to-date insight into the experiences and challenges of people on low incomes in accessing appropriate financial products and services.

The research has focused on three groupings of financial products: credit, savings and insurance for people with less than £500 in savings. This is a group of people who may feel they cannot afford to put aside any money at all and therefore tend to show much higher demand for credit products than for savings and insurance.

Whilst providers of alternatives to high cost credit do exist, they are small and not well known. On the savings and insurance side, there are affordable and appropriate products, but the challenges of effectively engaging prospective customers that could benefit from these products are more complex.

The research highlights that most people don’t borrow to finance a lavish lifestyle.

People tend to borrow because they need to buy expensive, essential purchases such as furniture or household appliances, and/or to simply help them top up their income to meet their daily living expenses.

Savings are often perceived as a luxury and putting money away tends to happen on an ad hoc basis at irregular intervals, for example, by putting surplus money in jars. The typical savings pot grows and shrinks as the household goes through income peaks and troughs, but it does not grow significantly over the medium to long term.

Insurance products are perceived to be as complex, due to the need to read the small print and, again, are not aimed at people on a low income.

This is an important and timely report that updates and chimes with the findings of previous financial inclusion research reports. It also highlights the centrality of appropriate financial services in all our lives.

I am pleased to introduce you to it on behalf of the Big Lottery Fund. We hope that the user perspective reflected here is a useful evidence base to support the work of funders, policy makers and practitioners as we all seek to tackle the challenge of improving access to fair and affordable financial products and services for all. I am delighted that the Government has pledged Dormant Accounts funding to tackling financial exclusion and to creating a new, dedicated organisation to solely focus on this work.

Danielle Walker-Palmour

Director
Friends Provident Charitable Foundation

Chair
Advisory Group, Financial Inclusion – Dormant Accounts team

2. Executive Summary

What is financial exclusion?

People who experience financial exclusion will find it hard to access or use mainstream financial products and services, like bank accounts, insurance policies or savings products, and as a consequence may find it hard to manage their personal finances effectively.

Financial exclusion can be experienced in many ways, including finding it a burden to meet monthly financial commitments, missing bill payments regularly[1], or having no access to a bank account, savings or affordable credit. Very often financial exclusion leads to people feeling unhappy, or anxious because of their debt. People talk of being unable to plan and create a future for themselves and their families and the tangible negative effect this has on their family life. Our report bears this out: financial exclusion contributes to or exacerbates other social problems such as anxiety, depression, homelessness, poor health, alcoholism and divorce.

Many financial inclusion research reports have been written from a statistical or quantitative perspective. The intention with our report is to highlight and explain the stories of people who have direct lived experience of the barriers to accessing fair, appropriate and affordable financial products and services. People may have low incomes and in addition belong to vulnerable groups like care leavers, ex-offenders and precarious workers (e.g. employees on zero hour contracts, low earners or those in dangerous or physically demanding jobs).

In the main, our interviewees had little by way of savings (typically less than £500), and/or faced barriers to borrowing from a high street bank or building society. Their stories shine a light on what happened, how they struggled (or are still struggling), and what they wish they could or would have done differently.

Credit - Needs to be decided quickly, from a trusted source and ideally flexible

Many people turn to high-cost credit out of necessity - they need to borrow to help with essential expenses. Usually they've been turned down for mainstream credit due to a low credit score.

They're usually aware of the high interest rates they'll be charged but feel backed in to a corner and need the money quickly. The speed with which the lender makes the decision is key – often people need the money urgently. This means that shopping around for a better deal isn't always feasible.

It can be difficult to stop using high-cost credit – the high cost of repayments can prevent people from saving. This means they have to resort to high-cost credit each time they have an expense they can't cover and this may cause a spiral into problem debt. Awareness of responsible lenders, such as credit unions and other responsible lenders (e.g. Community Development Finance Institutions (CDFIs)) is low.

FACTS ABOUT CREDIT:

- 3.1 million (6%) of all UK adults used high cost credit (where the APR is equal to or above 100%) in the previous 12 months. This includes payday loans, home collected loans, hire purchase and other similar products.
- Use of high cost loans is highest among 25-34 (9%) and 35-44 (9%) year olds in the population.
- Younger single parents who are 14% of all UK adults are three times more likely to be using high-cost credit than the UK average, and in particular single parents aged 18-34.

The Financial Conduct Authority, Financial Lives Survey, 2017

Savings – Needs to be easy to do, and not too easy to stop

Many people think it's important to save. But most say they find it hard, or impossible, to save regularly. Some find it hard to stay motivated without a tangible goal in mind.

Despite this, many people budget carefully and make small, ad hoc savings – usually cash in jars at home. They dip into these as and when they need to. It's important for people to have easy access to money that helps them to get by, but this does mean their savings rarely build up.

Having positive role models and being taught the importance of saving as children encourages people to see the value in saving.

FACTS ABOUT SAVINGS:

- 6.5 million (13%) of UK adults have no cash savings
- A quarter of UK adults (24%) have less than £1,000 as a savings buffer
- A fifth of UK adults (19%) hold between £1,000 and £5,000.
- Younger adults are most likely to have few or no savings, with 57% of 18-24 year olds holding less than £1,000, out of which one fifth (20%) have no savings whatsoever.

The Financial Conduct Authority, Financial Lives Survey, 2017

Insurance – Needs to be understandable, appropriate and from a trusted source

We found fairly low awareness of home contents insurance – particularly among younger people. Many people don't know what it is or what it covers, and they think it's more expensive than it is.

Many people don't trust insurance companies to pay out if they make a claim.

Some think insurance is hard to understand and daunting. They're put off by complex terminology and lengthy terms and conditions.

Although most councils offer their tenants 'add on' contents insurance (added to their rent) for a low weekly cost, we found low awareness of these schemes.

Certain 'touch points' – such as starting a family – trigger people to consider getting contents and life insurance. Considering the impact on others is one of the key things people think about when deciding whether or not to buy insurance.

FACTS ABOUT INSURANCE:

- While 25 - 34 year olds (48%) are most likely to rent their homes, only 1 in 5 (19%) of renters have home contents insurance, in comparison to all UK renters (22%)
- Some of them are paying more for individual insurance contracts to cover phones, white goods, furniture, perhaps through rent-to-own contracts, rather than covering all of their contents for less, in one insurance policy

The Financial Conduct Authority, Financial Lives Survey, 2017

Next steps

In the summer of 2018, the Government announced in its Civil Society strategy that it will fund the establishment of a new Financial Inclusion organisation responsible for deploying £55 million of funding from dormant accounts.

The new organisation will primarily address the problem of access to affordable credit and alternatives to credit. This funding will help the affordable credit sector to grow and support alternatives, through both investments and grants that support existing and new organisations. The new organisation will aim to bring in co-funding from a range of investors, including the private sector. It will also build partnerships with key organisations, including with housing associations, as potential partners who deal with individuals at risk of financial exclusion.

3. Methodology

We used qualitative research to explore the views of a wide range of people who are financially excluded[2], or at risk of financial exclusion. To do this we conducted a programme of in-depth interviews and focus group discussions.

Participants were asked about their experiences and attitudes towards borrowing money, insurance products and making savings, and any challenges they'd faced in doing this. We encouraged participants to also give suggestions for possible solutions.

We conducted 18 telephone interviews and five focus group discussions during March and April 2018. In total, we engaged with 62 end users.

It should be noted that this qualitative research is intended to be illustrative rather than statistically representative - it is not, and cannot attempt to be, representative of any given population. With that in mind, we carefully recruited participants to ensure we achieved a good cross-section of people who are financially excluded or at risk of financial exclusion.

Recruitment and sampling

We contacted each of the following grassroots support organisations and charities, and invited them to reach out to the people they support, to invite them to take part in a focus group or in-depth interview:

Money and Mental Health Institute[3];

You Make It[4];

Forward Trust[5];

Big Lottery Fund 'Big Local' areas[6]; and

MyBnk[7].

In addition, Big Lottery Fund commissioned Indiefield Recruitment to recruit an additional 10 participants. These participants were recruited to help ensure we engaged with a good cross-section of people across a range of life stages, English regions, housing tenures, ethnicities and occupations. For a full demographic breakdown, please see the Appendix.

The focus group discussions consisted of:

- Two groups in London among unemployed and underemployed women from minority ethnic groups;
- One group in London with young men who had left care in the past few years;
- One group in Liverpool with young parents (including some lone parents); and
- One group in Essex with a mix of people in work on low incomes or receiving means-tested benefits.

Acknowledgements

We will like to thank all the organisations and participants who participated in this research. It would not have been possible without your support and contribution.

4. Understanding why people turn to high-cost credit

People turn to high-cost credit out of necessity - they need to borrow to help with essential expenses. Usually they've been turned down for mainstream credit due to a low credit score.

They're usually aware of the high interest rates they'll be charged but feel backed into a corner and need the money quickly. The speed with which the lender makes the decision is key - often people need the money urgently. This means that shopping around for a better deal isn't always feasible.

It can be difficult to stop using high-cost credit – the high cost of repayments can prevent people from saving. This means they have to resort to high-cost credit each time they have an expense they can't cover and this may cause a spiral into problem debt.

Awareness of alternatives to high cost credit such as credit unions and other responsible lenders (e.g. Community Development Finance Institutions (CDFIs)) is low.

In 2017 an estimated 1.4 million people used high cost credit[8] to pay for everyday household costs[9]. This chapter explores the barriers to mainstream borrowing that people face, and the reasons why so many turn to high-cost credit.

User journey Maps – Credit

The following 'user-journey map' sets out a fairly typical journey that someone on a low or uncertain income may take when needing to borrow money. The map does not attempt to represent the journey of everyone who turns to high-cost credit. What it does do is highlight some of the typical challenges that people in this situation may face at times when they need to borrow.

Credit

Needs to be decided quickly, from a trusted source and ideally flexible.

Joe

Low credit score?

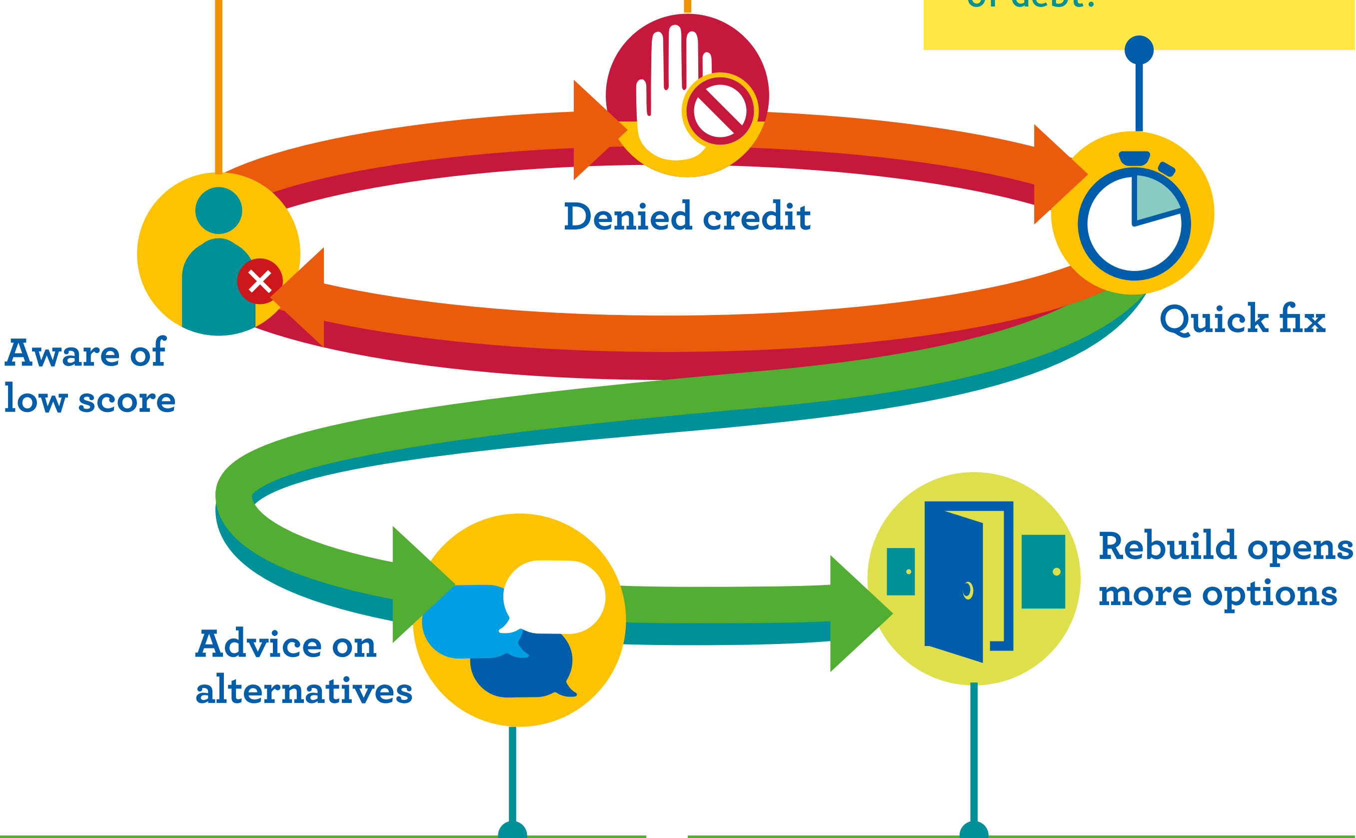
"I need to know that I am able to check my credit score frequently without being penalised, **so that I can improve.**"

Staying in the black

"I need to access responsible borrowing quickly, **so that I can pay my bills on time.**"

A better quick fix

"I need flexible repayment terms, **so that I can prevent getting into a downward spiral of debt.**"



Access to credit products

"I continue to need financial tips and advice, **so I can keep to my intentions of improving my credit score.**"

Longer term thinking

"I need to build financial resources through savings or insurance, **so I don't suffer through similar experience again.**"

Joe was able to improve his outlook, but each person's experience will be different. Not everyone will be as fortunate.

4.1 Why do people borrow?

Most people don't borrow to finance a lavish lifestyle. In many cases people on means-tested welfare benefits, and those who are working but have a low or uncertain income, say they just do not have enough to get by on. This means they tend to borrow because they need to:

Buy expensive, essential purchases such as furniture or household appliances (for instance, a washing machine), and/or

Help them manage daily expenditures by topping up their income when needed.

Evidence suggests that if people are able to put aside enough money to build up a 'savings buffer', it would reduce the need to borrow. For instance, the StepChange Debt Charity reveal that 500,000 households would have avoided problem debt if they had £1,000 saved as 'rainy day' savings[10]. But for people on low incomes who are barely managing to get by, saving even small amounts can be very difficult. In some cases it will be impossible to build up enough money to help cushion the blow of financial shocks, which can take years of regular saving.

> "It [a credit card] could help when I have a bad month."
>
> Single parent, 20-35, London

Help with 'getting by' is particularly important to people in precarious work, who have an uncertain income – this includes people in temporary work, on zero-hours contracts or working in the 'gig economy'. For them, access to borrowing can help smooth out the natural peaks and troughs in their incomes, making it easier to cope with essential living expenses. Similarly, parents - who are faced with many extra expenses – tend to need to borrow to help make ends meet. Research by the Financial Conduct Authority found that younger single parents are three times more likely to use high-cost credit than the UK average[11].

4.2 Exploring the barriers to affordable borrowing

In recent years rents have risen faster than wages. This, coupled with the continued growth of precarious work, has coincided with a rise in the number of people accessing short-term, high-cost loans. **People on a fluctuating - and relatively low - income, are less likely to be accepted for mainstream credit.** Self-employed people can face particular difficulties. Research by Citizens Advice found that over a quarter (29%) of self-employed people surveyed said they had been turned down for a credit product which they 'knew or suspected' was because they were self-employed[12].

When they're turned down many feel they have no other option than to apply for high-cost credit. Research by Citizens Advice found that households with volatile incomes are five times more likely to turn to high-cost credit to help fill the gaps in their finances[13].

> "They said to me your credit score is too low, we can't approve it. [Other companies] all said the same thing."
>
> Male, self-employed, London

> "I would like a credit card to build up my credit rating, but I don't know which credit cards I'm eligible for."
>
> BAME woman, London 18-30

Another **key barrier to affordable borrowing is having a low credit score**. Mainstream lenders tend to be unwilling to lend below a certain threshold of credit score as they face a higher risk of customers missing payments[14].

Several factors impact on credit score ratings: lack of credit history, irregular loan repayments as well as having a low and/or fluctuating income. Although people on lower incomes can find it difficult to be accepted for a credit card, some are keen to have one in order to help them build up a good credit score over time.

Others, including those who may have been eligible for a credit card, tend to be very wary of them. They fear overusing it, being unable to pay it off, and falling into debt. When they need to borrow they tend to prefer to do so informally, turning to friends and family where possible, or more formally, by dipping into an overdraft (despite the fact it may cost them more). Some say they would rather apply for a loan for a set amount, as they feel they would have greater control and the perceived risk of sliding into problem debt from this type of borrowing is lower.

> "As soon as you get the money it just goes [...]. If I've got money I know I'm going to spend it."
>
> Female, low income, 20s, Essex

> "No, I don't have one of those [credit cards]. I don't trust myself."
>
> Female, 50s, low income, West Midlands

For some of these people **credit cards present an almost irresistible temptation to spend** – which they want to avoid. For others, this reticence stems from a lack of understanding of credit cards and how they work. Among some younger people, in particular care-leavers, who had lower levels of financial experience and awareness, we found some **confusion between the terms 'credit card' and 'debit card'**; what they are, how they're different and how they're used. For instance the distinction between the terms 'visa' and 'visa debit' was not widely understood.

While some people are 'savvy shoppers' who always pay off their credit balance on time and shop around for the next 0% interest deal, others, especially less experienced consumers, have been **unexpectedly stung by credit card charges** when their 0% introductory interest rate ended. As a result, some are put off using credit cards again.

> "You've got to pay it back [...] I would never do it."
>
> Male, Care Leaver, London

Most mainstream lenders require photo ID, such as a driving licence or passport, along with proof of address before they will accept an application for a bank account or other financial services.

People who may not have this type of documentation include recent migrants to the UK, ex-offenders, people without a fixed residence, or newly separated, divorced or widowed people with no financial products in their name. As they do not have the required documents, they are unlikely to be accepted for mainstream credit. This can leave them with little choice but to turn to high-cost credit.

> "I got rejected once or twice [...] I wouldn't get credit easily [...] until I've spent a good amount of time here in the UK [to build up a credit rating]."
>
> Male, London, recent migrant to UK

Credit unions are much more likely than conventional lenders to go out of their way to accept non-standard IDs, so they can be of real benefit to people excluded from the mainstream system. They often provide borrowing at a more affordable rate to people who have a savings account open with them. However, **awareness of credit unions seems to be relatively low** and just 2% of the population is a member of a credit union[15].

We found that unless there's a credit union on the local high street or it's been recommended by friends or family, people are unlikely to know about them and therefore are losing out on the benefits they can offer.

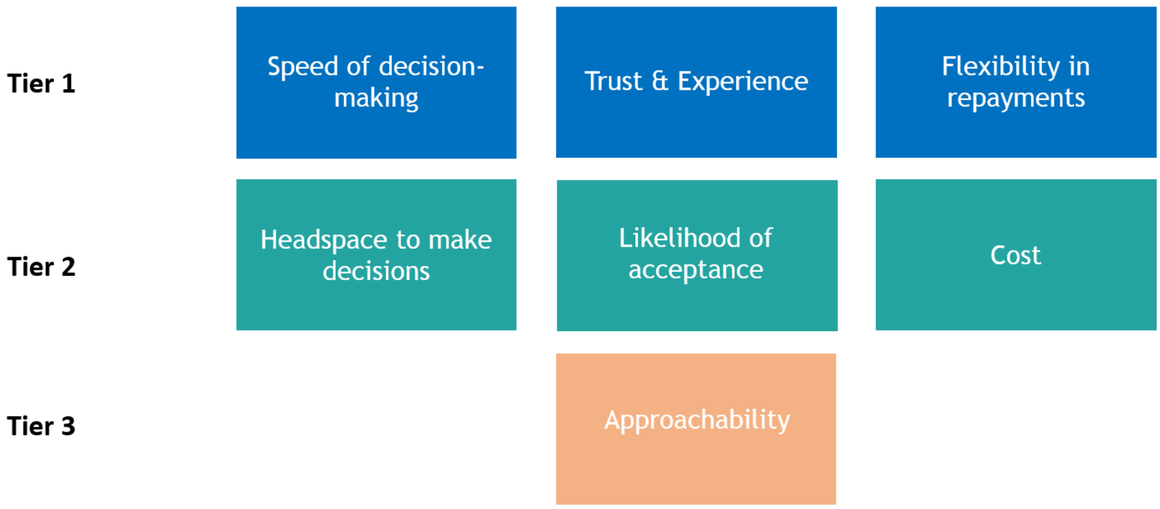
> "Is that, that thing with yellow and black writing that's outside most off-licences?"
>
> [Confusing Western Union Money Transfer with credit unions.]
>
> Male, low income, 18-30, Essex

4.3 What influences where people turn for credit?

Seven key themes influence where people turn to when they need to borrow. The themes shown in tier one of the following graphic - speed of decision-making, trust & experience and flexible repayments - emerged as the most important influencers in decision-making.

When making these decisions people will often be making a trade-off between two or more of these themes, for instance between cost and speed of decision-making. They may think, "I know they're expensive, but I've used them before, so I trust them and know it's quick and easy to apply". Or, "it's expensive, but I don't have the headspace or time to shop around".

> "My parents taught me there's a credit union which can give you loans with low interest."
>
> BAME woman, 18-30, London



Speed of decision-making

When people need to borrow it's really important to be able to access the money quickly, preferably on the same day as applying for it, as often the need is urgent. In a desperate situation, it may not always be possible to wait for the slower response of a mainstream credit provider.

> "They [high-cost credit providers] target areas like this… 'cos they know there's (sic) lots of people here who are struggling and people haven't got much choice".
>
> Female, low income, Essex

Trust and experience

People are reassured by using a 'tried and tested' lender, but the sources they trust may be more subjective than objective. When considering approaching a new lender word of mouth is key – people are more likely to trust a brand recommended to them by friends or family members, or to borrow from family themselves. Equally, they are more likely to go to the high-cost credit providers they recognise from seeing them advertised locally.

Flexibility in repayments

This is important and is welcomed where it's offered. Many people have an unpredictable income. This means they may not be able to, or feel comfortable with, committing to paying a set amount back each month or week. Some people also welcome the opportunity to repay their loan early, by making overpayments when they can afford to. It's also important that repayment schedules are flexible enough to fit with when people are paid, (for instance weekly, fortnightly or monthly). This is one of the key reasons people turn to friends and family for informal borrowing.

Headspace to make decisions

People lead busy, stressful lives and so borrowing needs to be easy to access without taking too much time or effort. Not having this 'emotional bandwidth' means people will sometimes go to the default borrowing option – even if they know it's more expensive. Many describe feeling 'bombarded' by marketing for high-cost credit providers in their local area. This means they can be more likely to turn to well-known high-cost brands, if they don't have the time or energy to research lesser-known providers such as responsible finance lenders (Community Development Finance Institutions or CDFIs) and credit unions.

> "There's a lot of people who struggle day-to-day. They get to the end of the day, the end of the week and they've done well, you know, they batten down the hatches… I know people who have got bailiff issues going on… people are financially vulnerable."
>
> Male, low income, 50s East Midlands

Likelihood of acceptance

People don't like to be turned down, it can be humiliating and a real set-back. This can mean they will choose lenders they think will accept them, irrespective of cost, particularly if the need is urgent.

Price

This is important, but isn't always the deciding factor. People recognise the 'extortionate' interest rates charged by high-cost credit providers and that these lead to real problems repaying the debt, and other knock-on effects. Nevertheless, people will resort to high-cost credit when they have a sense of urgency and feel they have nowhere else to turn.

> "The interest rate was extortionate… don't use them unless you're desperate"
>
> Female, disabled, 50s, Yorkshire

Approachability

A friendly, approachable service is important. Some people are put off approaching banks as they think they may not be treated in a respectful, friendly way. Credit unions are felt to be more approachable by those who use them.

4.4 The knock-on effects of high-cost credit

We know that people tend to borrow to buy or replace an important home appliance, or just to help them to 'get by' – for instance buying family essentials such as new school uniforms. However, these on-going essential expenses, coupled with the high-cost of credit repayments, (particularly where the person has more than one credit product), can be so high it prohibits or reduces any potential saving they might otherwise have made.

Many people are reluctant to use high-cost credit, not only because of the costly repayments but also because they see it is a 'slippery slope'. One of our participants, Jasmine describes how difficult it can be to break the cycle of using high-cost credit.

> "I was paying £340 [in high-cost credit repayments] out of my wages every month."
>
> Male, 50s, London (no fixed address)

Jasmine’s story: Struggling to break the cycle of using high-cost credit

When Jasmine’s washing machine broke down she applied for a credit card to cover the cost of a new one. She was turned down due to having a poor credit score. Not having any savings to pay for this, and needing the money quickly, she applied for a Provident (doorstep) loan. Her initial Provident loan was for £200. But she has since taken out loans of £400 and £550 - and altogether has paid hundreds of pounds in interest. She has had Provident loans on and off now for the past six years and is caught in a cycle of debt - paying some of the loan off, then taking out another loan when another household appliance needs replacing.

In addition she’s been using Brighthouse “on and off” since 2001. In 2014 she bought two sofas from Brighthouse “nothing fancy, just the cheapest ones” and a laptop “… the interest rate was extortionate”. She’s now paying back £80 a fortnight, which makes up approximately a third of her fortnightly income. In addition, she’s still paying off £20 a week in Provident loans. She says desperation leads people to use high-cost credit.

“Why are interest rates so high? Because they know you’re desperate and they can get away with it. It’s not fair on people with low incomes, and there’s a very small amount of places that will accept you. You’re caught between a rock and a hard place”.

Since then, she’s been accepted for a ‘Credit Builder’ credit card which has helped to improve her credit rating by 30 points. She’s been accepted for credit from a mainstream retailer for a new vacuum cleaner which she paid off in four instalments. However, when her TV broke down another mainstream retailed refused her credit. Keen to avoid taking on more high-cost credit, she turned to a friend for help. She’s paid the money back in instalments, with no interest.

Jasmine wants to avoid using high-cost credit in the future, and is starting to build up savings. But due to the high cost of her outstanding Brighthouse and Provident repayments she’s only managing to put aside £5 a fortnight in to a savings account.

“I’m quite proud of myself… but it’ll take me years to build up enough to pay for a new fridge [for instance]”.

Jasmine feels it would help people in her situation if mainstream lenders would “put a bit of faith in you, particularly when you’ve got a history with them. You feel bad when they turn you down, when you’ve been loyal to them… [They could say] ‘We’ll lend you a small amount, and see how you go with that’. That would help tremendously”.

The high cost of loan repayments can also make it difficult to keep them up. **Missing payments**, in turn, **can further damage the credit rating**, making it even less likely to be accepted for future mainstream credit. This can result in people getting drawn into taking out **more high-cost credit**, to help them get by while they repay the original. This can quickly spiral into problem debt.

> "It's hard to keep up [payments]. You always think when you take it out, 'I can manage that', but the kids need shoes or whatever. [It's] wrong, it needs to change."
>
> Male, 50s, low income, London

Most of those we spoke to have seen friends or family in similar situations and are aware that this could easily happen to them. Some of those we spoke to were so concerned about this, it put them off applying for any credit at all.

> "It's things like interest rates that scare me, can I pay it back?"
>
> BAME woman, 18-30, London

The **high cost of fees charged by banks** for dipping into an unarranged overdraft can have a similar impact on people as high-cost credit charges. The **scale of the fees are often a shock** and can contribute to people's sense of anxiety and feeling as though they are in a 'loop of debt'.

> "I've been into the bank to try to get them to help me [when I've been overdrawn], because I never signed up to have an unarranged overdraft, and when I went into the bank to ask them, 'can you help me with this?' they said 'no' and charged me £8 a day."
>
> BAME woman, 18-30, London

This situation is often caused by direct debits leaving an account which has insufficient funds to cover it. Some people aren't always aware of when direct debits are about to leave their account, which can leave them unexpectedly overdrawn and incurring a high fee. Some felt their bank shouldn't enable them to be overdrawn without having an arranged overdraft. They'd welcome proactive communication from the bank to warn them they're about to go overdrawn. This, they say, may give them the opportunity to cancel the direct debit or ensure they have the funds available.

> "Why would you allow the transaction to go through when there's no money in my account?"
>
> BAME woman, 18-30, London

4.5 The practitioner’s viewpoint:

Danyal Sattar, Head of Social Investment at the Joseph Rowntree Foundation, says:

We have set aside £15 million from our endowment to invest on a repayable basis in organisations that directly tackle UK poverty. Organisations that tackle financial exclusion and offer fair and affordable products to those in poverty are a key focus. Since starting out as a social investor three years ago, Joseph Rowntree Foundation has made £12.5 million in commitments, £3.5 million of which have been to tackle financial exclusion. Of our 26 investments, we have nine direct investments in social purpose organisations who offer more affordable and fairer products than their commercial competitors. These are mainly Responsible Finance providers, Community Development Finance Institutions (CDFIs) and credit unions and some direct investments in new start-ups.

From this, and previous investment work, I would like to draw out some key points:

This market is a strange combination of a failed market that is highly competitive at the same time. From a societal perspective, the high charges and cost of credit that people in poverty face are problematic. One of the worst things we can do to people in poverty is to take even more money away from them through high costs. They have little enough as it is. Yet, people in poverty find no shortage of high cost credit providers willing to lend to them, until the point where every piece of money has been extracted from them. People are accessing credit, but the product is not right for them. It is a car without an airbag. It works, but it is not a great product from a consumer perspective.

Responsible Finance providers, CDFIs and credit unions, have actually done quite well to get to where they are. However, they have a lack of capital to underpin commercial finance for their loan books, or to meet the regulatory capital requirements to underpin loans made from deposits. Commercial markets are not used to financing businesses structured as charities or co-operatives for the benefit of the community. Nor are they used to models that seek the lowest possible loan rates and margins for their customers. To their credit, commercial lenders have, and are looking at this space with some interest. They see value in fair business practices. So long term, patient capital that allows providers to grow and scale up is essential. This is the bit no other kind of money can do.

CDFIs and credit unions generally lack the back office speed of high cost credit providers. This reflects the previous generation of IT to some extent. It feels like the cost of good back office systems has come down, and there is a greater flexibility to tailor them to the needs of smaller lenders. Even large organisations with specialist teams struggle to implement IT change. Specialist, knowledgeable investment in diverse back office systems seems still needed.

Finally, it takes time to build institutions. If you look at the balance sheets of large organisations, you find considerable value attached to brand and intellectual property. We need to focus our view on the long time it takes to build brands and business over time that people grow to trust. These Responsible Finance providers, CDFIs and credit unions are rare things in the market today - organisations with an in-built desire to serve the best interest of their customers. That’s something worth investing in.

5. Saving: behaviours and attitudes

Most people think it's important to save. But most say they find it hard, or impossible, to save regularly into a bank account. Some find it hard to stay motivated without a tangible goal in mind.

Despite this, most people budget carefully and make small, ad hoc savings – usually cash in jars at home. They dip into these to help smooth their incomes. It's important for people to have easy access to this as it helps them to get by, but this does mean their savings rarely build up.

Having positive role models and being taught the importance of saving as children encourages people to see the value in saving.

User journey Maps – Savings

The following 'user-journey map' sets out a fairly typical journey of someone attempting to save. The highs and lows one comes across when trying to build up their savings through life's several major and minor life shocks. The map does not attempt to represent the journey of everyone who saves. What it does do is highlight some of the typical challenges that people in this situation may face at times when they attempt to save.

Insurance

Needs to be understandable, appropriate and from a trusted source.

Childhood to adulthood

Awareness intially through parents/guardians.

"I need a reason to **introduce me to the idea of insurance.**"

Starting work and moving out

Products offered by employers or landlords.

"I need to know what contents insurance costs, **to dispel the myth that it's not for me.**"

Having children and reaching middle age

Contents and life insurance are considered.

"I need to avoid taking risks that could be dangerous to me, **so that my family and I are secure.**"

Getting older and retirement

Vulnerability increases especially related to flood/fire.

"I need to protect my finances as I stop work, **so that I am in a secure position if shocks occur.**"

Life shock

Change of situation

"I need to protect myself from shocks, so that I can build a stable financial position."

A life shock may put individuals in a financial position where they can no longer afford insurance and deprioritise it. This can present a big risk in the event of theft, flood or fire.

Experience
First could be products such as laptop, phone or car insurance.

Responsibility
Income protection, pension or contents insurance are acquired.

Security
Home ownership triggers purchase of insurance.

Stopping work
Increasingly reliant on their savings and pension.

5.1 What makes a saver?

Most people believe that saving money is worthwhile. Some tend to be more inclined to do this than others, but we found that most people manage to save a little to help them get by.

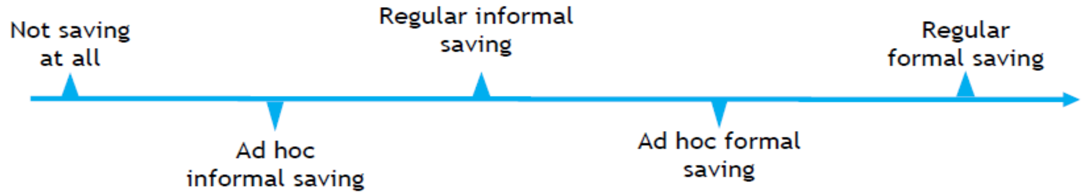
> "How am I going to save money when I have travel expenses and a son to feed?"
>
> BAME woman, London

Nevertheless, saving is difficult for most people on low to modest incomes and isn't usually a priority for those who are really struggling to make ends meet. They may feel they'll never be able to save, and are not even able to try. In these situations people can feel hopeless and frustrated at being unable to do this.

> "I can't do it [...] I go from week to week [...] I feel very frustrated. I've never got a safety net that I can fall back to."
>
> Male, 50s, low income, East Midlands

Our research highlighted four ways in which people save:

- Informal ad-hoc saving – e.g. saving coins into jars at home as and when they're able to.
- Informal regular saving – saving coins into jars more regularly.
- Formal ad-hoc saving – saving into a bank account as and when they're able to.
- Formal regular saving – putting the same amount aside each week or month into a savings account.



Most people are somewhere on this line, but most of those we spoke to fell into the informal, ad hoc saving category. Typically these people don't think of themselves as savers, but the small amounts they are able to put aside plays an important role in helping them to budget and manage small, extra expenses. "[I use it] if the milkman turns up," or to pay for extras such as treats for the children or grandchildren. However, because of the need to dip into these savings, the money rarely builds up to a significant amount and so it won't usually be enough to help them to cope with bigger financial shocks that arise.

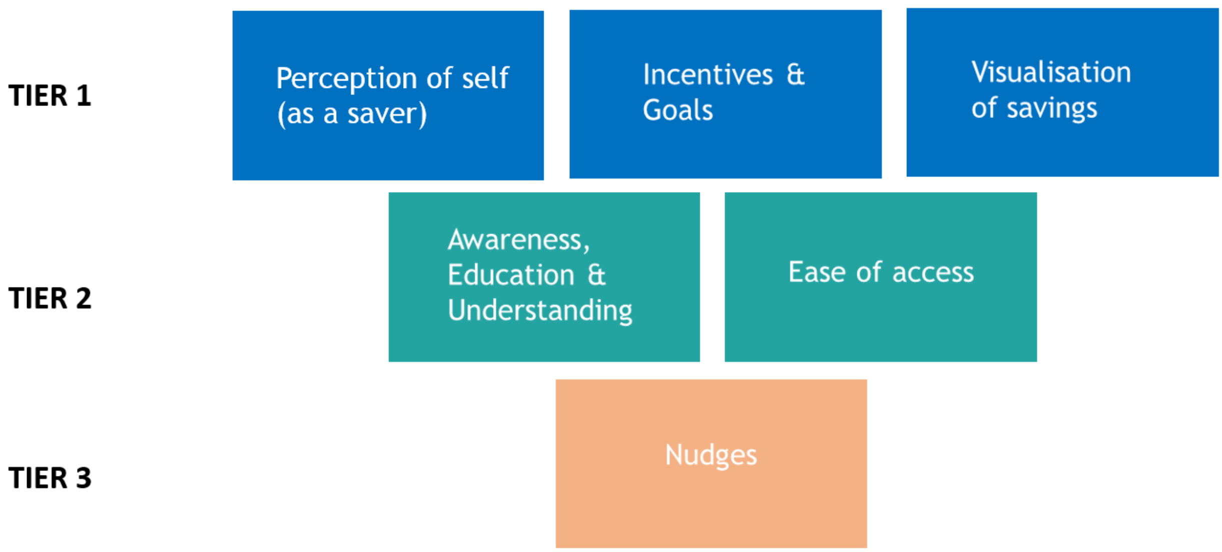
> "My partner saves his change towards the TV licence and it works and all!"
>
> Female, 50s, low income, West Midlands

> "No point in saving if you're struggling."
>
> BAME woman, London

5.2 Exploring the barriers to accumulation of savings

More than 16 million people in the UK have less than £100 in savings, and more than a quarter (26%) of all UK adults have nothing saved at all. In any given year, most of us (75%) will receive an unexpected expense with an average cost of £1,545[16]. At these times, and without adequate savings, people will need to turn to borrowing.

Our research found that the following six themes that are likely to influence whether, how and to what extent people save. The themes shown in tier one of the following graphic – perception of self (as a saver), incentives and goals and visualisations of savings - emerged as the most important influencers in decision-making. The subsequent tiers - awareness, education and understanding and ease of access - shows the other reasons contributing towards a lack of savings for many people.



Perception of self (as a saver)

Although many people don’t consider themselves to be savers, many do have savings accounts. However, many of these have a low balance and most people are not adding to them regularly, if at all.

People whose immediate priority is keeping up with credit repayments and the on-going expenses of daily life can feel that **savings accounts are not for them**, but for people ‘who have disposable incomes’ or the ‘middle or upper class people.’

> “I'd rather have it [savings account] when I am working again. I want to keep it open. [I'll save]”
>
> Female, single parent, 18-25, London

People in precarious, low-paid work are also unlikely to think of themselves as savers, but being able to put some money aside during the ‘good’ weeks is really important for them. **Even saving small amounts can help them smooth their incomes** and protect against times when their income dips due to lack of work.

> “Savings has been ingrained in me […] [I’ve] always tried my best to save.”
>
> BAME woman, 18-30, London

People who do see themselves as savers, and have saved in the past, aspire to save in the future when their circumstances improve.

Those who do save, or try to, attribute it largely to their upbringing and the positive influence of their parents.

Even people not so inclined to save tend to feel it becomes more important as they get older and take on more responsibilities. Starting a family is a key touchpoint when people are motivated to save, usually for their children's future rather than for their own needs.

> "As you get older you think 'I need to have a little bit of cash behind me' because you never know what's going to happen [...] you've always got to have some cash."
>
> Male, low income, 40-65, Essex

Most people appreciate having a 'buffer' to protect them from financial shocks, even when this feels out of reach to them. Many people have **to 'weigh up' what to prioritise** – savings or insurance. We found that more often than not, people choose to buy contents insurance over making regular savings, and instead make small cash savings at home. Taken together these provide some sense of security; insurance will protect them should the worst happen, and the small cash savings help manage extra costs on an on-going basis.

Graham’s story: Choosing between insurance and savings

Graham is in his 50s and in part-time work. He has a low income and has to decide whether to prioritise insurance or savings - he can’t afford both.

Graham has £50 saved in his Credit Union savings account. He’s not currently adding to this at all and although he says he’d love to be able to save, he finds it impossible due to his low income, and is only just manages to cover his day-to-day essential outgoings.

“I can’t do it [savings]. I’m treading water man… saving is not a realistic option for me today or tomorrow… I go from week to week, I get a wage and then I say ‘this is going on gas, electricity, rent, water’”.

Although he is not saving into his Credit Union account, Graham does save small amounts of cash at home, which he uses to help tide him over and to provide occasional treats for his grandchildren. “I’ve got a stash for when my grandchildren come to visit, so you know I think I’ve got £30 in that”.

Despite his low-level saving, Graham is cushioned to some extent from the shock of unexpected expenses. “I’m fortunate in that I’ve got a good family [to lean on if he falls on hard times]”.

Additionally, despite his limited income he prioritises buying insurance products. He currently has contents and life insurance, and both are very important to him. He’s always had contents insurance, and it gives him a sense of security. “My mother said to me it’s a good idea! If you have a flood, I don’t know, a fire… it’s just something my mum would say to me”.

Similarly, life insurance strikes him as the responsible thing to do, as it would lessen the impact of his death on family. “Life insurance is really important to me, I've got a daughter and she’s got two children and a partner but they’re not well off, and she couldn’t give me a good send off without a bit of money”.

On the other hand, he says “[saving is] in my mind, but it’s not on my to-do list”. But Graham aspires to save, and has done so in the past: “I would love to be able to save. I think back to when I was young and I had relatively more money then, I had a post office savings account… I sometimes think it’d be nice to have a few bobs just to be able to say ‘Well, I’m going to go somewhere for a few days’, but I’m just treading water”.

Many of the younger people we spoke to were inclined to save, and were more likely to prioritise saving over buying insurance products, which they feel are not so relevant to them. Many are still living with their parents and do not see insurance as their responsibility.

Care leavers we spoke to were very risk averse and feared falling into debt. They were particularly keen to save to help build up a sense of stability and security. However the need to cover essential expenses since leaving care meant that saving had become more difficult.

> "If it was for me, I couldn't resist [dipping into it]."
>
> Female, lone parent, Liverpool

> "When I was younger it was easier to save, but as I've got older it's more difficult to save"
>
> Care leaver, London

Incentives, goals and visualisation of savings
Most people need an incentive or motivation to save. For some people this can be building up a safety net to fall back on, but others need more tangible goals than 'saving for a rainy day.' Most people save for the short to medium term, for example people who have children may spend much of the year saving for Christmas. Fewer have long-term goals and if they don't have a specific goal in mind it can mean they're less motivated to save.

> "Savings are for goals, and I don't really have a goal to save for […] I've just never done things like that."
>
> Male, experience of mental health issues, rural West Midlands

One or two felt that a 'rewards' system may encourage people to hit their savings goals. A young woman in London suggested, "If you save a grand you get money off something, it makes you want to save more... they [the bank] could do a deal with Thompsons and you get 10% off your flight [if you reach your savings target]."

Awareness, education and understanding
Most of the younger people we interviewed understood why it's important to save. But their awareness and knowledge of savings products and the terminology used is generally limited. **They lack confidence and 'financial literacy'** and rely heavily on family for guidance. They want more information, but assume it will be complicated and hard to understand.

Formative experiences of savings influence people's attitudes and behaviour as adults. Those who were taught the value of saving as a child continue to see the value in it and either save, or aspire to in the future. Those who didn't have positive role models say they wish they'd been taught budgeting skills and stress the importance of encouraging children and young people to save.

> "I don't know what an ISA is, when I went to open an account I just said 'I want to open a savings account' and it was done, so more information needs to be given."
>
> BAME woman, 18-30, London

> "I would like to know more about that [finances] you don't learn it in school [...] if it wasn't for my mum walking me into a bank I wouldn't even have had a bank account."
>
> Female, 18-25, low income, Essex

> "My mum is good with money, so she's always taught me what savings are for."
>
> BAME woman, 18-30, London

Ease of access

We have already seen how difficult it can be for some people to set up bank and savings accounts if they do not have accepted forms of identification (see page 13). Currently there are 1.5 million adults in the UK17 without a bank account.

For those who do have savings accounts, being able to access their money quickly and easily is essential and **helps give them a sense of security.**

Whilst, others choose to prevent themselves from having easy access to their savings as a strategy to help them save more substantial amount for the longer-term.

> "Coming from an ethnic background, we are not taught about money, we've never been told about savings. It's a bad topic."
>
> BAME, woman, 18-30, London

> "If you need it, it's there, it's easier [than saving in a bank]."
>
> BAME woman, 18-30, London

> "A freezing account [would help me to save] - an account where you can't touch the money until you need it to use it."
>
> BAME woman, 18- 30, London

Troy’s story: Self-employed and struggling to save

Troy is self-employed, so his earnings fluctuate. The nature of his job means he can’t work in bad weather, and he’s also had to take time off due to ill health.

“I had a bad case of sciatica for a few months and I couldn't work at all ‘cos it was really painful”.

He has young children and from time to time he needs to borrow, to help him during times when he has little work. But due to past debts he has a low credit score. “I'm rebuilding it [credit score] but it seems to take some time… I do think being self-employed doesn't help”.

This means he’s been unable to borrow from mainstream providers. When he applied for a bank loan, “they said to me your credit score is too low, we can't approve it”. He tried other companies “but they all said the same thing”. As a result, and feeling he had “nowhere else to turn” he borrowed from a high-cost credit provider “the interest is pretty high, I got £100 and they charged me 30 quid... I paid it back within the month”.

“I've [also] used Provident. I borrowed £500 off them a few years ago and the interest was £300 over a year. It was a rip off… but I’ve used it a couple of times when I’ve had nowhere else to turn”.

Troy hasn’t saved in the past, but is trying hard to do so now that he has a family. “It's something I've done more recently, as I've got older I think I've realised you can do it, you know. I try to put some money in it [savings account] every week. It depends how much work I get. It's really for Christmas… I put aside £10, £20… I do dip into it yeah… if I work all week long it's easy to save, if I only get two days’ work it doesn't happen [and I think]… why didn't I save some more last week?”

Due to his low credit score Troy is only eligible for a Basic Bank Account, which means he doesn’t have access to an overdraft facility. He says “it'd be nice to have an overdraft”. This would give him an alternative option to using high-cost credit when he does need to borrow, which in turn would help him to save.

Nudge: what may encourage people to save?

We have seen that many people see **financial education and understanding the importance of saving as key**, and those who haven't had this, say they would welcome it. Whilst many have learnt positive budgeting and or savings habits from their parents or other family members, it can also be effective via other sources. One of our interviewees was taught budgeting skills in prison, which had a lasting positive impact on his financial behaviour.

> "I have £20 a month of my wages which go in to my Halifax book account and then I tend to give my book to someone who won't give it back to me!"
>
> BAME woman, 18-30, London

Some people told us they need **extra help or encouragement to save**. A few use initiatives such as payroll savings – where money goes directly into a savings account from their wages.

> "It goes out of my wages before I even get it."
>
> Female, 50s, low income, West Midlands

Others try to minimise the amount they spend by using debit cards to pay for day-to-day items instead of cash, but say they're sometimes prevented from doing so when small businesses don't accept cards.

Some participants, in particular women from minority ethnic groups, said they would welcome banks being more proactive and encouraging them to save. For instance, they said they would welcome regular text messages as a reminder to transfer money into a savings account.

> "The best way of saving, for me, is to put everything on the card… but a lot of places don't do card for the small things that you want, like chips… when you break into a 20 [pound note] it's gone, isn't it?"
>
> Male, low income, 18-30, Essex

We know from research by Citizens Advice[18] that people on low incomes have to budget carefully. One way people manage this is by withdrawing small amounts of cash as needed, rather than withdrawing less frequent, larger amounts. However where there are no free-to-use cash machines people are charged between £1.20 and £2.50, for each cash withdrawal and these charges quickly add up. This led to a few of our participants saying it impacted on their ability to save, and one had incurred a high overdraft fee as a result.

> "I don't have an overdraft facility... so I have been caught out by the fees. When I went three pounds overdrawn because of ATM charges... I got charged about £70… Having free access to cash saves you money in some cases as much as £9 a week, so you could utilise that money [for saving]."
>
> Female, 50s, low income, West Midlands

5.3 The practitioner’s viewpoint:

Elisabeth Costa, Director of Consumers, Economic Growth and Energy, Behavioural Insights Team, says:

Savings decisions are often more about the system and the ease of saving than they are about the incentives. Whilst tax subsidies for pensions in the UK increase savings by just 1p for every £1 spent, the move to auto-enrolment resulted in 10m new savers in the UK. The Behavioural Insights Team (BIT) have been working with Money Advice Service (MAS) on the Financial Capability Lab Programme to develop and test a series of ideas to increase savings and improve financial decision-making, including:

- **Check-out savings**: encouraging consumers to make regular small savings as part of their supermarket shopping.
- **Savings supporters**: harnessing individual social support networks to help them achieve savings goals
- **Sidecar account**: a liquid savings account that sits alongside a workplace pension pot, with contributions flowing automatically into both pots.

These ideas, and many more set out in the Financial Capability Lab report, are ready to be tested in the field. Harvard University, (National Employment Savings Trust) NEST and Money Advice Service (MAS) are already developing a field trial of the Sidecar Account with partners from the financial services sector. BIT and MAS are seeking a further four to six partners who can help us to test the other Lab ideas at scale.

Working with public and private organisations, who can turn these ideas into products that we can test with consumers, can have a significant positive impact on the financial decision making of millions of consumers.

There is also a commercial case for this collaboration. An unexpected financial shock may tip customers into arrears on a credit product. Credit providers can spend significant amounts trying to contact customers in arrears. A savings buffer to be used in emergencies could significantly reduce the amount of customers entering arrears and so reduce the cost to serve of a whole customer base - whilst also building the financial resilience of individual customers.

This argument for stimulating new, behaviourally informed products and services was picked up in the recent Modernising Consumer Markets Green Paper where it was recognised that ‘too many consumers, and often the most vulnerable, [are] not benefiting from … efforts to promote engagement by facilitating searching and switching’. The paper suggests that more can be done to support digital comparison tools, automated switching services and other innovative new services that are designed with an understanding of how people actually make decisions, rather than how we might like them to.

6. Attitudes towards insurance

- We found fairly low awareness of contents insurance – particularly among younger people. Many people don't know what it is or what it covers, and they think it's more expensive than it is. Many people also don't trust insurance companies to pay out if they make a claim.
- Some think insurance is hard to understand and daunting to engage with. They're put off by complex terminology and lengthy terms and conditions.
- Although most councils offer their tenants 'add on' contents insurance (added to their rent) for a low weekly cost, we found low awareness of these schemes.
- Certain 'touch points', such as starting a family, trigger people to consider getting contents and life insurance. Considering the impact on others is one of the key things people think about when deciding whether or not to buy insurance

User journey map - Insurance

The following 'user-journey map' sets out a fairly typical journey that people tend to make to getting insurance(s). As with the other journey maps in this report, this map does not attempt to be relevant to everyone who has insurance. What it does do is highlight the journey that many people tend to take from childhood – where they're typically unaware of insurances – through to weighing up whether or not, and what, to buy as they gradually take on responsibilities of their own and consider the impact of <u>not</u> having insurance.

Savings

Needs to be easy to do, and not easy to stop being a saver.

Karen

Being prepared

Start by checking current account balance.

"I need to save a bit, **so that I can get by on weeks where I have less work.**"

Being a saver

Weekly saving budget, savvy shopping, keeping a jar at home, round-up savings schemes and other saving mechanisms can make a big difference.

Purpose

Saving for Christmas starts immediately after the holidays.

"I need a goal, **so that I am more willing to save.**"

Cyclical process
(dipping-rebuilding-dipping)

"As a person saving short-term, I need to access these savings, **so that I can smooth over from week to week.**"

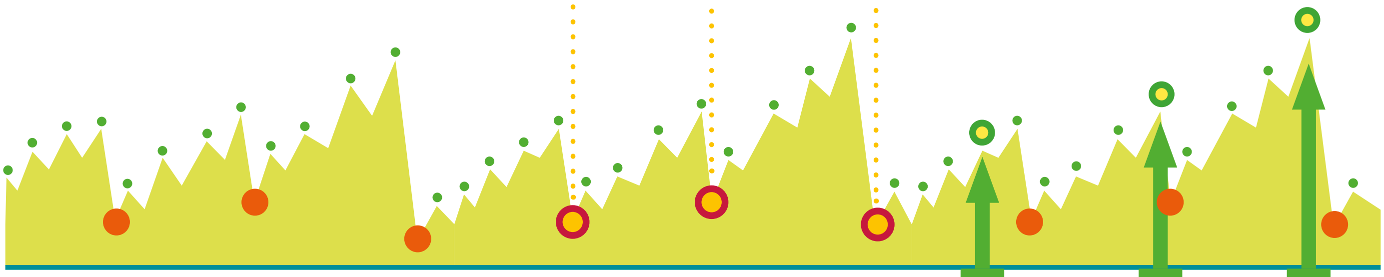
Dip into savings
Extra expenses

Family day out

Back to school

Holiday season

"As a person who isn't a saver, I need to be incentivised to save by seeing the future benefits, **so that I do not spend savings.**"



Payment received

Contract paid

Expense re-embursed

Rebuild
Saving as money comes in

"As someone who wants to save, I need tangible steps to take in rebuilding my savings, **so that I can get back into a better position.**"

6.1 Why is insurance valuable?

15.8 million adults in the UK have no home contents insurance.[19] This means that if they lose some or all of their possessions through fire, flood or theft, it is their own responsibility to replace, and pay for them. They may have to borrow money, seek help from charities or just do without.

People on lower incomes are less likely than those on higher incomes to have contents insurance, but they face higher risks. For instance, 60% of people with an income of £15,000 or less have no home contents insurance[20]. However, they're more likely to be burgled, be victims of arson or live on flood plains. They are also less likely to have adequate savings to replace their possessions. This means that being a victim of theft, fire or flood can have a catastrophic effect on people's finances.

Affordable insurance products do exist. 85 percent[21] of social housing tenants are offered affordable contents insurance at a low cost through their landlords. These are payable in small weekly instalments.

Low-cost funeral plans also exist for those who want the reassurance that the people they leave behind will have enough money to pay for their funeral.

But these products continue to have poor uptake among people on low incomes.[22] Our research explores the reasons for this, and considers what might help encourage more people on lower incomes to buy insurance.

6.2 Attitudes to insurance

Attitudes towards insurance are driven to an extent by 'social norms' – what other people are doing. If their friends, family or neighbours have insurance, people are more likely to think it's worth getting.

People who have insurance say it gives them with peace of mind. This may stem either from a bad past experience and/or a perceived future risk or knowing they would be unable to afford to replace their possessions if the worst happened.

Despite contents insurance being considered important to them, if people fall on harder times some will feel they can no longer afford it, and so stop buying it. Not having contents insurance is a real worry for these people.

> "I don't think I know anybody who hasn't got it (contents)"
>
> Male, low income, West Midlands

> "Even if I had to go hungry I'd have to have contents insurance"
>
> Male, 60s, retired, West Midlands
>
> "There's always a fear that something could come along and happen […] I would not have the money to put into addressing the loss […] I value the reassurance it gives me."
>
> Male, experience of mental health issues, rural West Midlands

6.3 Exploring the barriers to insurance

Views on insurance are polarised, and many of those we spoke to don't have any.

> "You can't guarantee that you're not going to get burgled […] it's for peace of mind."
>
> Female, 60s, retired, Yorkshire

Our research found that factors such as awareness, accessibility (e.g. the language used), trust and cost are the key barriers – as shown in the top tier of the following diagram. The second tier barriers focus on the difficulties people face making decisions, assessing future risk and the impact on others.

> "I did have contents insurance, but I had to cancel it as I couldn't afford it […] It does worry me. This is a housing association house, but there are lots of private houses on the estate and lots of them have been burgled. It un-nerves me […]"
>
> Female, 50s, disabled, Yorkshire

TIER 1	Awareness & Accessibility	Trust	Cost
TIER 2	Decision making	Foresight & Assessment of future risk	Impact on others

Awareness

We found that many people - particularly younger people **don't understand what contents insurance is**. While most have heard of it, far fewer understand what it covers, what the benefits are, how to go about getting it or how much it costs.

These factors – coupled with the feeling that they don't have anything worth insuring – lead many to feel that contents insurance is **'not for me'.**

Instead of buying contents insurance, some people had opted to buy insurance for individual high-cost items which they buy at the same time as the product itself.

> "Is that what covers you if you get burgled?"
>
> Male, 30s, ex-offender, South East

> "I've never had that, I've never been bothered about it […] Now that I'm starting to build up a bit more stuff, like my phone and laptop I might get it."
>
> Male, 30s, ex-offender, South

> "Other than my laptop and my clothes, I haven't got much [...] There's no assets, nothing."
>
> Male, 18-30, Essex

> "I feel like that's the last thing poor people are thinking about."
>
> BAME woman, 18-30, London

Accessibility

People find insurance **complicated**. They find it **difficult to understand** the different types of products and the terminology can be off-putting. This leaves some of those interested in buying an insurance product feeling confused and baffled. A few said they didn't know where to start looking for reliable, unbiased help ‘there is just so much information’.

> “[I’d like] a bit of knowledge about what it is [...] It's knowing what to look for.”
>
> Female, low income, Essex

Attempting to ‘cut through’ this information can be **difficult and time-consuming**, and results in some people feeling they don’t have the time or inclination to engage with this. Others do, and use price comparison sites, but some find these – with their reviews and recommendations - themselves confusing. These people would welcome having someone sit down with them to explain the options.

> “This confuses you even more, when the reviews are negative, as you don’t know who to trust and it makes you indecisive.”
>
> Male, 40s, low income, London

People also find it **hard to process lengthy, detailed information** such as terms and conditions. Some said they felt overwhelmed at the speed with which they were given information. At least one person we spoke to with mental health issues said she felt that people in her situation would benefit from longer cooling off periods when signing up to insurance products. This supports research by the Financial Inclusion Commission, which also found that almost 1 in 5 adults thought the information provided by insurers was difficult to understand (19%), rising to a quarter (25%) among young people aged 18-25[23]. This is significant as not everyone is confident enough to ask for unfamiliar words to be explained to them.

Jasmeet’s story: Extra support for people with mental health issues

Jasmeet has home contents insurance and life insurance, and has had both for many years. She shops around annually for contents insurance deals. Having this is important to her, as it helps to give her a sense of security. “You could lose everything. There's no way I could afford to replace it all”.

Jasmeet has mental health issues and so she faces additional challenges in terms of memory, confidence and planning. She sometimes worries that she’ll forget to renew her insurance in time, and says she’d welcome extra early prompts to renew this.

“You're not allowed to forget to get insurance, but for people with mental health issues sometimes you haven't got good memory”.

As well as contents insurance, Jasmeet took out life insurance when she first took out a mortgage. Set this up via a face-to-face meeting at her building society. She was later sent forms through the post. She took the time to carefully read everything through and realised the company was trying to get her to sign up to critical illness cover and other add-ons which she couldn't afford and didn't want.

Following this she had another meeting with the insurance provider to ensure she only signed up to life insurance. “They’d read very fast from the script and it's hard for people to understand... I'm fortunate in that I have a good concentration span but not everyone does”.

She thinks that people with mental health issues would benefit from some extra support when buying insurance products. “I think people with mental health issues need longer than a 14 day cooling off period… it was probably all in the small print, but that's too much for people with mental health difficulties. You also have to pay extra for hard copies too, but I find it easier to read hard copies”.

Trust

Research by the Financial Inclusion Commission also reflects our finding that many people don't trust insurance companies to pay out should they need to make a claim.[24] This view tends be fuelled by personal experience of needing to make a claim and having it rejected; making a claim but not getting what they thought was a fair settlement; or simply through word of mouth. Hearing about others' bad experiences is a powerful influence on people's own perceptions and actions.

> "I wouldn't trust them at all [...] They pay out the least they can get away with and then give you goodwill gestures."
>
> Female, experience of mental health issues, East Midlands

> "A lot of insurance companies are really cheeky and any error, they'll say 'no, we're not paying out' [...] They'll find a way not to give out the money."
>
> BAME woman, 18-30, London

Cost

Many people who don't have contents insurance say this is because it's too expensive. But we found that some people think it's more expensive than it is. When we asked people 'How much do you think contents insurance would cost?' guesses ranged from, "about 200 quid a year?" to as high as, "60 quid a month." The average cost is actually significantly cheaper, at around £53 per year.[25] Additionally, many housing associations can signpost tenants to contents insurance that costs only a few pounds a month (e.g. £3-4). The perception of high cost puts people off, as does the upselling of add-ons at the point of signing up, and excess charges.

> "It's the affordability of insurance products for people in this area [...] It's a massive problem. My daughters and sister-in-law all say they can't live without food, water, gas and electricity, but insurances - they haven't got the money to pay for it [...] It's not that they don't want it. They haven't got the choice [...] They do worry about these things [...] They would have it if they could afford it."
>
> Female, 50s, West Midlands

In addition to these key factors, we also found that decision-making, assessment of future risk and considering the impact on others influence whether or not people decide to take out insurance.

Decision-making

Buying insurance involves making lots of decisions. Initially people have to think about:

- How to buy it – online or not?
- Which provider – well-known brand or smaller firm?
- Approach them directly or search via a price comparison site?
- Which comparison site?

Once these decisions have been made people need to consider the trade-off between level of premium vs. level of compulsory/voluntary excess, and decide on a level that suits them, then they'll need to decide which, if any add-ons to have, and whether to pay in instalments or not.

People lead busy lives, and making informed decision takes time, knowledge and confidence and so buying insurance may feel daunting. Some people find that these factors all contribute to it slipping down people's 'to do' list.

> "I should really look into a funeral plan […] I did think about it a few months ago, perhaps we ought to have a policy each, but I dunno, I guess Christmas came and one thing and another and I haven't given it much thought since."
>
> Female, 60s, retired, Yorkshire

Assessment of future risk and impact on others

Buying insurance involves assessing risk. We found that people will ask, 'is it worth it?' Essentially they're weighing up, 'what are the chances of it happening to me?'

While most of those we spoke to think insurance is generally worth getting, several felt they couldn't afford it. Many of those we spoke to had to weigh up the relative merits of putting any surplus income into savings or insurance, but usually not both. On balance most prefer to put this money towards insurance for peace of mind, as the small amounts of savings they're able to make wouldn't be enough to soften the blow should the worst happen.

The more expensive an insurance product is to buy, or is perceived to be, the more people have to be persuaded that the risk is real enough to offer value for money. While some people are naturally more risk averse than others, we found that most people will consider the impact that not having insurance would have on their family members (especially children) more readily than they think about the impact on themselves.

We also found that life stage impacts on people's likelihood of buying insurance products, in particular whether or not they have children. Many of the younger people we spoke to have never thought about insurance. Many don't know what it is and few understand it or see it as relevant to them, especially those still living at home.

As people get older and begin to take on more responsibilities they are more likely to consider taking out insurance. Key touchpoints for considering this include having children, moving into a new rental property, getting a mortgage or becoming self-employed. The impact on their loved ones should anything happen is a particularly important influencer for people when considering whether or not to take life insurance.

> "[Life insurance] is very important to me, as there's only me so I think my children will have to find this [money for funeral] when I'm not here […] I just don't think it's fair that they should find that money out of their own pockets"
>
> Male, low income, 40-60, Essex

> "Life insurance is really important to me, I've got a daughter and she's got two children and a partner but they're not well off and she couldn't give me a good send off without a bit of money"
>
> Male, low income, 50s East Midlands

6.4 What may encourage someone to purchase insurance?

Expansion and increasing awareness of ‘in-rent’ schemes

These schemes make it easier for people to access cheap contents insurance by tying the cost in with weekly rental payments. They already exist in many areas, 85% of councils provide these; however, few of the social housing tenants we spoke to seemed aware of the schemes. People spontaneously asked, “Why is it [contents insurance] not an add-on? Why isn't it included in your rent?” They felt that adding this on to rent payments would make it easier to set up and easier to pay, “you wouldn't notice it was gone then, would you?” ”You haven't got to scrounge around then trying to find that extra bit of money at the end of the week.” A practical consideration with such a scheme would be what happens if a tenant were to fall into arrears and the contents insurance became invalidated.

Increasing awareness of flexible payment schedules

Some people assume that insurance products have to be paid for upfront in a lump sum. Most insurance products though, can be paid for in monthly, or in some cases weekly, instalments.

6.5 The practitioner's viewpoint:

Dr. Omar Khan, Director at the Runnymede Trust, says:

Insurance is perhaps the most difficult product group to understand in terms of financial inclusion. Roughly 80% of households in Britain have home insurance, but this overall figure masks some important differences. Among the poorest fifth of households, only half (50%) are insured. This results in a negative correlation between the likelihood of having home insurance and being burgled: social housing households are particularly likely to lack home contents insurance, while they are twice as likely to be burgled as people living in privately owned properties.

Thinking about potential government interventions in insurance as compared to other areas reveals the scope of the difficulty. Insurance premia are determined by risk, and companies have good knowledge of the likelihood of burglary or car theft or indeed arson in any given area. The logic of insurance is that those who are more likely to make a claim pay higher premia, while those who's insured goods or services are less likely to be claimed against pay lower premia. And since the poorer are more vulnerable to crime, that will necessarily require them to pay higher rates home contents insurance. But given that poorer people have less disposable income and arguably less goods to lose, it may also be less sensible for them to pay insurance premia.

The idea of risk pooling has been tried through council estates and housing associations. The idea is that whereas it is too expensive for one particular individual to afford insurance, a larger group of people might be able to afford payments if the risk is more widely spread. One example might be a council estate offering insurance to every tenant, perhaps by adding it to the rental payment.

The larger the number of people covered in this way, the wider the risk pool, and this is then likely to result in lower premia for everyone. For a local authority or housing association a group-based scheme can also be cheaper to administer, which further keeps costs lower for the customers.

Finally, insurance take-up raises a more general point, namely that understanding or take-up of one financial product or service makes it more likely for individuals to use other products and services. Take the case of university students, a group that is directly targeted by all high-street banks with particular products. Students are strongly advised to get contents insurance by their universities and parents. This may seem an odd example where evidence suggests that 30% of students don't have contents insurance, a high figure given the relatively high value of their possessions. But compared to other 18 year-olds, students are clearly more targeted and more likely to take up a range of financial products and services. This may result in them being more familiar and indeed confident in accessing financial institutions in the future as well. Since students are more likely to be middleclass, this is another way in which disadvantaged groups have less knowledge and experience of financial institutions, reinforcing inequalities that already affect younger poor people in Britain.

7. Concluding Observations

There are many ways in which financial exclusion can be addressed and that way also tackle other social and mental problems caused by the stress of financial vulnerability.

In the summer of 2018, the Government announced in its Civil Society strategy that it will fund the establishment of a new Financial Inclusion organisation responsible for deploying £55 million of funding from dormant accounts. The new organisation will primarily address the problem of access to affordable credit and alternatives to credit. This funding will help the affordable credit sector to grow and support alternatives, through both investments and grants that support existing and new organisations. The new organisation will aim to bring in co-funding from a range of investors, including the private sector. It will also build partnerships with key organisations, including with housing associations, as potential partners who deal with many individuals at risk of financial exclusion.

In addition to stimulating the provision of fair, affordable and appropriate products through the new organisation, the research report suggest steps that can be taken by product providers, policy makers, and advice organisations. We highlight a handful of examples below.

Products - This report highlights the importance of credit product characteristics such as speed, flexibility, and trust. Affordable credit providers should note the importance of speed in particular as this has been a characteristic that some providers have fallen short on. Given innovation within financial technology, cost effective solutions to increasing loan application processing speed should be feasible.

The report notes that it is predominantly individuals who have had lived experience of loss (through, say, a burglary or fire) who see the benefits of insurance. People who have had minimal or no lived experience find it difficult to understand insurance and its benefits. Innovative ways of capturing the benefits of insurance are needed.

Policy - policy makers should recognise that credit is an acute problem and heavily linked with the absence of savings and insurance policies. Having savings or insurance reduces the chances of needing to apply for high cost credit in the future. Further support to roll out at scale some of the innovative savings products tested by the Behavioural Insights Team should be supported.

Advice – The report shines a light on the bewilderment and exasperation that individuals often feel when dealing with their financial matters. New technology can play an important role in enabling efficient product supply and ability to access real time information (e.g. your bank balance). At the same time, the report implies that face-to-face conversations about financial matters can be critical. Such meetings or conversations provide the individuals with the motivation to deal with their often money matters and the confidence to act. People put off dealing with difficult issues. Continuing to provide a safe and unthreatening environment for conversations about money matters and budgeting will aid the process of people opening up to talk about their worries and seizing the moment to take positive action.

8. Appendices

Methodology - Sample

Gender	Male	11
	Female	6
Age	18-29	1
	30-39	4
	40-49	5
	50-59	5
	60-69	2
Occupation	Part – time	4
	Full – time	5
	Disabled	3
	Medically retired	1
	Self – employed	1
	In education	1
	Zero hour contracts	1
	Retired	1

Household members	Livng alone	3
	Partner	3
	Partner & children	4
	Parents	1
	Mature child	2
	Flatmates	1
	Staying with friends	1
	Single parent	1
	N/A	1
Region	London	4
	South East	1
	East midlands (inc. rural)	2
	West midlands	3
	Yorkshire (inc. rural)	4
	Herefordshire (rural)	1
	Lancashire	1
Housing	Own with mortgage	2
	Own outright	1
	Renting (7 = social housing)	13
	Staying with friends	1

Danyal Sattar

Head of Social Investment for Joseph Rowntree Foundation (JRF).

The organisation has allocated £15m to directly invest in charities and social enterprises. Investment is made in line with JRF's solving UK poverty mission.

Danyal is on the lookout for organisations that help address JFR's mission of reducing poverty in the UK, and seeks to invest in them. He assesses investment proposals, manages the growing portfolio of investments and solves problems as they arise. He is one of the six co-conveners of the Social Impact Investors Group. It coordinates social investment activity amongst UK trusts and foundations.

Elisabeth Costa

Director of Consumers, Economic Growth and Energy, Behavioural Insights Team

Elisabeth is the Director of Consumers, Economic Growth and Energy at the Behavioural Insights Team. Prior to joining BIT Elisabeth held senior roles at the Australian Treasury and completed her postgraduate studies at Harvard Law School.

Elisabeth was the lead author of BIT's recent report 'Applying behavioural insights to regulated markets', and is leading the team's policy and trials on pensions, savings and financial behaviours. Most recently, she has led the Financial Capability Lab, a partnership with the Money Advice Service which has employed a mixed methods approach of lab testing and qualitative research to rapidly test ideas to increase financial capability.

Omar Khan

Director of Runnymede Trust.

The UK's leading independent race equality think tank. Prior to his current role, he was Runnymede Trust's Head of Policy and led the financial inclusion programme. His ambition is to help eliminate racial disadvantage in the UK and Europe.

He has written various articles and reports on political theory, British political history and race, including Financial Inclusion and Ethnicity; Caring and Earning Among Low-income Caribbean, Pakistani and Somali People; and the Costs of 'Returning' Home. Through his combined work at Runnymede Trust and academic studies, he regularly speaks on topics such as multiculturalism, integration, socio-economic disadvantage and positive action and has given evidence of his findings to the United Nations, the European Parliament, Capitol Hill and academic conferences globally. Omar is also a Governor at the University of East London and a 2012 Clore Social Leadership Fellow.

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[2] Financial exclusion is the marginalisation of people from mainstream financial products and services and the resulting inability to fairly and effectively manage personal financial affairs. There are many indicators of financial exclusion, including over-indebtedness, whether an individual holds a bank account, has financial savings or has access to affordable credit. People and households can be defined as over indebted if they spend more than a quarter of their monthly income paying the interest on their debts, such as credit cards, loans, overdrafts and arrears.

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[5] Forward Trust - The social business with charitable status that empowers people to break the often interlinked cycles of crime and addiction to move forward with their lives. https://www.forwardtrust.org.uk/

[6] Big Lottery Fund 'Big Local' - Helping people make their communities better places to live in through, training and employment schemes to tackling anti-social behaviour, creating new community facilities, now and in the future. http://localtrust.org.uk/

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If you would like to tell us what you think of this report, or share relevant findings and learning, please email us at EnglandDormantAccounts@biglotteryfund.org.uk

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