

Banking benefits

CAB evidence on payment of benefits into bank accounts

Access to bank accounts is crucial if financial exclusion is to be tackled successfully. Having a bank account enables people to obtain cheaper deals on fuel, insurance and credit. Basic bank accounts can also help prevent over indebtedness since they do not offer overdraft facilities.

Payment of state benefits directly into accounts has boosted take-up of bank accounts. Yet CAB evidence shows that not everyone can open a bank account. The processes for opening and operating bank accounts, including basic accounts, continue to leave people financially excluded, and threaten the successful rollout of reforms to Housing Benefit.

Background

About one in 12 households in the UK has no bank account of any kind. The banking industry was encouraged to develop basic bank accounts to support the government policy of paying benefits direct into accounts. Since April 2003 over 1.5 million basic accounts have been opened, and 96 per cent of claimants now receive their benefit by payment into some form of account.

Reforms to housing benefit which are currently being piloted in 18 local authority areas to introduce a local housing allowance also depend on access to bank accounts, as Housing Benefit will usually be paid into the claimant's bank account.

CAB evidence demonstrates that there is a poor fit between the government's policy of paying benefits direct into bank accounts and some of the banking industry's practices. Consequently many of the most vulnerable people are

denied access to a bank account, or are unfairly penalised when they open one.

Main findings

CAB clients experience problems with payment of benefits into bank accounts in two main areas:

1. Opening an account

CAB clients experience particularly acute problems opening bank accounts because they may not have acceptable evidence of their identity and address, which banks must check to comply with money laundering legislation.

Although there is government guidance about how financially excluded people can prove their identity and address, CAB clients find that bank staff are frequently not willing to follow it. Our evidence reveals that the people who are most affected include discharged prisoners, non-UK citizens, people on benefits and homeless people.

Other difficulties include:

- Few banks promote their basic account, causing particular problems for the most excluded who may lack the confidence to ask for information, or may not even be aware of the existence of basic bank accounts.
- Instead of offering a basic bank account some bank staff sell accounts and services which may not be suitable for customers' needs. This runs counter to the Banking Code, which sets standards of good banking practice, and now states that people should be offered a basic account if they ask for one.
- Although it is not possible to go overdrawn with a basic bank account, only a few banks allow people in debt to open accounts. As a result they cannot manage their income or make repayments to creditors.
- People are experiencing long delays opening basic accounts with some banks, as the relevant processes are carried out centrally rather than at local branches. Such delays can leave people without any income for up to several weeks.
- Banks are sometimes upgrading basic accounts to full current accounts with overdrafts where this may not be in an individual's best interests.

2. Using an account

CAB evidence suggests that access to banking is not enough to bring people into the financial mainstream; the design and features of both basic and current accounts are also important.

- Banks can take money out of basic and current accounts to pay other debts to the bank without checking the customer's circumstances first. This is called the right of set-off, and there is no limit on the amount a bank can take. This practice has major implications, particularly where Housing Benefit is paid into an account, as rent arrears and even eviction could result.

Case 1

A South West Wales CAB reported that a woman who had held a savings account with her bank for 32 years was shocked to discover that she had to prove her identity and address to open a new account with the same bank. The bank would not accept the client's marriage and birth certificate as proof of ID, and she had no passport, credit cards or driving licence. The bank, however, did suggest that she apply for a credit card instead, even though the client was not interested in borrowing money.

Case 2

A CAB in Yorkshire reported that a client applied for a bank account in November 2004 but the account had still not been opened by February 2005. This delay has caused great inconvenience, as the client had to travel to the council's city centre 'one stop shop' to cash her Housing Benefit cheque.

Case 3

A CAB in Shropshire reported that they had advised a client to open a basic bank account with the only bank in her village. However, the client was turned down because she could not provide a passport or driving licence to verify her identity.

- Charges levied by banks for items such as failed direct debits can also cause considerable hardship. Most banks even levy charges on basic accounts ranging from £15 to a staggering £39 for a failed direct debit. A £39 charge for a failed direct debit could leave someone on jobseekers allowance with less than £20 per week.
- Some banks provide a poorer service to basic account holders, taking up to 10 days to clear a cheque through some basic bank accounts. Other banks are preventing basic account holders from withdrawing cash at a bank branch counter.

Recommendations

All banks should review their existing basic bank accounts against the following principles:

- no use of credit scoring
- accounts should be opened on the spot, provided the customer has acceptable forms of identification
- banks should not exercise their right of set-off from basic bank accounts
- charges for failed direct debits and standing orders should be set at a level to be determined by the government's Financial Inclusion Task Force
- the provision of a buffer overdraft zone of £10
- accounts should be accessible at post office counters, ATMs and bank branch counters
- the clearance time for cheque payments into accounts should be the same as for the bank's current accounts.

The Banking Code should require banks to:

- display information about basic bank accounts in bank branches
- tell customers who have been turned down for an account the reasons for the refusal, and what they need to do to remedy the situation
- open a basic bank account where acceptable ID is provided, and to set it up, within a maximum of 10 working days
- stop exercising their right to set-off other debts to the bank from basic accounts
- follow guidance on how basic accounts should be upgraded, and the safeguards that should be put in place.

Case 4

A Humberside CAB reported that a lone parent, who was expecting another baby, was shocked to discover that £400 of her social fund maternity grant had been transferred out of her bank account to pay other debts leaving her with about £30 to live on. The bank told her that even though they had accepted her offer of repayment towards the debt, they would check her account regularly and take any money they found in it. As a result the client could not buy anything for her unborn child.

Case 5

A West Midlands CAB reported that a client was charged over £100 in unpaid direct debit fees because direct debits were debited from his account before his tax credit entitlement was paid in.

In addition, we also recommend that:

- A single list of acceptable documents to prove ID and address should be produced, drawing on existing best practice. This must include letters of entitlement to Housing Benefit, official Home Office travel documents and residence permits. The list should be communicated clearly to all bank branch staff.
- All current account holders should be able to withdraw cash over the counter at Post Offices.
- The Office of Fair Trading should investigate the level of charges for failed direct debits on basic bank accounts to ensure that charges are not disproportionate but reflect the costs incurred by the banks.
- The national rollout of Housing Benefit reform should not start until difficulties with opening and using bank accounts for payment of local housing allowance have been resolved.
- The Financial Inclusion Task Force should commission a report to outline the business case for banks to actively offer bank accounts to people on low incomes.

The full report, **Banking benefits**, is available for £6.00 (including postage). To order a copy, please send your name and address, and a cheque made payable to Citizens Advice, to Citizens Advice, Myddelton House, 115-123 Pentonville Road, London, N1 9LZ.

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