

Banking with benefits:

Exploring the need for basic banking in a
world of Universal Credit



**citizens
advice**

1 Introduction

Citizens Advice sees thousands of people each year who have problems opening and operating bank accounts and Post Office Card Accounts. In the past year we helped nearly 13,000 people open an account or sort out a problem such as incorrectly applied fees. More generally, the number of 'unbanked' individuals - that is people without access to a transactional banking account - has been steadily falling, from 4.38 million in 2002/03 to 1.5 million in 2012/13.¹ Most unbanked individuals have previously held transactional bank accounts but have had these closed or closed them due to poor experiences.² Historically, a majority of the unbanked have relied on a Post Office Card Account to receive income.³

This report follows a time of change in the basic banking market, with changes both to the Post Office Card Account and to basic bank accounts offered by high street banks. Changes to basic bank accounts mean that these are likely to better meet the needs of consumers. Meanwhile the contract for the Post Office Card Account - an account which takes deposits of benefits and state pensions which can be withdrawn at the Post Office - has been extended to 2021. Many Citizens Advice clients use basic banking products and we are investigating whether these changes are meeting the needs of consumers. In this report, we summarise the changes to basic banking here but focus on the Post Office Card Account and the needs of its users. A future report will examine revised basic bank accounts in their first year.

This report finds that working age POCA holders value these accounts and use them as an important way of managing their money. As these consumers move over to Universal Credit it is likely that they will face new challenges with managing their money, such as budgeting on a monthly basis. When asked what account features would help them, POCA holders suggested features such as access to direct debits and standing orders and text alerts for low balances. Many of these features are offered in basic bank accounts. In addition to account features, however, many POCA holders felt that they would need face to face support to help them manage their money in new ways. As well as ensuring that POCA holders receive the support they need, it is important that basic bank accounts meet the needs of people with low and variable incomes and that the future of the POCA is considered in light of new basic bank accounts.

¹ Rowlingson, K. and McKay, S., *Financial Inclusion - Annual Monitoring Report 2015*, Birmingham, University of Birmingham, 2015.

² *Ibid.*

³ *Banking Services and Poorer Households*, Financial Inclusion Taskforce, 2010.

2 Background

Basic bank accounts and the revised agreement

Basic bank accounts were developed in 2003 by the banking industry in partnership with government, to tackle financial exclusion.⁴ These were to be fee free accounts that could not go overdrawn. By 2015, 9 million of these accounts had been opened.⁵ A lack of eligibility criteria meant that many of those opening the accounts were not within the target market while, conversely, many of those at whom the accounts were aimed found that they did not meet their needs. Citizens Advice found that our clients often had difficulty opening basic bank accounts, with customers being directed towards more profitable current accounts. Other groups denied access were those who could not produce standard identity documents despite government guidance on how financially excluded people could prove their identity and address.⁶ Some banks limited access to ATMs or prevented customers from making transactions in branch. By 2014 only Barclays Bank offered basic bank accounts to undischarged bankrupts. Perhaps of greatest detriment to customers were the large fees that many banks charged when direct debits or standing orders failed. Some of these unpaid transaction fees were nearly £40 for each failed transaction, a huge proportion of weekly income for the customers that basic bank accounts were designed for.

In 2014, as part of the implementation of the Payment Accounts Directive, the nine largest current account providers agreed a new settlement on basic bank accounts.⁷ The agreement set eligibility criteria and minimum features, aiming to target the accounts at those who needed them and ensure that they met the needs of these customers. Basic bank accounts are to be offered to customers who:

- do not have a bank account with any UK credit institution, and/or
- are ineligible for all bank accounts offered by the participating bank that are not basic bank accounts

⁴ DWP submission to Select Committee on Treasury 2006, <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmtreasy/848/848we34.htm>

⁵ *Implementation of the Payment Accounts Directive: consultation outcome*, HM Treasury, 2015.

⁶ Herbert, T. and Hopwood Road, F. *Banking Benefits*, Citizens Advice, 2006.

⁷ *Revised basic bank account agreement*, 2014 available

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/386953/141211_basic_accounts_agreement_text.pdf

Eligibility is reviewed annually, with those no longer eligible being upgraded to current accounts. Application for accounts is to be made available through the same channels as current accounts (i.e. if online applications are available for current accounts, they must also be available for basic bank accounts). Basic bank accounts allow branch and ATM access, direct debits and standing orders. They do not allow overdrafts and crucially do not have fees for unpaid transactions. Later in 2016, Citizens Advice will be carrying out research on the operation of revised basic bank accounts.

The Post Office Card Account

The Post Office Card Account (POCA) was launched in April 2003. It was introduced to provide a 'simple' banking facility with limited functionality where consumers without bank accounts could receive pensions and benefits (no other inward payments), and withdraw cash at any Post Office branch using a plastic card. Account functionality was extended in the spring of 2010 to allow customers to make cash withdrawals and check balances at Post Office ATMs. With no overdraft or direct debit facilities available, POCA holders don't face any related charges.

There are around 2.9 million POCA holders, many of whom are unbanked (hold no other account) or act as unbanked (rely heavily or exclusively on cash, manage bills weekly or fortnightly and do not use any lending or borrowing facilities). Customer numbers have fallen significantly over the life of the POCA, largely as a result of older customers' accounts closing upon death.⁸

Research undertaken by Consumer Focus in 2010 indicated that the needs of many consumers living on low incomes were not being fully met by the POCA suggesting the need to re-examine the offer for many holders.⁹ The UK Government has said that it was always intended POCA should act as a 'stepping stone to mainstream banking', acknowledging that the POCA is a limited account, with limited functionality – outside the 'mainstream' of banking.¹⁰

After uncertainty surrounding the future of POCA, the UK Government announced it had awarded the Government Card Account Banking Service to Post Office Limited to run initially from 2010 to 2015.¹¹ Following this, further discussions

⁸ Customer volumes have fallen by 1.1 million over the life of contract, Written Answer to Baroness Byford, 23 February 2015:
<http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Lords/2015-02-10/HL4907/>

⁹ 'Opportunity Knocks: Providing alternative banking solutions for low-income consumers at the Post Office' Consumer Focus, 2010.

¹⁰ 'Post Office Card Account - Oral Answers to Questions' Steve Webb, Minister for State for Pensions, Department of Work and Pensions, the House of Commons, 16 December 2015:
<http://www.publications.parliament.uk/pa/cm201415/cmhansrd/cm141216/debtext/141216-0002.htm>

¹¹ The POCA is offered by JP Morgan Europe Ltd through the Post Office. The POCA contract was worth £1.5 billion between 2003 and 2010, and the subsequent contract was worth £254 million between April 2010 and March 2013.

between the Department for Work and Pensions (DWP) and Post Office Limited resulted in the announcement on 6 December 2014 that POCA funding would continue for a further seven years but is expected to serve retired and particularly vulnerable account holders only. The Government has confirmed that most working age benefit recipients will be expected to move to more functional bank accounts. Upon announcing the continuation of the POCA contract in December 2014, Pensions Minister Steve Webb said,

*"I stress that we see the Post Office card account as being particularly suitable for vulnerable people such as elderly pensioners. Over the next few years, people of working age will move from these types of accounts to more transactional accounts."*¹²

Universal Credit

Alongside the UK Government's intention for most working age POCA holders to migrate towards transactional bank accounts, the Government is implementing significant changes to the way benefits are paid for this group through the roll-out of Universal Credit (outlined below). Almost all working age POCA holders will be affected by the introduction of Universal Credit and therefore, understanding the impact of this change is crucial when thinking about what POCA holders' needs will be as they move towards a transactional account.

Universal Credit replaces six existing means-tested welfare benefit payments for working age households.¹³ It is intended that both in-work and out of work households will receive one monthly payment, including housing costs.

While the administration and delivery of Universal Credit in Great Britain¹⁴ is reserved, administrative flexibilities have been devolved to the Scottish Government.¹⁵ The Scottish Government has announced that under its powers around Universal Credit administration, it will allow for claimants to vary the frequency of payments from monthly to fortnightly and also to vary the way the housing component of Universal Credit is paid - allowing claimants to have housing costs paid direct to a landlord (instead of as part of the Universal Credit

Written Answer to Andrew Griffiths MP, 5 June 2013:

<http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm130605/text/130605w0004.htm>

¹² Steve Webb, Minister of State, Department of Work and Pensions, *ibid*.

¹³ Income Support, Income-based Jobseeker's Allowance, Income-based Employment Support Allowance, Child Tax Credit, Working Tax Credit and Housing Benefit.

¹⁴ Social Security is devolved to the Northern Ireland Assembly. It should be noted however, that Northern Ireland's Welfare Reform Act (2012) maintains parity with the UK's policy on the introduction of Universal Credit which also means that full funding for benefits will be met by the UK Government.

¹⁵ As recommended by the Smith Commission and legislated for in the Scotland Act (2016), which received Royal Assent on 23 March 2016: <http://services.parliament.uk/bills/2015-16/scotland.html>

single household payment) where the claim is new and the recipient is renting from a social landlord.¹⁶

Opportunities and challenges of migrating away from the Post Office Card Account

There are two main objectives that may be advanced by migrating POCA customers away from the POCA. The first relates to extending financial inclusion and the second to government savings. The limited functionality of the POCA is a barrier to financial inclusion. For example, it does not allow inward payment other than benefits nor access to direct debits and standing orders, which can enable holders to get cheaper deals on fuel, insurance and credit. Consumer Focus conducted research with POCA holders about what banking features would meet their needs. This research found that while POCA holders reported high levels of satisfaction with their accounts, there was evidence of unmet banking needs for many POCA holders. They tested certain account features, such as ability to receive incoming payments, automated payments only made if there were sufficient funds, and a £10-20 'buffer' to be repaid each month if used.¹⁷ The research concluded that such an account could deliver significant progress toward greater financial inclusion for consumers who are either reliant on a POCA or remain unbanked. Migrating POCA holders onto transactional accounts, has the potential to improve the financial inclusion of these individuals.

Migrating customers away from the POCA and towards transactional accounts also offers financial benefits for government. POCA customer volumes have reduced by around 1.1 million over the life of the contract "achieving a saving for Government on these accounts."¹⁸ It costs the Government £0.50 every time it pays into a POCA compared to £0.0045 when it pays into a bank account.¹⁹ For Government then, customer migration away from the POCA not only represents potential progress towards further financial inclusion for this group of social security recipients, but also up front financial savings on the welfare bill.

¹⁶ In August 2015, the Scottish Government announced that it was working with the DWP to implement these changes: <http://news.scotland.gov.uk/News/New-benefits-powers-for-Scotland-1bef.aspx>

¹⁷ Consumer Focus gathered evidence through both qualitative (focus groups and case studies) and quantitative (survey of 1,100 consumers) methodologies for this research where, across low income groups, they focused on five segments: unbanked (no POCA), POCA only, Banked (receiving benefits) and banked (not receiving benefits).

¹⁸ Written Answer to Baroness Byford, *ibid*.

¹⁹ Written Answer to Fiona O'Donnell MP, 27 October 2014:

<http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2014-10-21/211235/>

Post Office Limited estimates that POCA holders generate 11 million visits to Post Office branches every month. In addition to the POCA, the Post Office offers a standard current account with overdraft and a control account, very like a basic bank account but with a £5 monthly fee. Therefore, without any change to the Post Office offer for basic banking customers, it is likely most working age POCA holders will move away from banking with the Post Office. Concerns have been raised regarding the potential for branch revenue to fall, as SubPostmasters lose both direct and indirect income generated by POCA transactions following mass customer migration.²⁰ This concern has to be seen within the context of the ongoing large-scale network modernisation programme. Network transformation will see most branches across the UK move to new operating models based on financial sustainability and independence in a changing consumer landscape.²¹ This means SubPostmasters will have to maximise revenue wherever possible, looking for new income streams as well as securing footfall through the provision of more traditional post office services and products.

In an effort to address the falling numbers of local bank and building society branches as well as the need for the post office network to secure footfall and maximise income, the government aims to utilise the unique reach of the network to serve the needs of banking consumers. This includes consumers who move from the POCA to a new account. In an agreement between the British Bankers Association and Post Office Limited, brokered by the Government, high street bank and building society customers will be able to access their accounts through the post office network. The British Bankers Association and Post Office Limited are currently negotiating the standardisation of the services available to bank and building society customers, via the Access to Banking Protocol, including small and micro business customers across the post office network. While the Government has requested this process be concluded in the near future,²² at the time of writing detail on the standardisation of banking offer through the network was yet to be confirmed.

²⁰ 'Sub Post Office Income Survey 2013, National Federation of SubPostmasters, 2013; Also contributions in debate: Post Office Card Account - Oral Answers to Questions' the House of Commons, 16 December 2015, *link as before*.

²¹ BIS, *ibid*.

²² Anna Soubry and Harriet Baldwin wrote to the British Bankers Association to press for finalisation of the implementation of the Access to Banking Protocol on 11 August 2015. The letter can be viewed here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/452900/Letter-from-Anna-Soubry-and-Harriet-Baldwin-to-British-Bankers-Association-branch-closures.pdf

3 What we did

In light of the changing policy landscape affecting working age POCA holders and the need to understand the banking needs of this consumer group, we wanted to speak directly to POCA holders to identify:

- Who are POCA holders?
- How do holders value and use their account?
- How could migration away from the POCA impact affected POCA holders?
- How could the roll out of Universal Credit impact affected POCA holders?
- What solutions do POCA holders feel would help?

Citizens Advice Scotland and Citizens Advice in England and Wales commissioned GfK NOP to undertake quantitative research with POCA customers across England, Wales and Scotland during early 2015.

The methodology was:

- 1002 face to face interviews conducted with POCA holders with 634 interviews in England, 193 in Wales and 175 in Scotland
- To ensure the field team targeted communities with a sufficient POCA holder population, sampling points (post office branches) were selected from a list of branches with high benefits activity and a turnover of more than 500 consumers a week, then separated by country; there were 104 output areas
- Broad quotas were applied to ensure a representative sample in terms of age in relation to working age POCA holders and POCA holders aged 65 or over
- Final data has been weighted to be geographically and demographically representative.

4 Findings

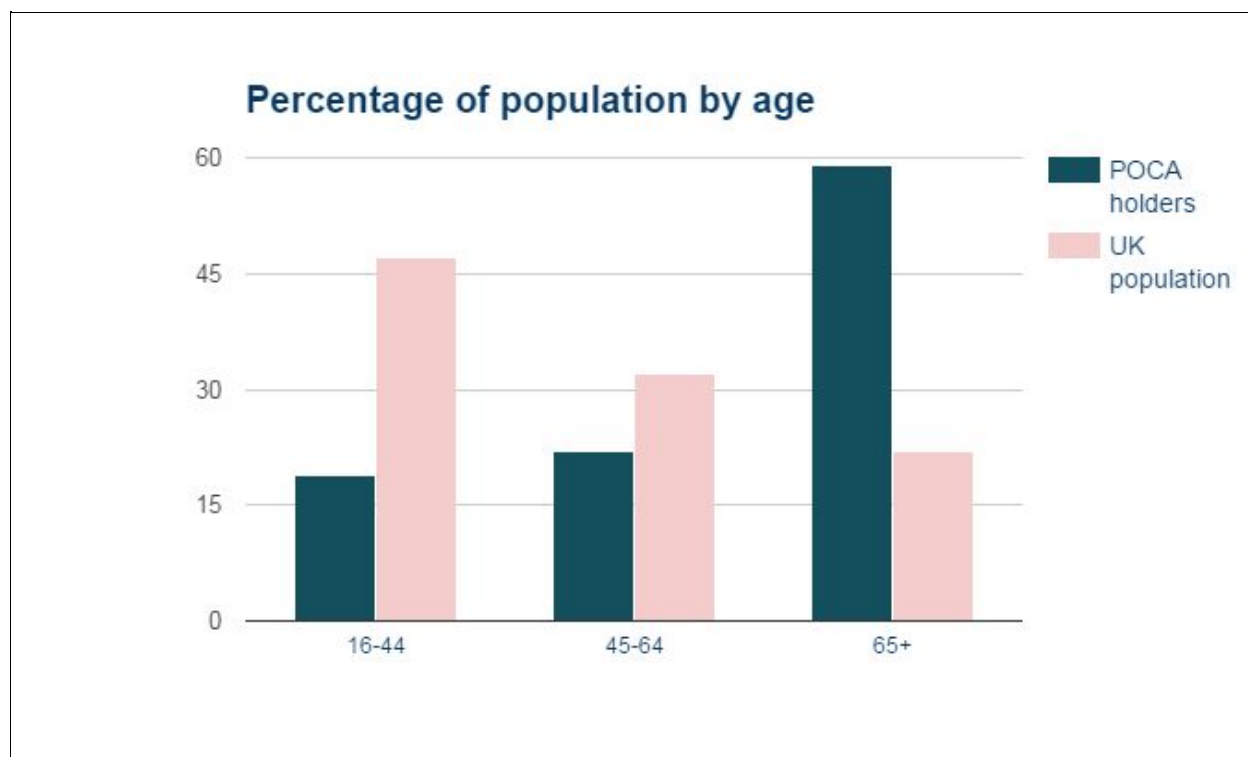
Who are POCA holders?

In the first section we look at the characteristics of POCA holders, before moving on to look at the future challenges for POCA holders affected by moving away from the POCA and by the rollout of Universal Credit.

Overview of all POCA holders

POCA customers are more likely to be older and female compared to the overall population: **59%** of POCA customers are aged 65 or over (Chart 1) compared to 22% of the general population and **61%** are female compared to 51% of the general population.

Chart 1: Age of POCA holders compared to UK population



Source: GfK survey of POCA holders for Citizens Advice, base: all POCA holders 1,002. ONS (UK population).

The predominantly older age of POCA customers is reflected in working status data with **63%** of POCA customers saying they are retired.

POCA holders with active accounts will be in receipt of either social security payments such as benefits or state pensions. Pensions are by far the most common

payment type into POCAs (**59%** of all benefits paid into POCAs are state pension payments) followed by Disability Living Allowance (**17%**); Child Benefit (**14%**); Income Support and Housing Benefit (both **11%**).

A majority of all POCA customers receive only one payment type (**60%**); a quarter receives two; one in ten receive three; and **2%** receive four benefits.

Working age POCA holders

Online inclusion

Two fifths (**39%**) of working age POCA holders say they have no access to the internet whatsoever.

Banked or unbanked?

Over half (**54%**) of working age POCA holders are unbanked (they only have a POCA, no other account): **57%** of those aged 45-65 and **51%** of 16-44 year olds only have a POCA. **43%** of working age holders have held their POCA for ten years more.

Disability

Nearly half (**47%**) of working age POCA holders report having a long term illness or disability that limits their activities all (**29%**) or some (**18%**) of the time.

Benefits Profile

33% receive Child Benefit; **22%** DLA; 21% ESA; Income Support **21%**; **19%** Child Tax credits; Housing benefit **12%**; **11%** JSA Carer's allowance **9%**; **5%** Incapacity Benefit.

Money management practices

We asked working age POCA holders how they manage their money. Our findings show they are potentially vulnerable to financial exclusion. As summarised in Table 1, many POCA holders are unbanked, rely on cash and do not budget on a monthly basis.

Table 1: Money Management practices of POCA holders

Unbanked	54
Rely on cash	77
Operate account(s) on a withdraw to zero (or near to) basis	79
Budget on a daily, weekly or fortnightly basis	91

Source: GFK survey of POCA holders for Citizens Advice, base: all POCA holders (428).

Over half of this consumer group have no transactional bank account and the majority rely mainly (or exclusively) on cash, operate accounts to zero and budget weekly or fortnightly. Universal Credit will be paid in arrears on a monthly basis (with possible variations in Scotland as discussed above). Only **8%** of working age POCA holders are used to budget planning on a monthly basis with **14%** saying they plan their money on a day-to-day basis. For those who budget on a weekly or fortnightly basis, the majority (**83%**) said this was because their benefits were paid weekly or fortnightly.

Moving to a transactional bank account, to monthly single-household benefits payments in arrears and to automated payment methods for costs such as housing, will mean that many POCA holders will require support to manage these changes.

How do POCA holders value their accounts?

The POCA was designed to be a simple account where benefit recipients could receive and access social security payments, with very limited functionality. As a result, the POCA was accessible to consumers otherwise excluded from banking (such as those who found it too difficult to navigate application procedures for a basic bank account) and easier to control for consumers concerned by the risks going overdrawn, or incurring unpaid transaction fees in a basic bank account. When the POCA was designed, revised basic bank accounts, which protect consumers from unpaid transaction fees had not been developed.

To assess the potential impact of the move away from the POCA, as well as what resistance there may be amongst holders to the move, it is helpful to understand the nature of holders' relationships to the account. We wanted to know whether the POCA is an essential, central part of how holders manage their money or whether it is a "nice to have" but dispensable facility: just an account that was set up and they never got around to closing. In other words, is it valued? In answering this, we will look at the following groups in turn: all working age POCA holders, unbanked working age POCA holders (consumers with no other account, only a POCA) and 'banked' working age POCA holders (consumers with one or more additional accounts).

Value and use: across all working age POCA holders

We asked all working age holders how they feel about their POCA. Our findings suggest it is a highly valued component of money management for most of this consumer group. As Table 2 shows, **82%** of all working age POCA holders value and use their account to manage money (three fifths say it is essential and they can't do without it and a further fifth say it is important to the way they manage their money). Only **18%** could be described as holding the account through 'inertia' or as having a low attachment (**10%** say it is nice to have but is not important to the way they manage their money, **5%** say they rarely or never use it and just **3%** say they can easily do without it). This suggests that far from being a 'nice to have but not essential' banking facility, the POCA is seen as a key component of holders' money management approaches with high levels of attachment.

Table 2: Attachment to and use of POCA

Essential, I could not do without it	60	High attachment	82
Important to the way I manage money	22		
Nice to have but not important to way I manage money	10	Low attachment	18
Rarely or never use	5		
Could easily do without	3		

Source: GFK survey of POCA holders for Citizens Advice, base: working age POCA holders (428).

Value and use across unbanked POCA holders

For the **54%** of those who are unbanked (they only use a POCA, no other account), the POCA is even more important than for those who have other accounts too. There are no significant differences across age groups, and nearly all (**97%**) unbanked POCA holders say it is essential or important to the way they manage their money.

Value and use across 'banked' POCA holders

We find that even when holders have another account in addition to their POCA they still say they rely on their POCA. **Forty-six per cent** of working age POCA holders have at least one other account besides their POCA and for this group they feel that the POCA still serves an important purpose for them. A quarter (**25%**) of working age customers with another account say they use the POCA as their main account. With no significant differences across ages most POCA holders (**89%**) who hold another account but use POCA as the main account say it is essential or important to the way they manage their money.

Moreover, even when holders – across all ages - with more than one account don't use the POCA as their main account, they still report high levels of practical attachment to the POCA, with over half (**61%**) of this group saying that it is essential or important to the way they manage their money.

For banked and unbanked working age POCA customers, we find a customer population highly attached to their POCA as part of their money management

routine. This suggests there could be challenges for many holders associated with migrating away from the POCA. In order to further explore the nature of those challenges, we now examine how working age POCA holders use their accounts. We know they find their accounts essential or important as a money management tool – but what does that mean in practice?

How do POCA holders use their accounts?

POCA functionality allows holders to withdraw cash and check balances over the Post Office counter and at Post Office branded ATMs only. Over-the-counter transactions are by far the most popular function used by working age holders.²³ Face-to-face withdrawals are common with three quarters **75%** doing this regularly. **Nine per cent** withdraw cash two to three times a week, a third (**34%**) do it weekly and a further third (**32%**) on a fortnightly basis. This group also use counters to check their balances, with **38%** doing this on a regular basis (two to three times a week, **4%**; weekly, **17%**; fortnightly, **17%**).

Post Office branded ATMs are used by three fifths (**60%**) of working age POCA customers. **Thirty-seven** per cent of working age POCA holders use ATMs to withdraw cash on a regular basis with **8%** doing so two or three times a week, **15%** weekly and **14%** fortnightly. **Twenty-seven** per cent of working age holders use ATMs to check balances often: **5%** do so two to three times a week; **13%** weekly; and **9%** fortnightly.

This shows that while over the counter transactions are by far the most popular method of access for POCA holders, a significant proportion of working age customers are relying on ATM access to withdraw cash and check balances too. This set of findings suggest that when holders say the POCA is important or essential to the way they manage their money, they are relying on over the counter transactions as part of their money management routine. And while use of ATM withdrawals and balance checks are used with less frequency, access to ATMs is still important for working age POCA holders.

Moving away from the POCA

We asked POCA holders what would help if they were required to move on from their account.

²³ It should be noted that some POCA holders may not conduct transactions in person, but that a third party may do so on their behalf. Our research did not stipulate that the respondent had to have conducted the transactions themselves, nor did it ask whether a third party conducts transactions on their behalf.

Table 3: *What would be important were you to be required to move away from the POCA?*

That I can still access benefits over Post Office counter	81
That I am given a choice about what account I will move to	83
That I am given information about what kinds of accounts are on offer	84
That I can still use an account offered by the Post Office	88
That I can move to a basic account that doesn't incur any fees or charges	90

Source: GFK survey of POCA holders for Citizens Advice, base: all aged under 65, (428).

The transition

POCA holders want to be empowered to make an informed choice about what account they will transition to for receiving and managing their money. Most POCA holders (**84%**) want information about what other accounts are on offer and they want to be able to choose what account they will move to (**83%**). Managing the working age migration away from POCA, should therefore combine clear information about transactional bank accounts and allow these consumers to make an informed choice about which account and provider would suit them best.

The successor account

When we asked working age customers what account features would be important to them, three key elements were consistently raised: an account with no fees or charges, access to the account through the Post Office and a Post Office branded account.

The POCA currently ensures holders cannot incur fees or charges. Working age POCA holders voiced a clear desire to continue to use an account that protects them from fees and charges. Nearly all (**90%**) said it was important that they could access an account that doesn't incur any fees or charges upon a move away from the POCA.

There was a clear desire for the Post Office to remain central when accessing money: four out of five (**81%**) said it was important they could still access benefits money (via an account) over the Post Office counter. Once implemented, the agreement between the British Bankers Association and Post Office Limited, on universal banking access through the Post Office will ensure that POCA holders

moving to a mainstream current or basic bank/building society account will be able to access their money through the UK-wide post office counter network.

However, physical access is only part of the story. As well as being able to continue accessing money at a Post Office, there is a clear appetite for an alternative account to be offered by the Post Office itself. Nine out of ten working age holders (**88%**) say it is important they can still use an account offered through the Post Office upon a move away from their POCA. While money management routines and habits matter, our evidence also suggests that wanting to keep banking with the Post Office isn't just about routine but also about provider preference. A quarter of all POCA holders specifically cite trust in the Post Office as the reason they have a POCA at all. This supports previous evidence relating to trust in the Post Office to deliver financial services among consumers living on low incomes.²⁴ There is an opportunity, therefore, for the Post Office to better meet the needs of working age POCA holders by joining the nine major banks in offering fee-free basic bank accounts.

Universal Credit: challenges

Previous research undertaken by Citizens Advice found that 92% of Citizens Advice clients who will receive Universal Credit feel unprepared for the new system in at least one of the following five areas: budgeting, monthly payments, banking, staying informed and internet access.²⁵ Our findings build on that research and demonstrate similar concerns among POCA holders.

At the same time as most working age POCA holders will be expected to move away from the POCA, they will also see changes to the way their benefits are paid. To understand what kind of financial risks POCA holders could experience as a result of the roll out of Universal Credit, we asked POCA holders in receipt of benefits that will be affected by Universal Credit about what they see as the main challenges they will face.

Our findings show high levels of concern among POCA holders regarding Universal Credit. The most significant concerns relate to two broad areas: the budgeting demands and the online administration of Universal Credit. Here we focus on the banking needs of working age POCA holders, however it is worth noting here that the default method for managing Universal Credit day to day will be online and our evidence suggests that the 'digital by default' administration of benefits will hit POCA holders particularly hard. This is because:

- **Thirty-nine per cent** of working age POCA holders have no access to the internet; and

²⁴ Consumer Futures, *ibid*; Consumer Focus, *ibid*.

²⁵ Citizens Advice, *ibid*.

- **A quarter** of working age POCA holders who think the move to Universal Credit will be difficult for them say this is because they would not be comfortable managing benefits online.

We found that of all those who say the move to Universal Credit will be difficult, those without access to the internet say they will find it the hardest. **Forty-seven** per cent of POCA holders who receive benefits that will be affected by Universal Credit and have no access to the internet whatsoever said they would find the move very hard compared to **26%** of those with internet access.

It is important that POCA holders receive the right support so that the move from the POCA enables both financial and digital inclusion.

Budgeting challenges

POCA holders identify a number of budgetary challenges they face with the rollout of Universal Credit. The majority (**61%**) of all holders who are, or very likely will be, affected say they will find the move difficult.

Those who said they would find the move difficult were then asked an open question regarding what specific difficulties they foresaw, and probed to enable multiple responses. Table 4 presents a snapshot of the range of responses related to budgeting.

Table 4: What do you think the difficulties with Universal Credit will be?

I don't manage money on a monthly basis	46
I'll run out of money by the end of the month	31
It will be harder to keep track of what payments are coming in	24
It will be harder to ring fence money for rent	22
It will be harder to budget or ring fence money for groceries	16
It will be harder to ring fence money for bills including utility bills	16
It is likely that I will have to borrow money	15
It will be harder to budget or ring fence money	12

Source: GFK survey of POCA holders for Citizens Advice, base: All who currently receive benefits that will be a part of Universal Credit, and who think the transition will be difficult for them to manage (205).

As Table 4 shows, half of this group is concerned about the change to receiving benefits money monthly because they don't currently manage their money on a monthly basis. Just under a third (**31%**) voice similar concerns saying they will run out of money by the month's end. A quarter say it will be harder to keep track of what money is coming in and a similar proportion worry about ring fencing money for rent. It is also important to highlight that **16%** already anticipate that the changes will lead to them having to borrow money.

These findings are broadly in line with previous research regarding the move to Universal Credit among benefit recipients more generally.²⁶ However, our research into POCA holders suggests that the concerns and risks voiced generally are even more acute among this sub-group of benefit recipients. For example, in 2013 Consumer Futures found that over a quarter of benefit recipients said that they would find it more difficult to budget for bills under a Universal Credit payment pattern.²⁷ A higher percentage of POCA customers will find it difficult: half of POCA holders receiving benefits affected by Universal Credit voice similar concerns about the pattern of payments. Citizens Advice recognises that it is important for this group that the move to Universal Credit is supported in different ways – including through banking solutions that maximise their chances of managing the move well.

Universal Credit: What banking facilities might help?

We asked POCA holders who received benefits that will be a part of Universal Credit about a number of possible account functions and whether they thought these might help them manage their money if they claimed Universal Credit. **Two thirds** of these POCA holders felt access to cash and balances over post office counters (**68%**) and universal ATM access (**68%**) would help.²⁸ More than half of those we spoke to felt that direct debit and standing order payment facilities (**58%**) and text alerts to prevent going overdrawn (**51%**) would help. Smaller proportions of POCA holders likely to claim Universal Credit in the future were interested in online and smartphone banking (**37%** and **25%**). Help with budgeting through account functionality to ring fence different amounts for different payments (**44%**) and smartphone budgeting apps (**23%**) also appealed to some POCA holders. POCA holders affected by Universal Credit are not a homogenous group when thinking about what kind of banking functions would support them. Our findings also

²⁶ Citizens Advice, *ibid*; Consumer Futures, *ibid*.

²⁷ Consumer Focus, *ibid*.

²⁸ POCA holders are limited to Post Office branded ATMs only. Citizens Advice has previously recommended consumers can access cash across LINK network - see 'Access to Cash: don't bank on it' Citizens Advice, 2012.

demonstrate differences by age when it comes to additional functionality with younger holders more likely than older holders to welcome functions such as text alerts and online access.²⁹

While the POCA does not offer these account functions, most of the account functions which POCA holders thought would be useful are features of revised basic bank accounts. Some banks have gone beyond the 2014 agreement to offer features such as text alerts and budgeting tools. Our upcoming report will examine the range of features available in basic bank accounts and how branch staff explain these. Despite this apparently good news, nearly half of those holders likely to claim Universal Credit (**40%**) felt they would need face to face help with budgeting. It is important that POCA holders have access to products that meet their needs and appropriate support to manage their finances in new ways.

²⁹ Compared to 45-65 year olds, 16-44 year olds were more likely to say account text alerts would help (21% and 45% respectively said they would help); that online account access would help (10% and 31%); and that a buffer zone that allows you to go overdrawn for a short time would help (10% and 27%).