

# Communities and Culture Committee

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## **Inquiry into Financial Inclusion and the impact of Financial Education - Response from Community Housing Cymru**

Community Housing Cymru exists to enable housing associations and community mutuals to work effectively and flourish in Wales.

Our vision is to be:

A dynamic, action based advocate for the not-for-profit housing sector.

A 'member centred' support provider, adding value to our members' activities by delivering services and advice that they need in providing social housing, regeneration and care services.

A knowledge-based social enterprise.

Our charitable objectives are to:

Promote the voluntary housing sector in Wales

Promote the relief of financial hardship through the sector's provision of low cost social housing.

Provide services, education, training, information, advice and support to providers of such housing in Wales.

Encourage and facilitate the provision, construction, improvement and management of low cost social housing by housing associations in Wales.

Key priorities from our 2010-2013 Business Plan:

Promoting the voluntary housing sector in Wales.

Promoting and encouraging innovation in the funding and delivery of social housing, and services to support members in a new regulatory system.

Promoting the relief of financial hardship by our members through the environment and action on fuel poverty, financial inclusion, and supporting people.

Our members own over 120,000 properties throughout Wales and as housing associations are exceptionally well-placed to deliver on the financial inclusion agenda as social housing tenants are far more likely to be financial excluded than any other vulnerable group, for example:

Of the poorest 10% of households in the UK, 51% live in social rented housing<sup>1</sup>

81% have no savings account<sup>2</sup>

91% have no insurance cover<sup>3</sup>

According to Citizen's Advice the proportion of social rented tenants amongst their debt service users is twice as high as in the general population<sup>4</sup>

The FSA estimate that 83% of social housing tenants are failing to make sufficient plans for their financial future and 94% are making poor financial product choices<sup>5</sup>

The consequences of low levels of financial capability and thus exclusion are high levels of debt, fuel poverty, rent arrears and ultimately homelessness and social exclusion. Several Welsh housing associations have assessed the costs associated with failed tenancies. They found the costs averaged between £4-5,000 per tenancy and the most common reason was debt. We believe that by providing tenants with the necessary information to make informed decision on budgeting, borrowing, insurance saving and other financial products instances of homelessness will reduce and community sustainability will improve.

For many years housing associations responses to financial exclusion issues were ad hoc, localised and focussed on rent arrears and welfare benefit advice but more recently this has broadened with an increase in dedicated financial inclusion staff, involvement in local partnerships, and increased support to credit unions.

In 2008 Community Housing Cymru employed a fulltime Financial Inclusion Officer through a Social Housing Management Grant to help its members to mainstream financial inclusion into their organisation and reduce financial exclusion amongst tenants by

Improving partnership working and promoting more joined up working between all stakeholders

Raising awareness amongst housing organisations of good practice elsewhere and the significant role they can play in increasing financial inclusion amongst their tenants

Increasing activity by housing organisations to support financial inclusion

Increasing access to affordable credit

Increasing access to money advice and income maximization

Raising the profile and value of good financial management and the benefits for tenants and landlords.

Promote savings

Encourage greater uptake of contents insurance

Reduce rent arrears

Increase financial literacy amongst tenants

<sup>1</sup> Demos and Toynbee Hall (2005) 'Widening the Safety Net'

<sup>2</sup> NHF (2007) Data analysis of Family Expenditure Survey.

<sup>3</sup> FSA (2006) Financial Capability in the UK, Establishing a Baseline

<sup>4</sup> Citizens Advice Bureau (2006) 'Deeper in Debt- The Profile of CAB Debt Clients

<sup>5</sup> Kempson, E and McKay S (2004) 'Characteristics of Families in Debt and the Nature of Their Indebtedness'

## **The Barriers to Financial Inclusion and Education**

Over a number of years the sector has learnt lessons about tenants' take up of services, in particular around financial services and financial education which can be split into 4 areas:

### **1. The take up of cheaper loans or affordable lending:**

There is an undoubted demand for affordable credit in Wales. Evidence from the Experian research for the Financial Inclusion Taskforce and the most recent WIMD mapping exercise are two of the most recent confirmations. Evidence from members suggests that the take up of home collected credit (HCC) is widespread and in a recent survey Hafod Housing Association 48% of tenants surveyed confirmed that they have a HCC loan whilst only 4% are members of a credit union.

Housing associations throughout Wales support and promote credit unions to tenants as a cheaper alternative to high interest lenders who often charge APRs of 272.2% (Provident Personal Finance, typical APR) so the question is why individuals do not take up the perceived "more sensible" option of cheaper loans from credit unions.

We know that HCC companies provide excellent, if not very expensive customer service and are a convenient way of obtaining relatively small loans fast and agents are usually recruited from within the community to build up a sense of customer loyalty and satisfaction.

Credit unions on the other hand are risk averse due to restrictions on the interest they can charge and are unable to provide the convenient doorstep service offered by HCCs. We know that it does not follow that simply offering a cheaper alternative to home collected credit companies produce a large number of customers and culturally it is difficult to persuade people to move to an alternative offer, otherwise the credit union model would arguably be more successful. Other factors such as a lack of cohesion and consistency in services across the board also impact upon the credit unions' ability to deliver on financial inclusion / capability.

### **2. The take up of money and debt advice**

Improving access to debt advice is one of the five themes in the Welsh Financial Inclusion Strategy 2009. The report states that "in 2006-2007 debt enquiries to Citizens Advice Bureaux in England and Wales hit a record high, increasing by 20% from the previous year to 1.7 million. In Wales alone more than 105,000 people contacted Citizens Advice Bureaux in 2007-2008 over debt problems, making debt advice the number one client issue in Wales. Debt advice now accounts for 36% of the total client base of Citizens Advice Bureaux in Wales." We know that social housing tenants are twice as likely to make an enquiry to the CAB about debt than other members of the general public.

Evidence from a recent Community Housing Cymru (CHC) survey (June 2009) of its members across Wales found that RSLs experience difficulty accessing debt and money advice for their tenants. The main problems associated with the current provision of debt advice in Wales were overwhelmingly problems with long waiting lists and appointment availability and also a lack of feedback from the advising agency which can lead to vulnerable clients "falling through the net". 44.4% housing associations told CHC that money advice is difficult for tenants to access and reasons included; "backlog"; "long waiting list"; and "oversubscribed" services.

Stuart Lock provides debt advice for the DRAMA (Debt Redemption and Money Advice) scheme, which is funded and utilised by several housing associations in South East Wales. The service suffered from almost 50% "no show" rate until a recent change from surgery appointments to home visits produced 100% engagement. From this the sector learnt that face to face appointments are key to gaining trust and confidence and home visits 'unlock' greater commitment and more than one visit is usually required, however this is an expensive, resource intensive service and cannot easily be replicated, particularly in rural areas.

It should be understood that the provision of debt advice and / or case work alone is not an indication that an individual's financial capability has been increased and additional financial capability work around using bank accounts, budgeting and financial products should be provided.

### **3. The take up of home contents insurance**

Social housing tenants are twice as likely as any other householder to be burgled yet research shows that 3 million households in social and local council housing have no insurance. A tenant with contents insurance is less likely to turn to doorstep lenders in the event of a break-in.

Reasons for non take-up of HCI by tenants including affordability, mistrust of insurance companies, a dislike of the collection payments and a misunderstanding that the landlord covers the household contents - cost is not usually the main barrier to take-up. Even with these most favourable terms take-up within social housing tenants is as low as 8% within some housing providers.

"My Home" is a contents insurance scheme, designed specifically for members' tenants in association with the National Housing Federation, Jardine Lloyd Thompson Tenant Risks and Allianz Insurance plc. This is a very low cost policy with premiums from as little as a couple of pounds per month plus extremely flexible terms, for example, the policy holder is still able to make a claim on the policy despite missing several payments once the premiums are brought up to date.

The CHC Financial Inclusion Network identified that further financial education is needed around home contents insurance and recommended a joint awareness raising campaign with the WAG as a way forward.

### **4. Take up of financial education**

Certain assumptions around financial capability and social housing tenants exist because this client group often appear to make "bad" financial decisions, and the most common manifestation of this might be taking up loans with high APRs or failing to seek money advice - but anecdotal evidence suggests that the majority of tenants "are" highly skilled at managing on an extremely low income because they have little choice.

It can be difficult for housing associations to engage tenants in financial capability work. Some of the main barriers to education are:

Difficulties with English

Lack of appropriate training

Difficulties reading/writing

No time because of family

Reason for no/limited learning: Not interested in doing learning, training or education

But for vulnerable groups there can also be a cultural and generational factor ingrained into communities and a belief that learning and education does not apply to them. For these reasons financial capability must be "piggy backed" onto other tenant activities using tenant participation officers who are already involved with and know the tenants.

### **How housing associations are making a difference in Wales with financial education and capability.**

#### **Ty Agored**

Ty Agored is a sector led bid for European funding to develop a co-ordinated approach for the sector to ensure a seamless approach for participants from initial engagement through to post-employment support. Participants will gain qualifications, enter employment and / or enter further learning. For example, Charter is working with other partners on a whole range of projects which help people develop new or better skills to improve their chances of getting a job. These range from taster sessions in different work areas, training courses, work experience placements, work with young people to identify career paths, help for people to set up their own businesses, help to groups setting up social enterprises and much more. The newest project "Working for Me", helps people find the right training for them to ultimately set up their own business or to find the right employment. This includes financial capability training.

Monmouthshire Housing Association works very closely with the Adult Education Department to provide tenants with further skills and confidence and move people onto voluntary work placements to achieve the transition of ultimate income maximization and financial inclusion by up skilling tenants.

#### **Profiling**

Profiling tenant data can help identify geographical pockets of financial exclusion, levels of financial exclusion and predict who is likely to accrue large arrears and risk homelessness or high levels of debt. Profiling also helps associations to target their resources at those in most need, or at the most pressing issues such as high levels of doorstep lending or even illegal money lending.

RCT Homes are carrying out a face-to-face profiling exercise in each of their 9,000 properties and to date 1,500 questionnaires are completed. The data contains key information on borrowing, saving and money advice which is being used to develop RCT Financial Inclusion Strategy and action plans for the forthcoming year and shape the future of front line services.

## Don't get bitten

'Don't get bitten by loan sharks' is a campaign run by Community Housing Cymru to raise awareness of the scale of the problem of loan sharks and to educate tenants that borrowing even a small amount of money could mean paying back thousands of pounds in interest.

The campaign will run for the month of November with two emotive television adverts on ITV Wales and S4C, and provocative posters that will feature on buses the length and breadth of Wales. CHC and Moneyline Cymru continues to work with the Welsh Illegal Money Lending Unit.

## Moneyline Cymru

Moneyline Cymru is a Community Development Finance Institution (CDFI) which has been developed by housing associations in Wales. It is an affordable, responsible and sustainable lending project which provides financial planning and money advice. We want to change the way financial services are delivered to financially excluded people who might otherwise fall prey to high interest, doorstep lenders or illegal money lenders and those who have low levels of financial literacy by.

Providing affordable loans

Increase access to debt advice

Increasing take-up of basic bank accounts for the unbanked

Increasing saving habits through partnerships with credit unions and promotion of the Savings Gateway (2010)

Increase / maximise household income

Increase financial capability and address financial education through a range of incentives such as savings and loans

Increase financial capability by incentivising and moving customers through a range of financial products

In recent years housing associations have become increasingly aware of evidence pointing to high levels of household debt from doorstep lenders and other high-interest lenders among tenants and growing evidence which suggest there are 'hot spot' areas with limited access to affordable credit. There was also an awareness of a clear indication of the co-location of affordable lending issues and social housing stock and furthermore, evidence of an identity between doorstep lenders and social housing tenants.

By March 2009, 17 Housing Associations across 5 counties had pledged their support for an affordable lending model and between them committed a total of a £458,000 tapered revenue grant over three years to fund the purchase and setting up of five high street outlets in Bridgend, Cardiff, Newport, Rhondda Cynon Taff (Pontypridd), and Torfaen (Cwmbran).

A sum of £1.2 million for the initial loan facility is being provided via a social investment bond and an additional £620,000, a combination of loan capital and revenue support, from The Department of Work and Pensions Growth Fund, a fund set up to provide loans to those who are otherwise unable to access affordable credit.

Interest rates charged by Moneyline Cymru are between 27% and 47% APR which takes into account 3 factors;

The high risk and associated high delinquency rate (15%) within the target group who are typically unable to access mainstream financial products due to a poor credit reference, no bank account and generally poor levels of financial capability.

The intensive level of financial capability work / resources required by this client group.

The project must be self-sustaining in order to be certain that it continue to provide loans to vulnerable groups without relying on subsidies - this is reflected in the 10 year business plan

Every social housing provider within the 5 outlet areas and beyond are taking part in the Moneyline Cymru "alternative" credit reference system, which can reduce the APR to as little as 27% depending upon the status of the tenants rent account. The Memorandum of Understanding with each credit union will permit Moneyline Cymru loan officers to set up credit union accounts to enable customers to progress onto cheaper APRs with the credit union for any subsequent loans they might require, under their preferred save to borrow method.

For example, a 61 year old female in Pontypridd was refused a loan Provident who said she was too old, despite having paid them £52 every week since 2005 for a loan of £1500. Moneyline Cymru repaid Provident directly and loaned the customer £200 for Christmas. She now repays £85 per month and saves £20 with the credit union. In interest alone this is a saving of £600 and that customer should be able to access credit union loans in the future.

Customers also receive financial advice from a money adviser working within the outlets with a view to improving financial capability.

Moneyline Cymru services are open to anyone in Wales and outlets expect to deliver a total of more than 2,000 loans per annum with a potential debt interest savings of £2.5m during the first 3 years of operation.

This is a unique vehicle through which financial capability can be delivered offers realistic incentives based upon the genuine needs of vulnerable groups.

## **Financial Capability Initiatives**

RCT Homes Financial Capability Tutors - 14 staff members are qualified CAB financial capability tutors and are able to take basic money advice sessions out to the community. The demand from sessions with tenant groups has been over-whelming and in order to keep delivering the sessions more staff will be trained following on from the internal training held in the summer of 2009 when all 125 front line staff received financial inclusion awareness training by Community Housing Cymru. RCT homes have been working with Communities First Co-ordinator to set up the first Financial Inclusion Strategic Partnering Group for RCT. Key organisations in the borough will be brought together to investigate the possibility of pooling resources and replicating best practice. The first meeting has been set for early May and invitations will be issued shortly.

Charter's Moneysaver project helps turn advice on budgeting or energy saving into action. The project provides practical help and advice to people who are struggling to do this for themselves. Since the Project started in June 2009, 180 tenants have been assisted and £180k has been made in savings through energy deals, helping people get out of debt and showing them how to save money in the future. This is an average of £800 per household.

Money Mentors is the first project borne out of a newly created alliance of local service agents: Melin Homes, Gateway Credit Union, Torfaen CAB and Torfaen CBC. Melin Homes will act as the host organisation for the Money Mentors Project which will provide 7 trained Money Mentors to be funded through a Job Match Employment Route to work for and alongside the 4 organisations for a 45 week period commencing March 2010. Money Mentors will be attached to the 4 organisations and work a 37 hour week earning national minimum wage. Job Match funding also extends to footing the costs of pre-work training, equipment, clothing, transport and other costs that may be incurred in carrying out the Money Mentors role.

The "My Home" handbook was developed by the North Wales Financial Inclusion Partnership which is led by housing associations in North Wales. It gives practical help about making savings and avoiding getting into debt including tips on reducing energy bills, setting up a new home, information on banking, borrowing and saving and many useful moneysaving websites. The handbook is provided to all tenants free of charge.

## **Recommendations**

We recommend that:

There is targeted funding to prepare tenants to become householders at the pre-tenancy stage, particularly since social housing tenants require the most resources at the reactive stage, using lessons learnt about service delivery

There is a better working relationship between CHC, WAG and Financial Inclusion Champions to maximise on existing financial inclusion work/capability

A national home contents insurance campaign including all partners, e.g CHC, WLGA and WAG

Continued funding for the Wales Illegal Money Lending Unit to enable work to continue in communities to raise awareness of loan sharks

Better monitoring of financial inclusion initiative outcomes.

Continued funding for CHC Financial Inclusion Officer to go on working with and supporting housing associations and their tenants.