

Getting the basics right

Access to basic banking in the UK



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Summary

A bank account is an essential part of participating in modern society. Without one, it is difficult to work and get the cheapest deals. Basic bank accounts were created in 2003 to help those without a bank account get one. A voluntary agreement in 2014, and the Payment Accounts Regulations (the PARs), effective since September 2016, have updated what is required of banks when providing basic accounts and have given people in the UK a right to have a basic bank account.

The Revised Basic Bank Account Agreement required banks to make basic accounts visible and available to consumers who need them. The new regulations require banks to provide basic bank account customers with core services, such as access to Automated Teller Machines (ATMs), protection from fees and charges.

Based on visits to 559 bank branches (conducted in May 2016, before the PARs were implemented), a survey of 222 advisers, and literature provided by banks, we find that, since the agreement, banks have become better at providing basic accounts to those who need them.

However, we identified a number of ongoing problems:

- Basic accounts are still not visible enough in all banks, so some people won't know that they exist. This is compounded by the fact that not all banks allow people to apply for a basic bank account when consumers think they would benefit from one
- Banks' processes for determining what account to give someone rely too much on credit checks. People who would benefit from a basic account - people in debt for instance - are sometimes not being offered one. In some cases, people with a legal right to a basic account, are still unable to access one
- Applying for a basic account is still too difficult. Branch staff are not always aware of what their bank offers and so give incorrect information which may mean people don't open a basic account when they need one. Some banks' requirements for proof of identity are still too inflexible and place unrealistic expectations on consumers
- The research also highlights possible future issues with the implementation of the new regulations, particularly how and when banks decide to migrate old-style basic account holders to new accounts and whether people who would benefit from a basic account are excluded by banks' approaches to determining eligibility

To make sure everyone who wants a bank account can get one and that basic accounts provide a service for those in financial difficulties this report makes ten recommendations for banks, regulators, and government:

1. Banks need to make their basic accounts more visible and accessible, particularly online.
2. All banks should let customers apply directly for their basic account.
3. Banks should give branch staff or a centralised specialist team the ability to override credit scoring criteria over who is offered a basic account. Additional questions could be asked by these teams/staff to determine eligibility.
4. The FCA should carry out a review of banks' policies and practices in relation to providing basic accounts to people in debt. The FCA should then be prepared to tackle any poor practice it finds.
5. The FCA should monitor what happens to people who are being migrated from Post Office Card Accounts to basic bank accounts and take action where needed.
6. Banks need to make sure branch staff are fully aware that undischarged bankrupts and people in the moratorium period of a Debt Relief Order are eligible for a basic account and should not have their existing accounts closed.
7. Banks should provide their staff with training to ensure they are knowledgeable about their basic account product. Banks should also ensure their information systems have complete information about basic accounts so staff can refer to this when talking to potential customers.
8. Banks need to make sure they are consistent nationwide with requirements for letters from government departments being used to prove identity or address. Banks need to make sure that any requirements they have as to the format of letters reflect and adapt to what government departments provide.
9. Banks should make sure that all their customers with old-style basic accounts are migrated into the new-style basic accounts as soon as possible.
10. The Treasury and FCA should monitor how basic account holders move between basic accounts and full current accounts over time.

Background

A bank account is an essential part of participating in modern society. Having a bank account allows people to manage their money and make and receive payments securely. People without a bank account may find it hard to find work, receive their wages and/or benefits or struggle to get the cheapest utility deals.

In 2003, as a response to the decision to pay all social security benefits into bank accounts, the Social Exclusion Unit recommended that banks offer basic accounts¹ At that time, up to 9% of adults had no bank or building society account of any kind, and 20% of adults did not have a current account. Government worked with banks to develop accounts which could not go overdrawn, allowed benefits and wages to be paid electronically, and provided direct debit payments.² By 2015, 9 million basic bank accounts had been opened. Just 4% of UK households did not have access to a bank account.^{3 4}

Despite that success, there have been longstanding problems with some basic accounts offered by banks. In the past, some banks have not provided basic bank accounts to those who need them or they have removed important features such as access to counter services, and the LINK cash machine network.

People in financial difficulties have experienced particular problems:

- Banks have been unwilling to offer basic accounts to people in debt, people with a poor credit history, or to undischarged bankrupts
- Tight criteria on proof of identity and address meant people who were offered accounts struggled to get one
- People with basic bank accounts could be charged up to £40 for failed direct debits or standing order payments

Access to a bank account is an EU-wide problem. The European Commission legislated to give all EU citizens the right to a basic account.⁵ The government made an agreement with the 9 largest banks to make it easier to get a basic bank account and to improve the accounts offered ahead of implementation of the EU Directive. This resulted in the Revised Basic Bank Account Agreement (the

¹ *Access to financial services - Report of PAT14*, HM Treasury, November 1999

² Number of households without bank accounts cut by half, HM Treasury, 2009

³ *Implementation of the Payment Accounts Directive: consultation outcome*, HM Treasury, 2015

⁴ Family Resources Survey 2014/15, Department for Work and Pensions, 28 June 2016

⁵ The UK implementation of this Directive is the Payment Account Regulations (the PARs).

agreement) which came into effect in January 2016. Since October 2016 much of the agreement has been reinforced by measures in the Payment Accounts Regulations (the PARs), that are binding on banks.

This report looks at the progress made by banks since the agreement came into effect in January 2016. Since the primary research was completed, the PARs have come into effect and the Treasury has published the first batch of performance data⁶ relating to new basic accounts which satisfy the agreement. This report sets out what we found earlier this year in the context of these subsequent developments.

⁶ Basic Bank Accounts: January to June 2016, Her Majesty's Treasury, December 2016

Research Method

A survey of bank branches

In May 2016 (before the PARS were implemented), 76 local Citizens Advice services in England and Wales surveyed 559 bank branches about their basic accounts. This piece of research was designed to test a number of issues, including how well banks had trained their staff and whether banks were sticking to the terms and spirit of the agreement.

Our previous experience is that often the information given by or behaviour of bank branch staff can act as a barrier to people opening a basic account, so it was important to find out what bank staff knew or what their attitude was to opening basic accounts. A secondary outcome of the research was that the local Citizens Advice who took part obtained information about local bank branch practices in relation to opening basic bank accounts which they could use to advise their clients. Appendix 1 sets out the questions that we asked.

A survey of advisers' experience

We undertook an online survey of 222 debt advisers and financial capability workers which ran from May to July 2016. This survey was intended to gauge whether people who had had experience of advising clients to open a basic bank account had noticed a change for the better or if things had stayed the same or got worse. Of the 222 advisers who completed the online survey, 164 had advised clients on basic bank accounts since January 2016 when the agreement came into effect. The questions used in this survey can be found in Appendix 2 to this report.

An analysis of information in bank leaflets and websites

We asked the local Citizens Advice services to send us any leaflets containing information about the accounts offered by banks, including standalone information on basic accounts. We analysed these to see where information about basic accounts was located. We also analysed banks' websites to see where information about the basic account could be found. Summaries of what we found can be seen in Appendix 3.

1. What are basic bank accounts?

Basic bank accounts provide an alternative to full current accounts for consumers who don't have a bank account or are in financial difficulty. Through the agreement which came into effect in January 2016 and the Payment Accounts Regulations, effective since September 2016, the government has sought to improve the accounts available to consumers.

What do the new rules require from banks?

Services banks must provide to basic account holders

Under the agreement, in force since January 2016, banks agreed to a set of core features for the basic bank accounts they offer to consumers. The Payment Account Regulations have since given statutory backing to the main aspects of that agreement. Basic bank accounts must provide:

- Access to bank branch and Post Office counter services to deposit and withdraw cash
- Access to ATMs in the LINK network in the same way as full current account holders
- Allow consumers to send and receive direct debits and standing orders
- A payment card that can be used online
- Access to online banking services

Protections for consumers

In addition to setting out the services that must be available to basic bank account holders, the regulations provide three crucial protections to help basic bank account holders avoid getting into financial difficulty:

- Holders of basic accounts are not allowed an arranged overdraft or credit card
- Banks should minimise the opportunity for an unauthorised overdraft
- Banks are not allowed to charge fees for an unpaid payment (e.g. due to lack of funds) or an overdrawn balance⁷

⁷ Banks cannot charge fees for any transaction conducted in sterling. Transactions in foreign currencies can accrue fees but the PARs require these to be proportionate and take into consideration national earnings and the fees charged by other banks for the same service.

Making accounts available to consumers

The regulations also set out how the provision of basic bank accounts must be made clear to consumers so that those who would benefit from a basic account knows what is available.

Banks are supposed to make the new basic accounts as visible to potential customers as their other current accounts. The new accounts also have to be available nationally across all normal distribution channels normally used by the bank. For instance, banks should provide good information about basic accounts available in leaflets and online to help customers make the right decision about the best account for them.

Banks are not allowed to make access to a basic account dependant on buying any other services or shares from the banks, unless they require this of all their customers.

Those changes are primarily a response to the weaknesses of the original basic accounts that were introduced in 2001. In addition they reflect the growing importance of a range of transactional services and the broadening of the aspects of banking that can be considered essential for all consumers. The protections from fees and charges, in place since January 2016 and reinforced by legislation from October 2016, mean that basic accounts are now better placed to support financial inclusion. This means there is now a clear framework to ensure that everyone in the UK can access a bank account that helps them stay in control of their finances.

2. What do basic bank accounts currently look like?

The Revised Agreement and the Payment Accounts Regulations have set clear rules about the services and protections that banks must provide to basic account customers as well as how banks highlight the availability of those accounts to consumers. How banks fulfil those requirements differs across providers.

This section describes the features of the basic accounts offered by banks who agreed to the terms of the Revised Agreement. (For a summary of the information please see appendix 3.)

Our research found that, in general, basic bank accounts meet the criteria in the agreement. However, in some specific instances, the practices of banks and how they make the accounts visible to the consumer did not. Each bank had a different approach.

Information provided

The agreement set out that banks must make accounts visible to consumers and available across all delivery channels. Despite that, banks' information about their basic account is provided in different ways with varying degrees of clarity.

a. Offline information

Some banks presented their basic bank account as an integral part of their product range in their promotional materials in terms of prominence, content design and the amount of space allotted. Other banks contained minimal information about their basic account or even hid it, for instance inside the folding design of a leaflet. We were concerned to find that some banks don't include information about their basic bank account within current account comparison tables.

b. Online information

We found that all banks covered by the agreement and the PARs had online information about their basic bank accounts, but that this was often hard to find. We found that some banks' websites required clicks on several links to get to comprehensive information about basic accounts. For example one bank's

initial account summary page did not mention their basic account. Users had to follow a “compare all products” link to find this information. We feel that this approach to presenting information about basic accounts does not meet the requirements of the agreement for basic accounts to be as visible as regular accounts.

Generally, information about basic accounts and links to further content were placed after information about their premium and full service current accounts and near information about their student account on their main account overview page.

Recommendation 1: Banks need to make their basic accounts more visible and accessible, particularly online. For example, banks should include their basic bank account in their account comparison tables and tools.

Application process

There is nothing either in the agreement or the PARs that requires banks to adopt particular application processes for their basic account. The agreement asked banks to make them available “across all distribution channels normally used by the provider in line with their national reach”. Of the banks covered by the agreement we found four that allow customers to apply directly for a basic account and five that don’t. You have to fail the application for another account to be offered the basic account. This failure is determined by whether or not the potential customer passes a credit check. It was unclear for two banks how their application process worked.

The second system, employed by 5 banks, is less good for people in financial difficulties as it removes their ability to choose the account most suited to their needs. Banks also have wide discretion as to who to offer basic accounts to. We think that allowing consumers to apply directly for a basic account might increase awareness. Doing so, however, would not give people an automatic right to a basic account, as a bank may decline someone’s application and offer them a full service account.

Recommendation 2: All banks should let customers apply directly for their basic account.

Additional features

Our research found that no two basic bank accounts are the same. This is largely due to the fact that even though they are an entry level account, they often included extra features. Examples of these include making the account available to over 16s (rather than over 18s) and a feature which allows customers to round up transactions and save the difference in a linked savings account.

Some banks also offered features they generally offered to their current account holders such as being able to access emergency cash via ATMs if you lost your card or had it stolen. This slight differentiation is positive for individual consumers and gives potential basic account customers a choice of account which best suits them.

3. Eligibility

A further change implemented by the Revised Agreement, and carried over into the PARs is clear eligibility criteria for a basic bank account. Prior to the Revised Agreement, it was left to banks to decide this, and as long as they had a basic account in their product range this satisfied government. This meant that consumers were often provided with accounts that weren't in their interests.

What is now required of the banks?

Under the agreement banks agreed to provide basic accounts to people who:

- Don't have a bank account but are ineligible for a full current account
- Want to switch accounts but are ineligible for a full current account
- Already have a bank account but need an additional account due to "financial difficulty"

In the Revised Agreement banks agreed to provide basic accounts to people in financial difficulties. This term, however, wasn't explored or defined in the agreement. The PARs require banks to provide accounts to people who don't have a bank account in the UK or who are ineligible for any other account with them, but there is no legal duty on banks to provide a basic bank account as a response to financial difficulties.

The regulations also require banks to provide basic accounts for people who are legally resident in the EU. As set out in the EU Directive, this is intended to include people with no fixed address, asylum seekers, and people without a residence permit but whose deportation is impossible for legal or practical reasons.

How are banks determining eligibility?

Neither the Revised Agreement nor the PARs set out how banks should determine when someone was eligible for a full account but this is often an important factor in whether people should be offered a basic account. To find out how banks approach this we asked branch staff when someone would be eligible for a basic account in general terms and, more specifically, what account someone would be available for in 5 situations where Citizens Advice felt their circumstances meant they should be offered a basic account.

We found that some banks are using a credit score alone to determine what accounts a consumer would be eligible for. If this is the case, people are only being offered a basic account if they fail the credit score. One bank branch said:

“It depends on the credit score. Everyone applies for a full account, and if they don't meet the credit score then they are offered a basic account.”

While routine use of a credit score to determine eligibility provides consistency in decision making, there are a number of possible drawbacks for consumers. First, if a poor credit score is the only way to access a basic account then this makes it harder for people to choose the bank account which is right for them.

This is particularly important for Post Office Card Account (POCA) holders who are being asked to open a bank account so they can continue to receive Universal Credit. Many POCA holders will have limited information on their credit reference file as they are often otherwise unbanked. Those with a more complete file will often be offered a full account where a basic account may be more appropriate. The use of credit scoring as the sole gateway to a basic account means that some of these people will lose out.

Second, we also found that this practice meant that branch staff of some banks had little or no control over what account someone is offered. Our advisers told us that using credit scoring as the sole determinant for eligibility means that people who would benefit from a basic account lose out, particularly when vulnerable clients lack the confidence to challenge a bank's decision. This can lead to poor outcomes for such people. One adviser told us:

“I find explaining the concept of opening up a new basic bank account to a client very difficult. When I feel that they have understood the advice they usually contact me again to say that they weren't allowed to open up a basic account but have managed to increase their overdraft limit! It's a lack of financial capability and confidence that leads to this. The client often goes into a bank not confident in what they are asking for. They may not feel assertive enough to open up a new account and therefore they don't manage to do it.”

There were notable exceptions to the reliance on credit scores. For example, we found that some banks allow local discretion. Branch staff also indicated that some banks have specialist teams who deal with applications for basic accounts who they could refer decisions to.

More concerning was the limited number of responses which indicated that some banks would not offer a basic account to people with a bad credit score. This goes against what banks committed to in the Revised Agreement, and from October 2016, and would mean banks were breaching the PARs.

Recommendation 3: Banks should give branch staff or a centralised specialist teams the ability to override credit scoring criteria over who is offered a basic account. Additional questions could be asked by these teams/staff to determine eligibility.

Are banks offering basic accounts to people who need them?

In the Revised Agreement, banks agreed to provide accounts to 'banked customers in financial difficulty who require an additional account but are ineligible for a full-service account' as well as those without a bank account. We asked branch staff about five situations where a basic bank account should have been the best option to see what their bank's response would be.

We asked branch staff about:

- People with debts to the bank they are applying for a basic account with and regularly use an unauthorised overdraft
- People with debts to other banks and regularly use an authorised overdraft
- EU migrants on low incomes and in receipt of in-work benefits
- People switching from a Post Office Card Account (POCA) to a bank account in order to receive their benefits
- Undischarged bankrupts or with a Debt Relief Order (DRO)

i. People with multiple debts

Basic bank accounts were designed for people who hadn't had access to mainstream financial services before. In practice, they provide a useful service for people in financial difficulties. One group of people advisers regularly recommend to open basic accounts are those with multiple debts. Basic accounts allow people to manage payments to existing creditors and stay in control of their finances. 75% of advisers had advised clients in multiple debt to open a basic account since January 2016.

We found evidence that some banks would refuse some people in debt a basic account. One bank branch said:

“There is a cut off based on the amount of debt you have but is not public.”

More specifically, our bank branch survey asked branch staff about whether basic accounts would be available to someone with an unauthorised overdraft and other debts to the same bank and for someone who often uses their authorised overdraft and has debts to organisations other than their bank.

The first scenario was to test whether banks were willing to open a basic account for someone who is in debt to them, something most banks were historically bad at. The second scenario was to test how banks would approach someone who at first glance may not appear to be in financial difficulties, but had some indicators they could be struggling financially.

a. Someone using an unauthorised overdraft and debts to your bank

We found a wide variation in banks’ responses to this scenario. Some banks were reluctant to open a basic account for someone who owed them money. Branch staff suggested that they would rather keep the person within their current account and work with them on managing their debts. In our experience such an approach could lead to a worsening of the person's financial difficulties. For example adding default charges to overdrafts makes it much harder for someone to pay off their debts. Someone wouldn’t have to pay these fees if they were able to open a fee-free basic account without overdraft facilities. It would also mean they can prioritise debts such as rent or mortgage arrears, council tax arrears and fuel debts rather than debts to their current account provider.

b. Someone using an authorised overdraft and debts to other banks

There was also wide variation in the way bank staff responded to someone with debts to other banks. Bank staff often highlighted they would endeavour to help the person manage their debt, but the most common suggestion was a debt consolidation loan.

Whilst full current accounts and debt consolidation loans may be useful options for people whose financial problems are short-term or temporary, they would not be suitable for people on low incomes who face long term difficulties.

These findings suggest that banks are not yet good enough at spotting people who are in financial difficulty especially when debts lie elsewhere. The use of

credit scoring to assess eligibility does not enable banks to identify when a person is in the early stages of financial difficulty.

Recommendation 4: The Financial Conduct Authority (FCA) who are responsible for monitoring compliance with the Payment Accounts Regulations should carry out a review of banks' policies and practices in relation to providing basic accounts to people in debt. It should then be prepared to tackle any poor practice it finds.

ii. Recent EU migrant on a low income

Basic bank accounts allow people who are new to the UK to build up a credit history which may over time gain them access to full current accounts and other credit products. The PARs say that banks must not discriminate based solely on the applicant's residence status or length of residence.

We found much less variation in response from banks for this person's scenario compared to the others. Most banks and bank branches were willing to offer a basic account to a recent EU migrant.

Nevertheless, a number of branches suggested they would offer this person a full current account even if they had a low income, received in-work benefits and wanted an account which would not let them go overdrawn.

Some branches did say that they could offer a current account without a formal arranged overdraft facility, but this would not prevent the account from going accidentally overdrawn. Offering a full current account would also mean that the person would not be protected from additional fees for other situations such as having a payment terminated due to lack of funds, something designed to protect the incomes of those on low wages.

iii: Someone who needed a new account to pay their benefits into because their Post Office Card Account is closing

The Post Office Card Account (POCA) was launched in April 2003. It was a necessary part of the government's implementation of a policy to pay all state pensions electronically into an account. This was because not all people would be able to open and use a bank account for receipt of their benefits. POCAs are simple accounts which allow pensions and benefits to be paid in, but not other payments, and cash withdrawals from any Post Office branch using a plastic card. POCA holders don't face any related charges because there is no overdraft

or direct debit facility. There are about 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 their bills weekly or fortnightly and do not use any lending or borrow facilities).

Recently the government has changed its stance on POCA for people of working age. Working age benefit recipients will be expected to use more functional bank accounts for receipt of their benefits. This is largely due to the replacement of most means-tested benefits and tax credits with Universal Credit. In particular, housing payments will now be paid directly to claimants and tenants will be expected to pay housing costs by direct debit rather than in cash.⁸

While there is no legal requirement for Universal Credit recipients who currently hold a POCA to open a bank account, Jobcentre Plus has now started to write to claimants of working age who receive their benefits into a POCA asking them to make arrangements to have their benefits paid into a bank account instead.

Most banks were willing to offer a basic account to someone transferring from a POCA. Several branches we visited mentioned they had seen more people who had POCAs coming in to open a new account so they could continue to receive their benefits. This was an issue in our adviser survey - 26% of advisers said they had helped clients who needed a new basic account because they had been told by the Department for Work and Pensions (DWP) to open a basic account to receive Universal Credit payments.

Some banks indicated that they would use the same process they use for all applicants. Consequently if someone with a POCA had a good credit score, they would struggle to open a basic bank account. In our recent research 90% of POCA holders said that if they had to move away from their POCA it would be important to have a basic bank account which doesn't incur fees and charges.⁹ It is crucial that current POCA holders who need to open a basic account for their benefits get offered the right account.

Recommendation 5: The FCA should work with the Department for Work and Pensions (DWP) to monitor what happens to people who are being migrated from POCA to basic bank accounts and take action where needed.

⁸ *The banking needs of Universal Credit claimants: the potential role of budgeting accounts*, Policis for DWP, September 2016

⁹ *Basic banking and POCA*, Citizens Advice, September 2016

iv. People who are bankrupt or have a Debt Relief Order (DRO)¹⁰

In October 2015 the law was changed to make it easier for banks to offer accounts to undischarged bankrupts. While there was no such bar for people with a DRO, or in the moratorium period after a DRO, the legal change has also clarified how banks should treat consumers with a DRO.¹¹

Advisers felt that there had been a change for the better since January 2016. Our survey found:

- 37% said that banks are now providing basic accounts to undischarged bankrupts
- Over half (56%) said banks are now providing basic accounts to people in the moratorium period after a debt relief order

Despite that improved practice there are still problems for people who are bankrupt or have a DRO, with some banks refusing to open accounts for people with DROs. There was some uncertainty over the legal change with branch staff suggesting that basic accounts would only be available to discharged bankrupts.

Our research suggests that banks still need to do more to make sure that all bank staff are aware that they should now offer basic accounts to undischarged bankrupts or someone in the moratorium period of a DRO.

Recommendation 6: Banks need to make sure branch staff are fully aware that undischarged bankrupts and people in the moratorium period of a DRO are eligible for a basic account and should not have their existing accounts closed.

There is still too much variation in who is being offered a basic account both within and between banks. We found branch staff gave widely varying responses to when a customers in similar situations would be offered basic accounts. This lack of consistency means consumers who would benefit from a basic account would be offered one in some branches, but in others would not get the service they need.

¹⁰ Debt Relief Orders, available in England, Wales and Northern Ireland, are designed to make insolvency accessible to people with low disposable income and limited assets. The total debt must be £20,000 or below. Further details can be found here <https://www.citizensadvice.org.uk/debt-and-money/debt-solutions/debt-relief-orders/debt-relief-orders-explained/debt-relief-orders-what-you-need-to-know/>

¹¹ See *Cutting our losses - the need for good debt collection practice for people with debt relief orders*, Citizens Advice, February 2015

4. How easy is it to apply for a basic bank account?

For the new regulations to be a success and help every adult in the UK get a bank account that helps them stay in control of their finances, it is crucial that it is straightforward to open a basic bank account.

There are three crucial aspects of how banks provide basic accounts that affect how easy it is for customers to get a basic account if they need one:

- Accounts must be made visible so that consumers are aware of their features
- Bank staff should know about their basic account and be in a position to give correct information and guidance to people opening an account. Our experience tells us that these first impressions are crucial. Being given unclear information or being treated poorly can lead to people who need a basic account giving up on their application
- People need to be able to prove their identity and address easily. Historically some banks have been inflexible about what documents they would accept before opening an account.

In our survey of 559 bank branches we analysed how much staff knew about their bank's basic account offer and whether they were able to tell potential customers about a range of proof of address and identity documents in order to gain an understanding of what a customer's first impression would be.

Staff knowledge of basic accounts

It is important for branch staff to have some knowledge of their bank's basic account in order to provide information and assistance to potential customers. Overall awareness of the basic account was high. Only 3 of the bank branches surveyed failed to give any information about their basic account. In one instance:

“Counter staff answered, all rather vague. Initially they mentioned savings accounts as not having overdraft. When pressed, they provided a bank account brochure and mentioned an overdraft control feature which cost £10 per month.”

While awareness of basic accounts being offered by their bank was high, we found that few branch staff were very knowledgeable about the features of the basic account. In the worst performing banks staff simply said the account was fee and overdraft free. We would like staff to be able to talk about the features of their basic account in more depth.

When asked about basic bank accounts, bank staff often mentioned unsuitable accounts such as those with a fixed charge or savings accounts. While savings accounts cannot go overdrawn, they are not a substitute for a basic account as they typically only accept cash and cheque deposits and withdrawals and do not allow electronic payments.

Branches of two banks sometimes mentioned their current accounts with “control features” rather than their basic account. These stop accounts from going overdrawn but incur a monthly fee. Branch staff felt these types of accounts would be a good alternative to a basic account.

“Our "Basic Account" is our limited facilities account. This account is for people with lower credit scorings but it still has facilities for everyday use- e.g. debit card/ internet and mobile banking. You cannot apply for a planned overdraft with this account, however, you can potentially enter an unplanned overdraft. There are no interest fees or charges if you do. We also offer a service called "control" for £10 per month. This helps to avoid unplanned overdraft fees and keeps a limit on spending. It is a separate safeguard for everyday use on our Current Accounts.”

However such accounts would not be suitable for people with long-term financial difficulties or on a low income due to the cost. They should be able to access a fee-free basic account which better suits their needs.

Recommendation 7: Banks should provide their staff with training to ensure they are knowledgeable about their basic account product. Banks should also ensure their information systems have complete information about basic accounts so staff can refer to this when talking to potential customers.

Proving identity and address

Anti-money laundering laws require banks to obtain proof of someone’s identity and address before opening them any new account.¹² EU legislation to tackle

¹² Relevant legislation is the Fraud Act 2006 and the Money Laundering Regulations 2007

money laundering can hold bank staff criminally liable if they open an account which is then used for money laundering or to finance terrorism. Banks usually ask people for their passport or photocard driving licence as proof of identity and a recent paper utility, bank or credit card statement as proof of address.

However many people who would benefit from a basic bank account often do not have these standard documents. This problem has been recognised by the banks and the Joint Money Laundering Steering Committee, which represents financial trade bodies on money laundering issues. They have produced extensive guidance on documents that might be acceptable alternatives.¹³

Both the Revised Agreement and the PARs specify that banks must still satisfy their anti-money laundering obligations when opening basic bank accounts. We asked our advisers whether they had noticed a difference in the types of identification banks accepted when opening a basic account and in our bank branch survey we asked branch staff how flexible they would be.

Advisers who answered our survey said that banks were now more willing to be flexible with the types of documents they would accept. However they also told us that difficulty in proving identity or address was the most common reason (32%) why clients have been unable to open a basic bank account since January 2016. One adviser told us:

“Out of the 8 banks that my self-employed client tried to apply to, only one accepted his application. Other banks refused because they said that the print-out of his online utility bill could not be used as proof of address. Though the client explained on many occasions that this was all he was given from his energy supplier, the banks refused and asked him to provide extra documents.”

In our branch survey, branch staff were usually able to name alternative documents that people could use as proof of identification or address. Bank branches that performed well often provided an extensive list of alternative documents.

Some bank branches only named alternative documents when asked directly and provided little detail about what would be acceptable. One adviser said that the branch told them:

¹³ *Prevention of money laundering and combating financing of terrorism - guidance for the financial sector*, JMLSG, November 2014

“There is no compromise on ID; they need one photo ID and one document to verify address.”

Just under half of banks we visited (48%) told us that they would accept letters from the DWP or HMRC about benefits or tax credit entitlement as proof of identity or address. However some banks were being specific on the content, layout or type of letter, for example, specifying how old the letter should be or how the client’s name should appear on the letter. One adviser told us the bank they visited:

“Would like a passport or driving licence. However they will consider an HMRC letter or benefits letter but it must have full name not just initials.”

For someone in a difficult or vulnerable position trying to apply for a basic account, a letter from the DWP or HMRC could be a useful alternative document. But that is limited if banks implement strict criteria that don't always match up with what consumers are being sent.

There was also a lack of consistency between branches of the same bank with these requirements. For example, one branch of a bank in Grantham said they would accept a benefits letter up to one year old, whereas the Walton-on-Thames branch of the same bank said that letters had to be less than 3 months old.

Recommendation 8: Banks need to make sure their branches are consistent nationwide with their requirements for letters from government departments being used to prove identity or address. Banks need to make sure that any requirements they do have as to format of letter or names reflect and adapt to what government departments provide.

Conclusion and recommendations

Basic accounts are not visible enough

The Revised Basic Bank Account agreement stated that basic bank accounts must be made visible and that they must be made available through the same distribution channels as other accounts.

While we did not find any evidence of non-compliance with this aspect of the agreement, information about basic bank accounts on some banks' websites was hard to find, compared with the information about mainstream accounts.

Recommendation 1: Banks need to make their basic accounts more visible and accessible, particularly online. For example, banks should include their basic bank account in their account comparison tables and tools.

Recommendation 2: All banks should let customers apply directly for their basic account.

The approach banks take to eligibility can be too narrow

There were problems caused by the way some banks determined eligibility for basic bank accounts. Most banks rely on credit scoring to determine who is eligible for a basic account. That reliance means that banks are often not able to offer accounts that respond to the complexities of people's lives.

Banks with a more flexible approach combine credit scoring by asking further questions to the applicant. One bank has a centralised specialist team which handles all applications for a basic account in a flexible and informed manner.

Recommendation 3: Banks should give branch staff or a centralised specialist teams the ability to override credit scoring criteria over who is offered a basic account. Additional questions could be asked by these teams/staff to determine eligibility.

Some banks are also reluctant to open a basic account for people with multiple debts who would benefit from an account which didn't allow them to go further overdrawn and protected them from escalating fees and charges.

Recommendation 4: The Financial Conduct Authority (FCA) who are responsible for monitoring compliance with the Payment Accounts Regulations should carry out a review of banks' policies and practices in relation to providing basic accounts to people in debt. It should then be prepared to tackle any poor practice it finds.

Since the government is keen to move people of working age from POCA to bank accounts it is essential that these largely unbanked people can access a basic bank account. Previous research showed that a fee free account is very important for POCA holders ongoing use of a payment account.¹⁴

Recommendation 5: The FCA should work with the Department for Work and Pensions (DWP) to monitor what happens to people who are being migrated from POCA to basic bank accounts and take action where needed.

Applying for a basic account is too difficult

We found a number of problems with the way people can apply for basic accounts. The most severe issue was the variation in knowledge of the legal requirement to make basic accounts available to undischarged bankrupts and those in the moratorium period of a DRO.

If someone is given incorrect information by a member of staff it will often prevent them from opening a basic account. Given that the research took place at least six months after the law changed, we feel the banks need to ensure that all their branch staff are aware that the law no longer bars undischarged bankrupts from having an account.

Recommendation 6: Banks need to make sure their branch staff are fully aware of the change in law regarding providing accounts to undischarged bankrupts. This should also make it clear that being in the moratorium period of a DRO does not mean someone should have their applications for a basic account declined or their existing accounts closed.

More generally there is a wide variation in the knowledge that bank staff have about basic accounts meaning some people who need a basic bank account can't get one.

¹⁴ *Basic banking and POCA*, Citizens Advice, September 2016

Recommendation 7: Banks should provide their staff with training to ensure they are knowledgeable about their basic account product. Banks should also ensure their information systems have complete information about basic accounts.

Our study also revealed the persistence of long standing issues around documents needed for identity and address verification. As Universal Credit claimants are encouraged to open basic bank accounts in coming months, it is vital that banks properly invest in staff training to overcome these problems once and for all.

Recommendation 8: Banks need to make sure their branches are consistent nationwide with their requirements for letters from government departments being used to prove identity or address. Banks need to make sure that any requirements they do have as to format of letter or names reflect and adapt to what government departments provide.

Wider issues

As well as issues with visibility, eligibility and application process, there are a number of possible future problems with access to basic bank accounts.

The data published in December 2016 by the Treasury has shown that nearly half a million accounts which are compliant with the agreement have been opened since January 2016.¹⁵ The same data also showed that some banks have substantial numbers of customers in old style basic accounts. About half of basic bank accounts open in the UK do not satisfy the requirements of the agreement.

Recommendation 9: Banks should make sure that all their customers with old-style basic accounts are migrated into new style basic accounts as soon as possible. Doing so should be seen by these banks as being in their customers' best interests.¹⁶

The agreement allows for basic bank account holders to be checked every twelve months to see whether they are still eligible for a basic account. In principle, this is not a problem, but as with eligibility at application, it is important that eligibility criteria are not drawn too tightly if basic bank accounts are to fulfil their promise of reducing financial exclusion. In 2017 the first revised

¹⁵ *Basic Bank Accounts: January to June 2016*, Her Majesty's Treasury, December 2016

¹⁶ According to HM Treasury two banks have committed to migrate customers from old style basic accounts to the new ones.

basic bank accounts will have been open for 12 months and ongoing eligibility will be checked for the first time.

Recommendation 10: The Treasury and FCA should monitor how customers move between basic bank accounts and full current accounts.

Appendix 1: Questions asked in our bank survey

Hello, I'm from the local Citizens Advice...

1 - We are looking to develop our own information sources about bank accounts which don't allow people to go overdrawn, and I wondered if you could tell me a bit about what you offer here?

2 - What circumstances would someone need to have to qualify for a basic bank account? Try and get them to elaborate on 'financial difficulties' (e.g. in debt, on benefits etc)

3 - What kind of ID and proof of address would someone need to provide to open a basic bank account? How flexible are you? E.g. if someone doesn't have a passport.

Case studies

4a - What might the bank offer... (these are typical situations where CAB clients would need to open a basic bank account)

4b -why would that option be most appropriate for a person in that situation?

Person 1

Someone who is an undischarged bankrupt or was recently approved for a debt relief order (DRO). (you might need to explain what a debt relief order is)

Person 2

A person who has an unauthorised overdraft and other debts to your bank.

Person 3

A person who has recently arrived to work in the UK from another EU member state who needs a bank account. They are on a low income and in receipt of in-work benefits and want a bank account which cannot go overdrawn.

Person 4

Someone who is having their Post Office Card Account closed and needs a bank account to receive benefits payments.

Person 5

Someone who often uses their authorised overdraft and has debts to organisations other than your bank.

Appendix 2: Questions asked in our online survey

1: Have you advised clients to open a basic bank account, or about problems they have had opening a basic bank account, since 1 January 2016?

- yes
- no

2: Overall, how has access to basic bank accounts changed for your clients since 1 January 2016?

- Got much better
- Got a little better
- Stayed the same
- Got a little worse
- Got much worse
- Don't know

3: How have things got better? (Tick all that apply)

- Banks are now being more flexible as to which documents they will accept to prove identity and address
- Banks are now providing basic accounts to people with debt relief orders
- Banks are keeping current bank accounts open for people with debt relief orders
- Banks are now providing basic bank accounts to to undischarged or recently discharged bankrupts

4: How have things got worse (tick all that apply)

- Banks are now being less flexible as to which documents they will accept to prove identity and address
- Banks are now less likely to open basic bank accounts for undischarged or recently discharged bankrupts
- Banks are now more frequently closing down bank accounts of people with Debt Relief Orders (DROs)
- Banks are now more frequently closing bank accounts for other reasons
- Other (please specify)

5: Since 1 January 2016, which of the following people have sought advice from you about basic bank accounts (tick all that apply)

- People with a poor credit history
- People with unmanageable debts
- People with a Debt Relief Order (DRO)
- Discharged bankrupts
- Undischarged bankrupts
- People who need a bank account for payment of Universal Credit (UC) who had previously had their benefits/tax credits paid into a post office account
- Ex-offenders
- Non-UK nationals
- Don't know

6: Since 1 January 2016, what has been the most common reason your clients have been given for being refused a basic bank account?

- Poor credit history
- Bankrupt
- Debt Relief Order (DRO)
- Difficulty proving identity and/or address
- Bank giving full account instead
- Not given a reason
- None of my clients have been refused access to a basic bank account
- Don't know

7: Which bank do you think is the best at providing basic bank accounts to people in financial difficulties?

- Barclays
- Co-operative Bank
- HSBC
- Lloyds
- Nationwide
- Natwest
- Halifax
- Bank of Scotland
- Yorkshire Bank
- Ulster Bank

- Santander
- TSB
- They are all the same
- Don't know

8: Which bank do you think is the worst at providing basic bank accounts to people in financial difficulties?

List as question above

9: Do you have anything else you would like to tell us about your clients' experiences with basic bank accounts since 1 January 2016?

Appendix 3: Information available about different banks' basic accounts.

Name of account	Application process	Information in leaflets	Information online	Additional Features
Barclays basic current account	Unclear	Not included in comparison table but fully detailed later on	At the end of the section on current accounts there is a link to information about the basic account	Free text alerts. Mobile payments. Choice of cash card or debit card. Can add paid for features such as travel insurance
Co-Operative Bank Cashminder	By post, by phone, or in branch	Separate booklet on the Cashminder account	Information on the main current account page after the student account	Available to over 16's
Halifax Basic account	Only available if rejected for another account	Information included in main bank accounts booklet. Also a separate booklet about the basic account	No mention on main current account page. Only clicking on "compare all accounts" link shows information.	Mobile text alerts
HSBC Basic bank account	Online, in branch or by post.	Separate leaflet about basic account. Included in main comparison table.	Information is included on main current account page	Available to over 16's
Lloyds Basic account	Only available if rejected for another bank account.	Separate helpful booklet about the basic account.	Not included in the default version of their main current accounts page	Free text alerts and money management tool
NatWest Foundation Account	Only available if rejected for another bank account.	Not included in main account comparison table. Is covered in page on other current accounts.	Not included in main account comparison table. Is covered in page on other current accounts.	Emergency cash facility if card is lost or stolen. Mobile payments.

Nationwide FlexBasic	Online, by phone or in branch	Included in main comparison table and has own section in booklet	Information is included in the main current accounts page	Free text alerts and contactless payments
RBS Basic account	Unclear - needs a discussion with staff either in branch or by phone	Not included in the main comparison table but is covered in the page about other current accounts	Not included in main comparison table headed "our most popular accounts" but covered underneath	Emergency cash facility if card lost or stolen. Mobile payments.
Santander Basic current account	By phone, in branch or online	Included in main comparison table. More information is on the page headed "our other current accounts"	Included in main current account page	Available to over 16's. Has separate cash and free pre-paid debit cards.
TSB Cash Account	Available only if rejected for another account.	Separate leaflet about basic account. Included in main comparison table.	Included in main page about current accounts	Free money management tool. Optional "save the change" feature to round up debits and save the difference.
Yorkshire and Clydesdale ReadyCash	Available only if rejected for another account	Not included in comparison table but information is presented underneath. There is a further page about the account	Included in the main page of current accounts	Available to over 16s

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