

## **MAS Financial Inclusion Project**

### **Key Background Information for Tutors**

#### **What is Financial Capability?**

The term 'Financial Capability' reflects an individual's ability to manage their money effectively, both everyday, and when facing difficult circumstances. The term is illustrative of both an individual's ability (their skills and the extent of their knowledge) as well as their **mindset** (referring to their attitude and levels of motivation).

When observing the extent to which a person is financially capable, it is important to look at a number of key behaviours. These behaviours include the extent to which the individual...

- **Can tackle problem debt;**
- **Manage well day-to-day;**
- **Build resilience;**
- **Prepare for life ahead.**

If you think the above depicts some rather broad behaviours – you'd be right, as each key behaviour is reflective of a whole host of more specific examples.

For example, an individual who has increased their levels of financial capability by 'preparing for life ahead' is likely to have identified their short and long term financial goals, be saving in case of an emergency, be thinking about retirements etc.

Whilst an individual may be doing well in terms of preparing for life ahead they may have a lot of personal growth to do when it comes to managing their money day-to-day. This difference reflects that every person can have varying levels of financial capability, and these levels can also change over time. The underlying message to remember here is that...

#### **Everyone can improve their levels of financial capability.**

If you would like to learn more about those specific financial capability behaviours you can do so by reviewing page 10 of the Financial Capability Outcomes Framework which can be downloaded here

<http://www.thinknpc.org/publications/financial-capability-outcome-frameworks/>

#### **What about all those other terms being used?**

It can be confusing as there are many other terms often associated with this type of work. The following should help you distinguish between:



- **Debt advice:** Guidance and advice which is often reactive, and which aims to specifically support individuals experiencing or at risk of debt.
- **Financial health:** The status or summary of a person's financial situation.
- **Financial wellbeing:** Quite simply an outcome; the extent to which a person feels their financial situation is healthy, and the extent to which they are happy.
- **Financial inclusion:** When a person is significantly financially included they can access a range of banking and financial service provision. When an individual is financially included they have choice and can therefore make decisions which may better suit their situation and even enable them to save money.
- **Financial education:** A means by which to improve financial capability.

### ***Think about it like this...***

By improving an individual's level of financial capability through the likes of financial education we can help the individual make better choices, and can positively contribute to their financial health and wellbeing.

### **Why does financial capability matter?**

Despite millions of people in the UK struggling to manage their money and 17 million adults shown to run out of money before payday, a third of the population still don't make a budget<sup>1</sup>

Understanding information presented to us is clearly still an issue when one in six of us struggle to identify the balance on our bank statement<sup>2</sup>.

Low levels of financial capability can mean individuals are unable to take advantage of financial services and products (eg the best or most suitable deals), and instead make decisions which lead to less desirable or even negative outcomes (eg opting to take out credit with high interest rates or use rogue lenders). In addition to this we know individuals often make mental shortcuts and use rules of thumb which can lead to poor financial decisions being made. This can often be the case where individuals are faced with information they fail to understand or that they deem to be complex<sup>3</sup>.

Routine, habits and skewed perceptions can also contribute to lower levels of financial capability, and help to explain why many of us are more likely to get divorced than change our bank account!<sup>4</sup> Indeed as energy prices steadily increase every year - switching suppliers in order to reduce expenditure has never been a more important option for many households. However, a recent study found that factors which include the perceived difficulty of switching, limited knowledge and an inability to understand energy bill (6 in 10 are still

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<sup>1</sup> Financial Capability Tracker Survey, 2013/14, Money Advice Service.

<sup>2</sup> The Financial Capability of the UK, November 2013, the Money Advice Service.

<sup>3</sup> FCA Risk Outlook, 2013, Financial Conduct Authority.

<sup>4</sup> Why We are More Likely to Divorce than Change Banks, July 2015, Independent.ie



baffled by their energy bill<sup>5</sup>) can significantly explain why people aren't saving money by switching energy suppliers<sup>6</sup>. More recently the Money Advice Service have revealed that an improvement to the financial capability of individuals across the UK could result in individuals being better off by around £108 million over the next 30 years. This figure includes the reaped benefits that come from increased savings, including pensions<sup>7</sup>.

Quite simply financial capability costs the individual, impacts households and even costs the economy. By improving financial capability levels we are positively improving those key financial behaviours, ensuring better financial health (possibly for future generations to come) and **helping to eradicate poverty**.

### **How does this work aim to improve levels of financial capability?**

This work is aimed at helping people who have low financial capability, within the 'Struggling' segment and Working Families sub-segment of the adult working age population (identified by the Money Advice Service) which looks to improve financial health.

Through this work and your support we hope to measure the difference that assisted digital inclusion to financial capability interventions, delivered face-to-face, in community-based settings, and to working age adults will make.

### **How will I be a part of it?**

You will be provided with the tools to help improve the financial capability of service users, which in turn can positively impact their financial health and wellbeing.

### **Where can I learn more?**

- The Financial Health Exchange helps policy makers and practitioners to stay up to date on the latest financial health thinking and helps them ensure that financial health good practice is followed in all of their work.  
<http://financialhealthexchange.org.uk/>
- Aside from the offering of free and impartial money advice. The Money Advice Service also leads the Financial Capability Strategy for the UK.  
[www.fincap.org.uk](http://www.fincap.org.uk)

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<sup>5</sup> Opinium Research, 2016, uSwitch.com

<sup>6</sup> Xiaoping, H., & Reiner, D. (2015) Why Do More British Consumers Not Switch Energy Suppliers? The Role of Individual Attitudes.

<sup>7</sup> Press Release: UK could gain £108 billion from improved money management, November 2016, The Money Advice Service.



- Read more about the relationship between financial capability and inclusion via the Centre for Financial Inclusion's 'roadmap to inclusion'.  
<http://www.centerforfinancialinclusion.org/fi2020/roadmap-to-inclusion/financial-capability>
- Check out this video from NeighborWorks America, it also does a great job of defining financial capability.  
<https://www.youtube.com/watch?v=pUbv6CpXmSI>

## Core information for trainers

### A

**Gross Pay** is your pay before anything has been taken off.

**Variable Deductions** are anything that gets taken from your pay where the amount changes month to month, like tax and National Insurance. Your employer has to list each of these on your payslip.

**Fixed Deductions** are things where the same amount gets taken off your payslip each month. Your payslip doesn't have to give details of what fixed deductions are for, as long as you receive a statement with this information once a year.

**Take-Home Pay also called Net Pay**, is the amount you actually take home after any deductions have been made. The amount and method of any Part-Payment If you get paid in more than one way - like if some money goes into your bank account and you're paid the rest in cash - this needs to be shown on your payslip

### B

**Personal Information** - Most Payslips will show your name and address.

**Payroll Number** - Your employer might give you a payroll number. This is just used by them to identify you on the payroll

**Date** - Usually, your Payslip will show the date your pay should come into your bank account

**Tax Code** - Your tax code comes from the Government and tells your employer how much tax-free pay you should get before you have to start paying tax on the rest. It's important to check this, as otherwise you might end up paying too much tax

**National Insurance Number** - You need a National Insurance, or NI, number to work in the UK. It's your record of the contributions you've made through working and paying National Insurance, and you'll need it to claim a state pension and some other state benefits.

## C

**Banks & building societies:** Banks are companies which sit on the stock market and are therefore owned and run by their shareholders. This means banks will pay their shareholders out of any reserves or profits made (this payment is better known as dividends). Building societies do not have shareholders so do not have to pay out any dividends.

**Credit unions:** Are non-profit financial institutions, which are owned and run by members and involve members mutually working towards a common goal. Because of this they tend to be set up for people who have something in common. This commonality may be that members:

- Live, work or are educated in an area;
- Have involvement in a particular industry (e.g. the ambulance service);
- Or are part of a trade union, club or church.

## D

**Easy Access Account:** Rates tend to be low but can be useful if you need to dip in and out of savings.

Notice Account: Notice of withdrawal is required (opposite of easy access).

**Christmas Clubs/Saving Scheme:** Save early in the year and can access money in time for Christmas shopping.

**Regular Savings Account:** Often offering higher rates of interest this account is for the individually who can regularly put money aside.

**ISA:** Stands for Individual savings account. This account is a tax free approach to saving.

To read more about these accounts/schemes and any of the aforementioned financial institutions the trainer can find out more by visiting the Money Advice Service website - <http://www.moneyadviceservice.org.uk>

## E

**ATM** Automated Teller Machine

**CHQ** Cheque

**CIR/MAE** Cirrus or Maestro (types of debit cards)

**CR** Credit (money available or in the account)

**DDR/DD** Direct Debit

**DR** Debit (money taken out)

**STO** Standing Order

**TFR** Transfer



**VIS** Visa debit card

**OD** Overdraft

**Contactless**

## **F**

**Secured loan:** When an asset (e.g. property or car) is used as collateral (backup) for that loan. The asset could be removed if the borrower is unable to pay the loan.

### **Consequences associated with non-payment of types of priority expenditure:**

- Imprisonment
- County court judgements here, the claim for money is taken to a court, for the court to decide.
- County court judgements can affect credit scores can negatively impact the way lenders view an individual in the future.
- Repossession (e.g. secured loans)
- Fines
- Money taken from wages and benefits
- Disconnection Gas, electric and telephone.
- Bailiff visit (which can see costs increase)

### **Ways in which information can be stored safely and securely:**

- Saving information on computers and portable hard drives (e.g. USB)
- Storing information on a computer using Zip or password protected folders.
- Online accounts.
- Software updates (to protect information on computer).

### **Information and statistics regarding financial fraud and identify theft:**

- Men lose on average three times as much to cyber criminals than women.
- Financial fraud carried out on payment cards, remote banking and cheques cost the UK £755 million in 2015.
- Trashing or 'dumpster diving' involves fraudsters using discarded documents thrown away or acquiring through other means (such as burglary).
- Statics taken from Financial Fraud Action UK, ActionFraud and Gov.UK.

## **G**

### **What is Online Banking?**

Banking online means accessing your bank account and carrying out financial transactions through the internet on your smartphone, tablet or computer.



It's quick, usually free and allows you to carry out a number of tasks such as paying bills and transferring money, without having to visit or call your bank. Many banks also have free apps which let you use these services from your smartphone or tablet.

Most banks let you use your online account to:

- Check your bank balance at any time
- Pay your bills and transfer money to other accounts
- Check any linked mortgages, loans, savings accounts or ISAs
- Check your bank statements and go paperless (stop getting paper bills sent to you)
- Set up or cancel direct debits and standing orders
- Check on any investments you might have that are linked to your account

Interesting fact – according to the FCA (Financial Conduct Authority) you are 24% less likely to incur unarranged overdraft charges if you use a mobile banking app and text alert service.

### **How secure is online banking?**

When online banking first started, there were a lot of concerns about how safe it was. We worried about people hacking into banking websites or our own computers and getting hold of our money or personal details. But a security breach would be a disaster for a bank or building society and they go to great lengths to make sure their websites are robust and secure. Because of this, most of us are confident to use online banks these days.

What the banks and building societies do to protect you and your money:

- They use sophisticated encryption to convert all your information into code before it is sent over the Internet. This means that if someone does manage to get their hands on it, they won't be able to read it.
- Some online banking sites have started to put other security measures in place before you can access your accounts. For example, you may be sent a handheld device that reads your bank card. Every time you login you'll need to slot your card into the device and key in your PIN number.
- If you enter your details wrongly more than three times, most online banks will stop you from trying again. You'll have to ask your bank or building society to reset your login for you. This is a security measure to stop fraudsters from repeatedly entering details.

### **It is also vital that you take security seriously:**

- Keep details such as your username and password secret. Don't write them down or leave them where others can find them.
- When you have finished banking, always log out immediately.
- Only use secure Wi-Fi connections to access your bank account
- Public Wi-Fi connections are often not secure, so don't use them for banking or to make purchases. If you're out and about with a mobile or tablet, it's safer to use your 3G or 4G connection.



- Never send emails containing passwords or account numbers. The information isn't encrypted so anyone intercepting the email will be able to read them.
- Watch out for bogus sites and scams. It is quite common to get emails that claim to come from banks. They ask for your security details or tell you to click a link to a site where you need to enter them. These are called 'phishing' emails and are sent by fraudsters hoping to trick you into sharing your personal details so they can try to get at your money. Your bank or building society will never send an email asking for your personal details or with a clickable link so if you receive one, delete it straight away.
- Keep your operating system and anti-virus software up-to-date
- If you do think you have been a victim of fraud, you should contact your bank or building society immediately.

## H

### **Types of Account**

#### **Current accounts**

Most people use a current account with a bank or building society to manage their day-to-day money. It allows you to:

- Pay bills by Direct Debit or standing order
- Receive automated payments such as salary, wages or benefits
- Pay for things with a debit card and withdraw money from cashpoint machines
- Access to an overdraft, although this will need to be authorised by the bank

Read more about current accounts -

<https://www.moneyadvice.service.org.uk/en/articles/current-accounts>

#### **Packaged accounts**

Some current accounts offer extra features for which they charge a fee (often between £10 and £15 a month). These are known as packaged accounts. Extras can include:

- Special offers (eg preferential interest rates on overdrafts)
- Car breakdown cover
- Insurance cover (eg travel or mobile phone insurance)
- Extra services

If you're thinking about opening a packaged account, be sure to check out how many of the additional benefits you would actually use and whether you can get them cheaper elsewhere.

Read more about packaged accounts -

<https://www.moneyadvice.service.org.uk/en/articles/packaged-accounts>

#### **Fee-free Basic bank accounts**





These are often used as a stepping stone to a current account. A basic bank account doesn't normally have an overdraft facility but does allow you to:

- Pay bills by Direct Debit or standing order
- Receive payments such as salary, wages or benefits

A fee-free basic bank account may be right for you if:

- You have a poor credit record or you're on a low income
- You don't need the extra things that a current account offers, for example an overdraft facility

Want to find out more about fee-free basic bank accounts? We've pulled together a collection of guides, tips and handy links to make sure you get the best deal -

<https://www.moneyadvice.service.org.uk/en/hub/bank-accounts>

### Jam jar accounts

These accounts are sometimes called budgeting accounts or rent accounts and are designed to help you budget. They let you divide your money into different 'pots' or 'jars'. You decide how much money goes into each pot by working out how much you need for your bills and how much is left over for spending or saving.

They also allow you to:

- Pay bills by Direct Debit or standing order
- Receive payments such as salary, wages or benefits.

One disadvantage of these accounts is that they charge a monthly fee

A jam jar account might be right for you if:

- You want an account that helps you to budget
- You want to avoid charges for refused Direct Debits
- You rent a council or housing association property – in which case your landlord might pay the monthly fee for you

Read more about jam jar accounts -

<http://cms.moneyadvice.service.org.uk/en/articles/managing-your-money-using-the-jam-jar-approach>

## I

### Pro's and Con's of different payment methods

Payment method	Pro's	Con's
Debit card	✓ Is safer than cash – if your	✗ Money comes straight out of your



	<p>card is lost or stolen just call your bank and cancel it</p> <ul style="list-style-type: none"> <li>✓ Can also usually be used as a cash point card and a cheque guarantee card so you don't have to carry around a lot of cards</li> <li>✓ Can use it to shop by phone, mail order or online</li> </ul>	<p>account so if there is not enough money there you may go overdrawn and have to pay bank charges (NB no charges on fee-free basic bank account)</p> <ul style="list-style-type: none"> <li>✗ You can't borrow on it</li> <li>✗ It has less protection than a credit card as you can't be sure you'll get your money back for faulty goods</li> </ul>
Credit card	<ul style="list-style-type: none"> <li>✓ Easy to carry, easy to use – credit cards can be used to buy things online, over the phone and in person</li> <li>✓ Is safer than cash – if your card is lost or stolen just call your bank and cancel it</li> <li>✓ Buy now, pay later - the money doesn't come straight out of your account. Instead the credit card company lends you the money and sends you a monthly statement of what you owe and the minimum amount you need to pay back</li> <li>✓ You're protected – with credit cards you're protected for any purchases over £100 and below £30,000 if the company goes bust or refuses to refund your money when goods are faulty</li> </ul>	<ul style="list-style-type: none"> <li>✗ High interest payments – if you don't clear your balance at the end of each month you'll have to pay interest on your outstanding balance</li> <li>✗ Beware the debt spiral – miss just one payment or keep paying only the minimum amount off each month and the interest will start to add up. Unless you pay off what's owed each month you can quickly spiral into debt.</li> <li>✗ Additional fees - as well as the interest, you could find yourself paying additional fees or penalties for exceeding your credit limit or missing a credit card payment. There are usually additional fees, for example using a cash machine.</li> </ul>
Direct debit	<ul style="list-style-type: none"> <li>✓ Help you organise your money – no need to worry about remembering to pay a bill</li> <li>✓ Can save money – lots of utility providers (like gas and electricity) give you a</li> </ul>	<ul style="list-style-type: none"> <li>✗ If you don't have enough funds in your account to cover a Direct Debit payment, your bank may not make the payment, and you might be charged a fee. It doesn't have to tell you that the payment hasn't been made. If the payment is made, you</li> </ul>



	<p>discount for paying by direct debit</p> <ul style="list-style-type: none"> <li>✓ The bank will pay any incorrect payments back to you</li> </ul>	<p>may also incur bank charges for any unauthorised overdraft, (NB no fees on fee-free basic bank accounts)</p>
Standing order	<ul style="list-style-type: none"> <li>✓ They are useful where you can't use direct debits: often to make regular payments to a person like a child at college or a landlord, rather than to a company</li> <li>✓ You can use them to move money regularly between your own accounts: for example, if you want to pay a set amount each month into a savings account</li> </ul>	<ul style="list-style-type: none"> <li>✗ Just like with direct debits, if you don't have enough money in your account to cover the standing order your bank can refuse to make the payment and can charge you up to £25. Even if they do make the payment you might go into the red without noticing – which means you'll pay overdraft charges</li> </ul>
Online bank transfers	<ul style="list-style-type: none"> <li>✓ Fast, free and safer than withdrawing and paying in cash</li> </ul>	<ul style="list-style-type: none"> <li>✗ You have to be careful to make sure you give the right details. It can be difficult to get your money back if you send it to the wrong accounts.</li> <li>✗ As with other payment methods you need to ensure there is sufficient money in your account to cover the transfer otherwise you could go overdrawn and incur bank charges</li> </ul>
E payments such as PayPal and Google checkout	<ul style="list-style-type: none"> <li>✓ You don't have to give out your credit card details when shopping online which reduces the risk of fraud</li> <li>✓ It's free and quick</li> </ul>	<ul style="list-style-type: none"> <li>✗ E-payment companies are not protected by the Financial Service Compensation Scheme which means you might not get compensation if they go out of business.</li> </ul>

## J

### Sources of further information about payment methods

1. Debit cards - <https://www.moneyadvice.service.org.uk/en/articles/debit-cards>
2. Credit cards - <https://www.moneyadvice.service.org.uk/en/articles/credit-cards>
3. Direct debits and standing orders - <https://www.moneyadvice.service.org.uk/en/articles/direct-debits-and-standing-orders>

4. Online transfers -  
<https://www.moneyadvice.service.gov.uk/en/articles/making-phone-or-online-transfers>
5. E - payments  
<https://www.moneyadvice.service.gov.uk/en/articles/e-payments-why-when-and-how-to-use-them>

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