think piece

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Time is Money: The Role of the Financial Services Industry in Reducing Re-Offending

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Summary

- Re-offending remains a problem in the UK with about half of prison-leavers being reconvicted within a year of release. This paper argues that managing post-conviction personal finances is the core to preventing resurgence into crime, and this can actually begin well before the offender first arrives in prison, and can continue throughout the criminal justice process.
- **Pre-sentencing:** many people entering the justice system are already financially excluded, with 30% of people in prison having no bank account, compared to 4% of all UK households. With the majority saying they were turned down from mainstream finances, many were driven to underground finance such as loan sharks which often push debtors into criminal behaviour.
- **Sentencing:** the move to intelligent sentencing including non-custodial sentences is still not without financial risk to the offender, pointing to the need for assistance with budgeting and financial planning.
- **Going to Prison:** people arriving in prison are effectively severed from control over their financial lives, losing access to income to service pre-existing finance, communication with providers, and access to banking services. An assessment of new arrivals' personal finances may mitigate this.
- **Serving a Prison Sentence:** negligible prison wages combined with limited access to financial services while inside create unfavourable conditions at the end of the sentence. Access to quality basic money advice and the ability to communicate with financial institutions could help to prevent this.
- **Leaving Prison:** is often a high-risk period as the financial problems stored up over the sentence suddenly come to the fore. Three quarters are unemployed on release, and many are frustrated that prison had taken them out of employment and made them dependent on the welfare state. Even being able to open a bank account is difficult.
- **Life as a Reformed Offender:** research shows that while reformed offenders are able to bring their finances under control, many experience difficulty with employment and some aspects of finances such as insurance. There is still more progress to be made to help reintegrate reformed offenders.

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CII Introduction: In November 2008, Chris Bath of the reformed offenders charity UNLOCK wrote a Thinkpiece describing what the insurance industry could do to help reintegrate prior offenders into society.[1] He now returns to the series to show that managing post-conviction personal finances is the core to preventing resurgence into crime, and this can actually begin well before people first arrive in prison. Every stage in the criminal justice process contains personal finance elements that can potentially lurch people back into crime when they get out, and more needs to be done by both the Government and the industry to stop this, thereby strengthening the pathways to rehabilitation and resettlement.

The Coalition Government has been quick to recognise the importance of reducing re-offending through rehabilitation and resettlement. Under the previous government, criminal justice costs rose from 2% of GDP to 2.5% over a decade, a higher per capita level than the US or any EU country.[2] Prison expenditure rose 38.9% from £2.868 billion in 2003/04 to £3.982 in 2008/09[3] as tougher sentences forced the prison population to around 85,000[4], a 40% increase under Labour. However, prisons remain ineffective in reducing reoffending, with around half of people being reconvicted within a year from release. Former prisoners are responsible for one in five recorded crimes, costing an estimated £13bn per year of the £60bn estimated annual cost of crime.[5]

Financial services are the foundation for critical factors in reducing re-offending. In effect, the 'financially excluded' are prevented from taking responsibility for their own lives.

The Ministry of Justice recognises several 'pathways' to reducing re-offending including; Education, Training and Employment, Accommodation, and Finance, Benefit and Debt, though the finance pathway has received relatively little attention. Financial products and services have become more varied and complex, while simultaneously becoming more fundamental to making a positive contribution to society and the economy. Financial services are the foundation for the critical factors in reducing the re-offending - stable jobs and housing. In effect, the 'financially excluded' are prevented from taking responsibility for their own lives.

In our recent report, *Time is Money*, UNLOCK and the Prison Reform Trust considered whether the criminal justice system is creating or exacerbating financial exclusion and therefore undermining efforts to reduce re-offending.[6] We gathered data from serving and former prisoners and family members on the themes of banking; credit, debt and saving; financial capability; financial advice and debt advice; benefits and the finance gap, insurance and the Rehabilitation of Offenders Act. In this paper, we identify the key financial 'pinch points' in a journey through the justice system.

Pre-sentencing

Many people entering the justice system are already financially excluded. Our survey showed 30% of people in prison had no bank account, compared to 35% of people in deprived areas[7] and 4% of UK households.[8] 85% of people interviewed in prison said they had tried to get one without success. More than half had been turned down by a bank for credit.

Compared to all UK households, people in prison were nearly 8 times more likely to have no bank account before they were sentenced, and 10 times more likely to have borrowed from a loan shark.

With no access to mainstream financial services, many are forced into the underground market which often drives criminal behaviour. Interviewees were 33% more likely to have borrowed from a loan shark than the average for UK low income families (6%) and over 10 times more likely than the average UK household (0.64%). Those who had done so were four times more likely to have been threatened over a debt. Loan sharking can drive acquisitive crime, as people take extreme actions to avoid the violent consequences of non-payment.

There remains clear need for improvements in access to financial products and services including basic bank accounts and credit unions. With

[1] Chris Bath, Time Served: Unlocking Insurance to Help Reintegrate Offenders into Society, *CII Thinkpiece* no.8 (November 2008).

[2] Rt Hon Lord Falconer, Today Programme, BBC Radio 4, 23 January 2007

[3] Mills, H., Silvestri, A. and Grimshaw, R. (2010) *Prison and probation expenditure, 1999-2009*, London: Centre for Crime & Justice Studies

[4] Ministry of Justice (2010) Prison Population and Accommodation Briefing for 03 September 2010, London: The Ministry of Justice

[5] Brooker, C. and Ullmann, B. (2008), *Out of Sight, Out of Mind*, London: Policy Exchange

[6] Details on how to access the full report are at the end of this article.

[7] Brown, J. and Thomas (2005) Basic bank accounts; the case for a universal service obligation, The New Economics Foundation

[8] National Statistics (2006) *Family Resources Survey 2004/05*, London: National Statistics

focused investment on achieving this within communities blighted by high levels of crime, Government could save money on crime and justice in the long run.

Sentencing

The Coalition Government has indicated the need for "intelligent sentencing" which is more effective, better value for money and utilises appropriate alternatives to prison.[9] Custodial sentences clearly have extreme financial impacts on individuals and families. However, even non-custodial sentences can produce perverse results.

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Some individuals appear locked into a vicious cycle, being given fines for offences committed as a result of their inability to pay a previous fine. The amount courts were owed in unpaid fines and confiscation orders increased from £920 million in 2005/06 to £1,330 million in 2008/09.[10] Unpaid fines can potentially lead to prison sentences at great cost to the taxpayer. Since 2003, the use of Deduction from Benefit Orders for people who are in receipt of welfare or other benefits has increased.[11] Although deductions reduce the chances of imprisonment, they further reduce the individual's income, driving them back to loan sharks.

Systems to take account of financial issues do exist within court processes. Solicitors' representations and probation officer's pre-sentence reports can include a person's employment status and financial commitments, though this is contingent upon a person disclosing their financial situation. The judiciary often have discretion between custodial and community sentences, the latter of which can be fitted around employment. The length of time over which fines are paid can also take account of a person's financial situation. However, without professional advice, a person may not understand the importance of making their financial situation clear; preventing sentencers from exercising informed discretion.

[9] Clarke, K. (2010) Keynote speech by the Rt Hon Kenneth Clarke QC MP, Lord Chancellor and Secretary of State for Justice, Centre for Crime and Justice Studies, 30 June 2010

[10] National Audit Office (2010) *Ministry of Justice Financial Management Report*, London: National Audit Office

[11] Ibid.

Going to Prison

On entry to prison, people are severed from control over their financial life, losing access to their financial products and communication with their creditors. From mortgages to mobile phone contracts, many people now have long-term financial obligations including commitments via direct debit. For example, one third of people in prison said they held a credit card. However, going to prison means the instant loss of income, with around a third of people losing a job and the remainder losing benefits. As a result, regular payments simply stop, with no communication, leading creditors to impose interest charges, penalties and sometimes legal action. Families are plunged into financial trouble. The number of families who felt unsure about managing money more than doubled (to 46%) after the conviction of their relative.

Early assessment of a person's financial situation, including the likely impact of the sentence, allows some degree personal responsibility to be taken. Various prison departments and providers conduct assessments but a lack of co-ordination can lead to crucial omissions. Only those sentenced to more than a year in prison are covered by OASys, the Prison and Probation Service's assessment tool, which focuses narrowly on statistically significant 'criminogenic' factors and in which finance related questions are non-mandatory. Our study found that three quarters of people interviewed in prison and former prisoners said no one had *ever* asked them about their finances while in prison. Only 5% said they had been asked about how their family would cope.

People in prison cannot visit branches and the modern tools of internet and telephone banking are forbidden.

Basic information and advice is not routinely available to people arriving in prison regarding how to organise their finances. For example, people indicated that they were unsure whether to advise their bank or creditors that they were in prison. Even financially competent individuals found it difficult to communicate with financial services providers and feared the reaction to a prison address. People in prison cannot visit branches and the modern tools of internet and telephone banking are forbidden.[12]

Our report recommended that the prison induction process should include a section on practical financial matters, backed up by provision of relevant

[12] Prison Service Order 4465: Prisoners' Personal Financial Affairs, London: HM Prison Service, 2007.

services within appropriate timescales. Questions should include whether the person has a bank account, ongoing financial commitments and existing debts. Further recommendations include:

- The credit industry should develop protocols for dealing fairly with people who are sent to prison.
- Financial capability initiatives, debt advice and affordable credit information should be targeted at the families of people sent to prison.
- A financial information leaflet (in easy to read language) to be made available to every prisoner, particularly on entry to prison, prepared by the financial services industry in conjunction with the Ministry of Justice and HM Prison Service.
- Access to a quality-assured financial assessment for all people in prison, linked to relevant services within appropriate timescales
- Support for people in prison to managing any ongoing commitments (e.g. direct debits) and dealing with existing debt from the start of a sentence or time on remand.

Serving a Prison Sentence

Shutting out the outside world is a common coping mechanism in prison, something that is only encouraged by poor regimes.

In contrast to community sentences, which typically allow a person to maintain their employment, prison sentences rarely provide an opportunity to earn a meaningful income. Average prison wages are between £7 and £12 per week, with a minimum of £4 per week (£200 a year). Negligible wages prevent individuals from supporting their families, saving for release and servicing their financial commitments (almost two thirds of former prisoners with debts said that prison made them worse).

Limited communication and negligible wages can lead to rising debts as overdraft, credit card and mortgage charges amass. Over half of people in prison said they have debts, two-thirds of whom owed over £1000.

Opportunities to take responsibility for and practise personal finance are practically non-existent. A cashless paper-based system operates whereby spending is allowed only once a week and checking a balance requires a written application. Though two-thirds of interviewees said they felt confident or very confident in 'managing money', 60% said that before coming to prison they had struggled 'sometimes', 'often', or were in 'real financial trouble' and almost half said they were unsure or very unsure about dealing with banks. This suggests financial confidence is limited to the survival skill of budgeting on a low income and not dealing with modern financial services.

Limited communication and negligible wages can also lead to rising debts as overdraft, credit card and mortgage charges amass. Just over half of people in prison said they had debts, two thirds of whom owed over £1000. The debts were typically housing, crisis loans and court fines, rather than financial services. 61% of those with debts said they were currently a source of distress for them.

People were concerned about the impact on their families. Of families experiencing debt, two thirds said they had increased since their relative's imprisonment. A third said meeting bills and credit commitments was a constant struggle. 10% said they were in 'real financial trouble'. A quarter had an insurance policy cancelled as a result of their relative's conviction and a fifth had experienced problems making a claim.

A process should be developed by which people can have access to quality basic advice. Although few people said they had been asked about finances, 80% of those who had received advice in prison said it had been useful. Citizens Advice Bureaux (CAB) were the most trusted source of advice for both people in prison (47%) and families (75%). However, only 13% of people in prison had used the service. More than four-fifths of former prisoners said that financial advice in prison would have helped.

Nearly two-thirds of people said they could not access their bank account while in prison. Only 8% of interviewees with an account could manage it directly during their sentence. Others relied on their families to manage their account, typically under arrangements that breach terms and conditions, making them liable for losses and risking account take-over. In the absence of communication, regular movements between prisons increase the risk of dormancy. This suggests that a secure process should be developed whereby people can access their bank accounts while in prison without having to rely on third parties such as family.

The potential for credit unions should be explored, with particular consideration of the emerging role of the community prison. Financial capability initiatives should be recognised as distinct from, but integrated with, basic skills, financial advice and debt advice provision.

Leaving Prison

Demand for financial services increases as people leaving prison prepare to re-establish themselves. Around half of people said they would want more products after release, including savings, credit and insurance products. However, the storing up of financial problems while serving a sentence makes this challenging.

More than 60% of people in prison said money problems would be a very major worry on release, while two-thirds of former prisoners said lack of money was either 'quite a problem' or 'a major problem' on release.

Government statistics show the risk of re-offending is highest in the period immediately after release. More than 60% of people in prison said money problems would be a major worry on release. Two thirds of former prisoners said that a lack of money had been 'quite a problem' or a 'major problem' on release.

Several former prisoners indicated frustration that prison had taken them out of employment and made them dependent on the welfare state. 67% of people are unemployed when imprisoned, while 76% do not have paid employment on release.[13] Some participants said they feared they would be better off on benefits because creditors would catch up with them if they had more significant income. Many questioned how they could live on a £46 discharge grant while awaiting benefits or wages - a minimum period of two weeks but often much longer. Previous debt, de-registration from the electoral roll and an unstable address history hampers efforts to borrow money to cover this period.

Over one third of former prisoners who had a bank account said going to prison made it harder to keep their account or to use it again after release. One in four former prisoners said it was harder to open one on release. This was mainly due to lack of identification. Though some banks, such as Barclays, Co-operative and Halifax, have engaged in prison-based projects, it remains impossible for many people to open an account prior to release, though it is a prerequisite for basic resettlement such as employment, benefits and accommodation.

People should have the opportunity to open a bank account, receive financial capability training and relevant information before discharge. Those on very short sentences should be given information on opening a bank account and referred to an external agency. 83% of people in prison had rented or mortgaged accommodation before prison. One third of interviewees were aware that they currently owed money for housing and most were aware that this reduced the chances of securing accommodation on release. For some, this prevented them regaining custody of their children. Other recommendations in our report included:

- Prison and Probation services should make strong local links with providers of free financial and debt advice services.
- Benefits should be available from the day of release. The application process should be completed prior to discharge.
- Until benefits are available on release, the discharge grant should be set in line with the current rate of job seekers' allowance.

Life as a Reformed Offender

For those people who successfully reintegrate into society, some elements of financial exclusion can be left behind. Nine-tenths of former prisoners we surveyed had been out of prison for more than a year. Of these 'success stories', 92% had been able to secure a bank account, illustrating how critical they are to resettlement. These people were far less likely than people in prison or their families to say that they were in serious financial trouble. 40% said they kept up with bills with no trouble and only 4% said they were in real financial difficulty. None of the former prisoners had borrowed from a loan shark since release.

However, criminal convictions can have lasting significant financial repercussions for individuals and families. Convictions that are 'unspent' under the Rehabilitation of Offenders Act 1974 (ROA) are considered 'material facts' by insurers. Fines and community sentences remain unspent for five years. Custodial sentences of up to 30 months remain unspent for between seven and ten years, while those over this limit are unspent *forever*.

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Under the contract law concept of 'utmost good faith' the unspent convictions of anyone covered by a policy must be declared, irrespective of whether an insurer ask s a specific question. The result is usually refusal, cancellation or unaffordable premiums. 86% of former prisoners said it was harder to get insurance and four-fifths said that, when they did get it, they were charged more. However, 60% of people in prison and former prisoners surveyed said they did not know what the ROA required of them. Only 2% of people interviewed in prison could accurately explain the Act and its implications. Discrimination by insurers and employers makes it impossible for many people with convictions to secure the basics of accommodation and employment. As government moves to privatise resettlement services and

[13] Niven, S., and Olagundoye, J. (2002) *Jobs and homes – a survey of prisoners nearing release*, London: Home Office

introduce payment by results, providers may be reticent to engage if the goals are unachievable due to policy and legislation.

In 2009, the Law Commissions of England and Wales and Scotland published a report and draft bill which would require insurers to ask questions about matters which they believe are relevant. Their report stated that the "confusion over the law penalises some vulnerable groups…particular problems exist …for those with criminal convictions."[14] This draft bill should pass into law, moving the onus onto insurers to ask questions about convictions if they are relevant. In addition insurers should:

- Follow the ABI Good Practice Guide Insurers' Approach to People with Convictions and Related Offence (February 2011)
- Ensure customers are aware of the need to declare the unspent convictions when applying
- If they exclude people with convictions, make this clear to customers and create links with specialist providers to ensure that customers with convictions are treated fairly.
- Honour claims if they did not make clear the need to declare convictions at the point of inception.

A renewed focus on rehabilitation and resettlement provides an opportunity for greater recognition of 'finance, benefit and debt' and 'children and families' as the foundations for higher profile elements of reducing reoffending such as accommodation and employment. Giving greater emphasis to personal finance would allow people to take responsibility for their reintegration and control of their future.

The full report entitled *Time is Money: Financial Responsibility After Prison* by UNLOCK and the Prison Reform Trust can be downloaded from: http://www.unlock.org.uk/userfiles/file/financialinclusion/timeismoney.pdf

If you have any questions or comments about this Thinkpiece, and/or would like to be added to a mailing list to receive new articles by email, please contact us: thinkpiece@cii.co.uk or by telephone: +44 (0)20 7417 4783.

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[14] For more information on these insurance contract law reforms, see for example Peter Tyldesley, Insurance Contract Law Reform: Bringing the Underpinning Law into the Twenty-First Century, CII Thinkpiece no.47 (November 2010).

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