



# Select Committee on the Social and Economic Impact of the Gambling Industry

## Corrected oral evidence: Social and Economic Impact of the Gambling Industry

Tuesday 10 March 2020

4.40 pm

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Members present: Lord Grade of Yarmouth (The Chair); Lord Butler of Brockwell; Lord Filkin; Lord Foster of Bath; Lord Layard; Lord Mancroft; Lord Smith of Hindhead; The Lord Bishop of St Albans; Baroness Thornhill; Lord Trevethin and Oaksey; Lord Watts.

Evidence Session No. 20

Heard in Public

Questions 219 - 228

### Witness

[I](#): Alexandra Frean, Head of Corporate Affairs, Starling Bank.

### USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on [www.parliamentlive.tv](http://www.parliamentlive.tv).

## Examination of witness

Alexandra Frean.

Q219 **The Chair:** Welcome, Ms Frean. I am afraid that your sector colleague—I will not call her a business colleague—is stuck at Milton Keynes station because of some issue on the line, so is unable to join us. You are a lone banker here today, but you are very welcome.

We have asked the representative from Lloyds to catch up with the session online, or through *Hansard*, and to offer any comments that they want to make on their behalf. Presumably, you all operate under the same licence and the same rules apply to you as to them.

**Alexandra Frean:** Yes, they do.

**The Chair:** Before I start, I have to read a short preamble. A list of Members' interests relevant to the inquiry has been sent to you and is available. The session is open to the public, is being recorded and is accessible via the parliamentary website. A transcript will be taken of the evidence and put on the parliamentary website. A few days after this session, you will be sent a copy of the transcript to check for accuracy. It would be very helpful if you could advise us of any corrections as quickly as possible thereafter. If, after this evidence session, you wish to clarify or amplify any points made during your evidence, or have any additional points you wish to make, you are more than welcome to submit supplementary evidence to us.

For the record, can you state who you represent?

**Alexandra Frean:** I am head of corporate affairs for Starling Bank. We are a digital app-based bank.

**The Chair:** Could you give us a sense of how big the bank is as of today?

**Alexandra Frean:** We have opened 1.3 million current accounts at Starling, which makes us similar in size to First Direct, or another small bank like that.

Q220 **The Chair:** Bearing in mind that you know our inquiry is attempting to understand problem gambling and to make recommendations to the Government, what routine analysis of your customers' spending do you undertake as a bank? Would such an analysis flag up potential concerns, such as large gambling outgoings that you know, from your knowledge of them, that the customer clearly could not afford? Do you do that? Can you do that?

**Alexandra Frean:** We do two things. We monitor our customer spending to see if they have fallen in arrears, which might be for any reason, gambling among them. At that point, we would intervene and contact them directly via the app, and follow up to see if they needed any assistance or support.

I will give a bit of background about Starling Bank. We are a bank with no branches; we exist entirely in an app. The thinking behind Starling was to use digital technology to give tools to customers to help them manage their finances. One of the things that we do is help customers to analyse their own finances. We update their balances in real time and provide them with their spending insights.

**The Chair:** Did you say you provide them with their spending insights?

**Alexandra Frean:** Yes. You can open up the app at any time and see exactly how much you have spent at individual merchants and on categories of spending. Someone who was a frequent gambler would be able to see, at a glance, what percentage of their spending every month was going on different gambling merchants.

**The Chair:** Would they have to pull up that information?

**Alexandra Frean:** It is there.

**The Chair:** I understand that, but they would have to want to see it. If you are a problem gambler, you do not really want to be reminded that you have a problem. The real question is: how proactive can you be, do you want to be, should you be, or are allowed to be under the terms of your licence?

**Alexandra Frean:** We are a bank. Our job is to hold people's money securely and help them transact. It is not our job to pass judgment on how they spend their money. Our concern is affordability. If they get into financial difficulties and cannot pay back their overdraft or loan, we would intervene to support them, whatever they spend their money on. Because we are small, we are able to offer tailor-made support for customers who need it.

**Lord Watts:** Your bank might be different, but can you tell me how people build up very large debt levels that they obviously cannot afford?

**Alexandra Frean:** By going into their overdraft. We would contact them immediately, as soon as we spotted it being difficult for them to repay their overdraft. We would intervene at any early stage. Because people are banking on their app, we can send them messages via the app and follow up with phone calls.

**Lord Watts:** Do you have an unrealistic level of overdraft for some people?

**Alexandra Frean:** Our maximum is £5,000.

**Lord Watts:** That is the maximum someone could owe. So in your bank, people could not get to the levels of debt that we are hearing about.

**Alexandra Frean:** No, but £5,000 is a very large sum for some people. That is the limit.

Q221 **Lord Filkin:** Staying with affordability, we are interested to know

whether gambling operators ask for your help in undertaking affordability checks on their and your customers. If so, what does that entail?

**Alexandra Frean:** We have not been approached by any gambling companies to do affordability checks. We would certainly be open to speaking to them about it, but we would be very careful about how we approach it, because, as a matter of policy and principle, we believe that our customers' data belongs to our customers. We do not share it with third parties unless we have to by law, or have the express consent of the customer.

**Lord Filkin:** Let us assume that you had that. What would be the process of affordability checks?

**Alexandra Frean:** We have not looked into that yet, so I do not know how it would work. I imagine that we would look at their transaction history and credit score. That would have to be a conversation that we had with the gambling companies. I suspect that it would work best if there were an industry-wide process.

**Lord Filkin:** That was my next question. Has there been an industry-wide discussion in the retail banking sector about the contribution that it could make as a matter of practice, such as alerts—not necessarily from a gambling company—to look at patterns of behaviour that raise the risk of indebtedness for their banking customers?

**Alexandra Frean:** That is a really good point. Starling has not been involved in any industry-wide conversations, so I do not know if any are going on. We would be really happy to do that. I think that the time is right for that. I feel that there is now a greater willingness for the entire industry to collaborate on this issue.

**Lord Filkin:** It is too big a question for you to answer now, but if the Chair agrees, it would be very useful to get an initial considered note from you about what good would look like in the retail banking sector's introduction of affordability processes that respected confidentiality and client accountability, such that the banking sector was making a stronger contribution towards alerting its own customers to debt problems and how to prevent them. Would that be possible?

**Alexandra Frean:** Yes, absolutely. We can certainly provide a note to that effect.

**Lord Foster of Bath:** I will be very brief. This is total naivety on my part. I absolutely understood when you said that, if a gambling company came to you to ask you to assist in affordability checks for a particular individual, the data that you have belongs to the customer. You would, therefore, presumably seek their agreement. You then added that you would not give the information unless you were required to give it by law. Are there any other situations where you might be legally required to give data about a customer to a third party without seeking the customer's permission? I do not know.

**Alexandra Frean:** It happens very rarely. There might be a police investigation.

**Lord Foster of Bath:** There are circumstances in which you are required to give data about a customer without their authorisation.

**Alexandra Frean:** That is my understanding.

**The Chair:** Is there a GDPR inhibition?

**Alexandra Frean:** I am afraid that I do not know. I can certainly find out.

**The Chair:** Obviously, money laundering is a big bypass.

**Alexandra Frean:** Fraud, yes.

Q222 **Baroness Thornhill:** You have sort of answered this, but I just want clarification ahead of the process. We have heard some quite shocking evidence about getting a loan online, and were told: "I did it at the click of a button, in five minutes". Within 48 hours, they got another £5,000 loan; a similar amount to the one that you are quoting. What kinds of checks do you undertake before you decide on the loan or overdraft level and release it? Getting a loan that quickly seemed to indicate to us that that it was just an algorithm. How does the process work? At what point would something alert you that you should not be giving that loan?

**Alexandra Frean:** Our overdrafts and loans, and all our credit decisions, are based on affordability criteria. We use credit reference agencies to look at that. That is the basis on which we make those decisions.

**Baroness Thornhill:** Again, this is my naivety, but how does that work? How can somebody get to a stage where they can lose that amount of money in 48 hours and still be able to click a button and get a loan? Do you know how that back-process works?

**Alexandra Frean:** They could not do that with us, because once you have hit your limit, you have hit it, and we will not give you any more. The credit reference agencies work by doing a series of checks on your identity, which are cross-checked with the electoral roll and other public databases to find out that you are who you say you are. They then look at your record of being able to pay back debt. That is what it is based on.

**The Chair:** Baroness Thornhill, I remember hearing about the case that you have just quoted. I cannot remember whether it was a credit card loan or debit card loan.

**Baroness Thornhill:** It was Alex. I cannot remember.

**The Chair:** We need to check that. It may well have been a credit card issue, in which case that will be stopped there.

**Baroness Thornhill:** I thought that it was a loan, because he said that the bank never questioned it.

**The Chair:** The principle is absolutely there, but whether the banks are in control of that is another matter.

**Alexandra Frean:** I did not mention earlier that we do not yet have a credit card at Starling, just a debit card. If it is not in your account, you cannot spend it.

**Lord Smith of Hindhead:** I appreciate that you can only really speak on behalf of your bank, rather than the whole industry. If, in your bank, a customer who you knew was a gambler—because you could see from their account that they were transferring money to a gambling company—were to come to the bank and ask for a loan, would you perhaps be less inclined to lend that money in the knowledge that he or she regularly gambles?

**Alexandra Frean:** Most of our overdraft limits for lending are set at the point at which people open their accounts. If someone did not accept the loan or overdraft offered, or were not offered one when they opened their account, and applied for a loan with us manually, we would look at whether they could afford to pay that loan back. If they were a habitual gambler but always paid back their debts, we may well give them the loan. We are not the lifestyle police. We are a bank.

**Lord Smith of Hindhead:** You are there to manage their funds, not their lives.

**Alexandra Frean:** Yes.

**Lord Watts:** Before I ask my question, could you clarify one point for me? Is the £5,000 overdraft for all customers? Is it a percentage of income?

**Alexandra Frean:** It is for all customers who pass the credit check. A lot of customers do not have it.

**Lord Watts:** Is it a maximum figure for anyone who banks with you?

**Alexandra Frean:** It is. If a customer is offered a £5,000 overdraft limit and decides that they do not want that much, we have a slider in the app that they can slide down to a level that they feel more comfortable with.

Q223 **Lord Watts:** What steps have you introduced to help your customers control their spending on gambling products, if any? Have you undertaken any analysis on the impact of those policies?

**Alexandra Frean:** We have introduced a gambling block in our app. We were the first bank to do so; we did it back in June 2018. This is a very simple function in the app: you can go into a section called “card controls” and turn gambling payments on and off. That blocks payments for spending codes that cover betting and gambling at the track, online and in betting establishments.

We have subsequently improved that feature. We have put in a 48-hour delay, so that if you want to reactivate gambling payments, you can tap

in the app to do so but will have to wait for 48 hours. We made that improvement because the feeling among the mental health and gambling charities that we spoke to was that this would be more helpful. Our customers who have contacted us and want us to help them control their gambling also said this.

The block and the 48-hour delay are there to help with impulse control; gambling can often be an impulsive decision. We are putting a little bit of friction in the way that we hope will change the thought pattern—a nudge, if you like—and send them on to a different thought process.

**The Chair:** Have you seen anybody copy that in your sector?

**Alexandra Frean:** Yes, a number of banks have done that now.

**The Chair:** Are they traditional bricks-and-mortar banks?

**Alexandra Frean:** Yes. I think that Lloyds is among them, too. Once we did it, a number of other banks did it. That is what I was referring to earlier when I said that I think the time is right for the industry to collaborate. There is now a sense that this is something that we can do.

**The Chair:** Are the others that have copied you or adopted your practice all sort of 48 hours? Has anybody done longer than that?

**Alexandra Frean:** Most have done 48 hours. I do not know of any that have done longer. That was the sort of consensus that we got from the gambling charities.

**The Lord Bishop of St Albans:** I presume this is not commercially sensitive. Did you say that you have 1.3 million customers?

**Alexandra Frean:** Yes.

**The Lord Bishop of St Albans:** Are you able to let us know how many people are using that blocking facility?

**Alexandra Frean:** It is 17% of our active customers. They are not all people with gambling problems. There are people who turn it on because they can. When a lot of people open an account, they go into the app, see what it does, and say, "That's interesting". We cannot tell what proportion are people who have turned it on to stop themselves gambling.

**The Chair:** When they switch it on—in other words, they self-exclude—what is the effect? Does it mean that you will not facilitate payments to licensed or unlicensed bookmakers?

**Alexandra Frean:** There are two effects. One is that they will get a little message saying that we are blocking gambling and it will be 48 hours before we turn it back on. We signpost them with the telephone number and a link straight through to the National Gambling Helpline. If they then tried to make any transaction at a licensed gambling merchant, it would be declined and would not work. It does not block the purchase of

National Lottery tickets, which you might buy at a newsagent or a supermarket, but it blocks most gambling.

**The Chair:** Could offshore and unlicensed gambling operators still be paid?

**Alexandra Frean:** Yes, they could, because they presumably do not use the merchant code for licensed operators.

**Lord Foster of Bath:** I have a very small question. I think ears pricked up very quickly at that 17%, but you then quite rightly pointed out that it is available when people first open the account and, rather like pornography blockers or whatever, you can understand it.

Does your system allow you to have the figure for the percentage of your customers who, after the initial setting up of the account—let us say after a month or more—have subsequently gone back and put it on, and, if so, could you provide us with it? That would be more indicative of people who might think that it would be particularly helpful to them, rather than just doing it automatically.

**Alexandra Frean:** I can ask our analytics team if we can get that data for you.

**Lord Butler of Brockwell:** Similarly, could we have the figures for those who have taken it off?

**Alexandra Frean:** Yes. You can go in and turn it on and off as many times as you like, so I would have to get back to you on how we get that data to you.

**The Chair:** That would be very helpful. Thank you very much.

Q224 **Baroness Armstrong of Hill Top:** I used to be on the Lloyds Bank Foundation, which works with small charities, some of which work with people with addictions, so we talked a bit about this whole thing of blocking through the app and how many people would and would not use it. Do the policies that allow customers to block gambling transactions also apply to other transactions that are more involved in gaming, such as loot boxes, skins and that sort of stuff? They really fall between gaming and gambling. If not, what work are you undertaking to develop a policy that might also apply to those sorts of transactions? We know that is one way in which young people get into gambling.

**Alexandra Frean:** That is a really good point. We are aware that this is a growing issue, particularly for young customers. They are not currently blocked under our gambling block, because they do not use those merchant codes. We would be very happy to talk with the computer games industry about how we might do that.

We can block traditional gambling outside of computer games, because there are very distinct merchant codes. We could not block alcohol or tobacco spending, for example—other things that cause addiction problems—because we would not be able to distinguish them from the loo

rolls on your Tesco bill. At present, we do not have the granularity of the data. We would have to look at how to do that with the gaming companies.

**The Chair:** What would the gaming companies have to agree to do for you to get the merchant code that you need to identify them?

**Alexandra Frean:** This has to be a bigger conversation, not just a conversation with the gaming companies. It has to involve the card schemes as well. Right now, the codes are set by MasterCard or Visa.

On the question of the visibility that you have on what someone has bought, going back to the supermarket example we know that you will get a receipt that will itemise everything you have spent if you go to Tesco, but that is not captured digitally and sent to your bank. In theory, it could be shared with banks, because most merchants now use digital tills, and more things could be excluded if the retailers and the card schemes wanted to do that. The retailers guard that information very closely, for obvious commercial reasons.

I do not know about the gaming industry. I think this has to be a bigger conversation about what visibility the digital technology gives you and how that information is then shared with banks.

**The Chair:** Can you think of any reasons why the gaming companies would not want to co-operate?

**Alexandra Frean:** No. From my understanding, they are keen to look after people who have had a problem with gambling. It is not good business for them.

Q225 **The Lord Bishop of St Albans:** I wonder if you can help us with a problem that has been raised with us several times. Some in the industry are saying that, if we have more regulation, it will encourage people to go offshore and set up illegal betting sites. We have had some evidence from the Gambling Commission that it is possible to block payments to unlicensed gambling sites. The chair of the Gambling Commission, in his evidence to us, said that if you discover an operator with a licence in the UK, you can work with the payment providers to stop it being able to take the money. Have you had any instances in which the Gambling Commission has come to you and said, "This is a site that has no licence"?

**Alexandra Frean:** We have not, to my knowledge, but this sounds like a conversation that we should be having with them.

**The Lord Bishop of St Albans:** Are there any technical difficulties to doing that?

**Alexandra Frean:** I do not know the answer to that question. I would have to know what merchant codes the unlicensed sites were using and see whether that would inadvertently block a legitimate transaction.

**The Lord Bishop of St Albans:** If, for example, the Gambling Commission discovered a site on the computer offering gambling which people were using and that had no licence, and if they came to you and said, "This is the URL", would you be able to track it down and work with the Gambling Commission on blocking it?

**Alexandra Frean:** We could have a jolly good try, but it would depend whether they were using a merchant code that covered a bigger category. They have presumably set themselves up as something bogus, not as illegal gambling.

**The Lord Bishop of St Albans:** I have not quite understood this. Could they have registered with you as a bank saying that they sell toilet rolls, to go back to the illustration, but they would be offering a gambling service, so the code would not be obvious?

**Alexandra Frean:** That is a possibility. They would not register with us but with MasterCard or Visa. I imagine that they set themselves up, but I do not know what as; they could be a building company or something else. If the Gambling Commission has found a way around that, we would very happily sit down with them and look at what we can do. It is not our area of expertise, but we certainly do not want our customers to get into financial difficulties. We care about them, so we would definitely have that conversation

**The Chair:** I imagine that the other problem with the unlicensed sector, the wild west of gambling offshore, is that the ban on credit cards would not apply, so you could use it instead of your debit card to gamble online with an unlicensed overseas offshore operation, could you not? I would welcome your view on this, if you have one.

**Alexandra Frean:** I do not know the answer to that.

**The Chair:** Thank you. We will get the answer to that in due course.

Q226 **Lord Filkin:** The little working group that we have almost volunteered to be set up by the financial services industry this afternoon could be given that question, could it not? What powers are required to give the banks the ability to ensure that unregistered, online, offshore gambling sites are blocked? Could you do that?

**Alexandra Frean:** We could look at what is technologically possible.

**Lord Filkin:** Most things are.

**Alexandra Frean:** We are not regulating and going after the unlicensed gamblers. We are not in a position to do that.

**Lord Filkin:** It is giving you an open book, though. Given what technology can do and legislation might do, what could be done to block this? Could you think on that? It is quite important. We will have people saying, "No, you can't do it, because it will all go offshore". We think that is rubbish, but we need someone to help us show that it is.

**Alexandra Frean:** I will go back to what I said before. This needs to be a much wider conversation between the banks. We need to get the card schemes and everyone involved as well.

**The Chair:** Before I come to Lord Watts, I have a supplementary to that. What is the attitude of the big boys and girls to an upstart bank such as yours that is a threat and trying to eat their lunch? If you were to suggest getting together, would they take you seriously?

**Alexandra Frean:** I think you will find that they now take us very seriously. We are eating their lunch.

**The Chair:** Thank you. We will be back after these messages.

**Lord Watts:** I think you are on the sweet course now. Just to be clear about this, as I understand it you can go online and identify these, and then download an app that allows you to gamble in an offshore area, but it does not look as if it is a gambling company when it comes back to the credit cards; it disguises itself as a carpet warehouse or whatever. It is quite easy to download apps that make it very difficult to track. As we found with pirating football films, you can change on an almost daily basis. Even if you shut it down, it can open up again the following day in a different guise. Is that your view?

**Alexandra Frean:** I do not have expertise on that.

Q227 **Lord Layard:** I want to ask you about the idea that banks could introduce a daily default spending limit for gambling, like the daily limit on what you can take from an ATM. Does the technology exist to do something like that? Are there any other barriers to introducing a spending limit which the individual could choose or that could be generalised in the way that it is imposed?

**Alexandra Frean:** There is no button that we can press to make that happen, but we could build it. It would take a clever engineer a few days to build at a modest cost. So I guess the answer is yes.

What are the other barriers to doing that? I think we would have to look at whether we were creating unnecessary or unwanted friction for legitimate transactions. There may be very wealthy people who want to spend lots of money on gambling every day and can afford to. It is not our business to tell them not to. There would have to be some kind of optionality so that you could turn it off if you were among the group who could afford it. We are looking at affordability and are not making any other judgment on how people spend their money.

**The Chair:** It is practically possible, but the question is how you get through the ethical maze.

**Alexandra Frean:** There is also the practicality of who benefits.

**The Chair:** It will not be the bookmakers.

**Alexandra Frean:** I am talking about our customers. We do not want to stop customers who can afford to spend their money on something doing so. We do not want to make them feel bad about how they spend their money. We are neutral on that, so we would have to weigh it up. The option to put that limit on may well be there. However, when you have optionality and people can turn it on and off, they turn it off, and it only works when it is on.

**Lord Butler of Brockwell:** It could surely be a variation of the app that we were talking about earlier. If you can have an app that stops you spending money on gambling altogether, you can presumably have one that stops you spending on it above a certain limit.

**Alexandra Frean:** I do not know how those apps work. Are you talking about Gamban and those apps? I do not know the answer because I do not know how they operate.

**Lord Butler of Brockwell:** I do not know the answer either, really. It seems to me that if you can make a complete stop, you can make a limited one.

**Alexandra Frean:** It is possible, but there are other things that you have to take account of as well.

**The Chair:** I think the point is that it is practical. The Committee understands from you that it can be done in a few days: the software can be written and the app functionality designed. There are other considerations at that point. Thank you very much.

Q228 **Lord Foster of Bath:** Much of this conversation has been about the issue of affordability. I think that you and we are concerned about that issue, perhaps for different reasons. We can learn from each other. Many people will suggest that there are all sorts of ways in which people can get around the recent announced ban on the use of credit cards for gambling, such as by using payday loans or having multiple bank accounts and moving money from one to another. I suppose my question is really this: what else should we be doing to ensure that people do not use all these other ways to get around it?

In a sense, you might say to me, "It's none of my business". However, you told us right at the beginning that, when somebody opens an account with you, you do a credit check on them to determine their overdraft limit up to £5,000. You have also told us that if somebody comes to you asking for a loan you will do a detailed check on their use of credit in the past, their repayments and so on. In much the same way that you would determine whether to give somebody a loan, you presumably have to check whether they are fiddling with other accounts and ways of getting the money. How do you do that?

**Alexandra Frean:** It is done entirely through the credit reference agencies.

**The Chair:** Would they know if somebody has two or three other

accounts?

**Alexandra Frean:** They would not necessarily know. They would know only if it was affecting their ability to repay. If they had credit cards or loans, it would show up. All their lending would show up; that is what a credit check is.

**The Chair:** How about if they had three overdrafts with three different banks?

**Alexandra Frean:** Yes, that would show.

**Lord Foster of Bath:** If they had payday loans—for example, if they go into a payday loan shop and get money out at a ridiculously high rate of interest—you would not know about that any more than anybody wanting to stop them using it for gambling would know. Is that right?

**Alexandra Frean:** I think we would know, but I do not know. I think we would have visibility over their credit, but I do not know and do not want to give you bad information. I need to come back to you with that.

**The Chair:** Could you let us know?

**Lord Foster of Bath:** The ban on the credit cards is a move in the right direction. We can see the potential for people to find ways to get around that. Could you think through whether it is possible to do that? If it is, what would you do to stop it? If not, we can stop worrying.

**Alexandra Frean:** Right.

**The Chair:** Thank you very much. I am sorry that it has been a lonely path. We are enormously grateful to you for your contributions. They are very helpful indeed in us understanding this. We understand that you do not speak for the whole sector but for your particular enterprise. Some of the generic points have been very helpful to us indeed. Thank you very much for giving us your time.