

Liaison Committee

Corrected oral evidence: Financial exclusion—follow-up

Tuesday 16 March 2021

3.30 pm

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Liaison Committee—members present: Lord McFall of Alcluith (The Chair); Lord Bradley; Baroness Campbell of Surbiton; Lord Davies of Oldham; Lord Judge; Lord Lang of Monkton; Lord Smith of Hindhead; Lord Tyler; Baroness Walmsley.

Financial Exclusion Committee—members present: Baroness Tyler of Enfield (former Chair); Baroness Primarolo; Lord Empey; Viscount Brookeborough.

Evidence Session No. 3

Virtual Proceeding

Questions 12 - 19

Witness

[I](#): Eric Leenders MD, Head of Personal Finance, UK Finance.

Examination of witness

Eric Leenders.

The Chair: Welcome, Mr Eric Leenders, another familiar face from the past I know very well. We are delighted to have you today. You know who I am, but for the record I am Lord McFall of Alcluith, Chair of the Liaison Committee. I am delighted to be assisted by Baroness Tyler of Enfield, the Chair of the former Select Committee on Financial Inclusion, and some of the former members of that committee. Over to Baroness Tyler for our third evidence session.

Q12 **Baroness Tyler of Enfield:** Thank you very much indeed, Lord Chair. Thank you very much indeed to Eric Leenders for being our witness in this session. Before I start the questions, I declare my interests. I am a member of the Financial Inclusion Commission and president of the Money Advice Trust.

As with all the sessions this afternoon, time is very tight, so we are looking for fairly short questions and answers. May I begin by asking you a general question to get your perspective on what the priorities, the main areas of focus, should be for all those with an interest in financial inclusion over the next two to five years, particularly taking account of the impact of COVID?

Eric Leenders: I am the managing director responsible for personal finance at UK Finance, representing some 200 or 300 firms across the financial services sector.

To answer your specific point in a word, I would encapsulate the priorities over the next two to five years, and in fact the immediate priorities, as access. We heard previous witnesses talk about access to cash, and, alongside that, access to banking services is its twin, if you will. That would be my key priority as regards financial inclusion.

Q13 **Baroness Tyler of Enfield:** Moving on and picking up some of the themes that we have already discussed this afternoon, our report back in 2017 had a very clear recommendation that the Government should publish a clear overall strategy for improving financial inclusion, particularly taking account of the fact that it is very much a cross-cutting area with many other people involved. I would welcome your perspective on whether you think there will be a desire within the sector to have sight of and indeed an ability to comment on the Government's overall strategy for financial inclusion.

Eric Leenders: I think a lot of what I would say has been said previously. It would be very helpful that there is a clear and transparent articulation, and the opportunity to comment on any consultation, perhaps on a specific strategy. Also, when government speaks, the financial services industry tends to listen, so it can have a strong convening effect across the wider industry. I would be fully supportive.

Baroness Tyler of Enfield: Do you feel that the fact we do not have a

published government financial inclusion strategy at the moment is a block or a barrier to things that would be desirable to have actually happening?

Eric Leenders: I would not go so far as to say it was a block or a barrier, because I think there is already a level of expertise and understanding and, indeed, senior engagement. You mentioned the Financial Inclusion Policy Forum, for example, which comprises the CEOs of major banks plus CEOs of significant advocacy organisations. In that context, there is, as I say, sufficient experience and seniority to take forward a mandate or an agenda of its own volition. The Financial Inclusion Policy Forum is a good vehicle to that extent. I think codifying it through some form of strategic paper would be additive.

Baroness Tyler of Enfield: Developing that point on the policy forum, could you say what you feel its impact has been so far, and, in particular, what its main achievements have been?

Eric Leenders: When the policy forum was first inaugurated, I was invited to co-chair a piece of work on access to affordable credit with Sian Williams at Toynbee Hall, and certainly from that particular piece of work there has been further consideration of, for example, the Good Shepherd model [of affordable credit, based in Australia]. I think it has been helpful in the context of formulating statutory requirements with regard to the Fair4All Finance initiative. I would not say it is a direct line to the statutory requirements that have been enacted, but certainly the forum has provided a very valuable platform for those sorts of discussions and considerations.

Baroness Tyler of Enfield: I invite Lord Empey to ask the next question.

Q14 **Lord Empey:** Is there an opportunity to adapt and innovate in the face of further branch closures? What is the role of bodies including, but not limited to, the Post Office, credit unions and OneBanks in this arena? Since the report, there has been a tidal wave of closures. Is the reality, now accelerated by COVID, that bank branches are not quite a thing of the past but moving in that direction, and does that leave the particular cohort of the population we are trying to help even more exposed?

Eric Leenders: There are quite a few questions and observations. I will try to pick up as many as possible. If I do not give a full answer, please could you remind me of the points I have overlooked?

My first observation is that we at UK Finance have the benefit of oversight of management of cash services—coin and notes in and out of the financial system via cash centres. We have without doubt seen a systemic shift, broadly speaking, two-thirds down on pre-pandemic. What we have also seen, which is interesting, is that the pattern of cash use has reduced by about two-thirds, but nonetheless has remained pretty consistent. We would expect the residual usage to be probably cash use for essential services such as groceries.

I raise that point, because I think it is statistical validation recognising that there is still a significant demand for cash. That is why we do a lot of work [on access to cash]. Natalie Ceeney spoke in a previous evidence session. We provide secretariat services to her community access to cash pilot initiative, which is, to your very point, looking to understand whether there might be alternatives to traditional access to cash channels such as branches, post offices and ATMs. We are actively looking at that. That pilot will run until October. Thereafter we will be able to understand far better whether, for example, the pop-up branch, the banking hub that was referenced earlier, or cashback at retail outlets without requiring a purchase would be helpful, as examples of the particular initiatives that the pilot is looking to address.

Baroness Tyler of Enfield: Thank you for that. I invite Baroness Primarolo to ask her question.

Q15 **Baroness Primarolo:** Good afternoon. Could you explain to us what the banks are doing to promote the basic bank account? Is it your view that the responsibility for providing those basic bank accounts is being shared equally amongst the sector?

Eric Leenders: The requirement to distribute a basic bank account—to my earlier point about access—is, I think rightly, already enshrined in law. It obliges the nine largest banking brands to provide a basic bank account. The manner in which that is distributed is constructed such that, if an individual wanted to open an account, they would apply for a current account, and the current account provider would determine which account that individual was most eligible for.

We took that approach, and there were arguments on both sides—I think Martin Lewis made the point that a customer should be able to apply simply for a basic account—because, on balance, we felt that it would be better for a customer who might be eligible for an account with more functionality, which might be of more utility, more use for them, to have that choice. It would only be if that choice should not be made available to them that the basic account would be offered.

To the second point in your question, the Treasury monitors the distribution of basic bank account provision across those nine providers and publishes the data, and at the same time, I think, looks to ensure that there is relatively even distribution across those brands, based as a proportion, for example, of market share.

Baroness Primarolo: May I come back to your point about the gateway when somebody applies for an ordinary account and subsequently is directed to a basic account? Crucially, that depends on the training that the staff who are making the assessment have received, and understand about the promotion of the appropriate account to the customer. Obviously, training has been very difficult to deliver and to update through the COVID period, not just for banks but for all firms.

Could you outline how the banks are trying to make sure, particularly

given the strains we have heard about and the huge problems that the pandemic has presented for millions of households, that their training is keeping up with those demands so that their staff are sensitive to the new challenges, and are therefore making sure that people get basic bank accounts if they need them?

Eric Leenders: Sure. Different brands take slightly different approaches to their training. Some formalise it with qualifications through recognised professional bodies, for example. All have specific training based on their own individual policies and procedures. Typically, we saw a move pre-pandemic, perhaps accelerated to some extent but, I would argue, largely pre-pandemic, towards distance learning and online learning modules.

There is a supplementary to that. Of course, the corollary for training is to make sure that staff execute in the manner in which they have been trained. There is obviously a supervisory element, which is why there are chains of command across bank structures. Regrettably, as with all organisations, although the intention is always to get it right every time, I am sure that mistakes occur on occasion.

To your point, there is probably a forward view. Martin Kearsley spoke earlier about the Post Office card account. The Post Office card account will be closed over the next 12 to 18 months, so I just wanted to reassure the committee that we are already working proactively with the DWP and the Post Office with regard to consumers who currently do not have an account.

At the moment, I understand that the DWP is writing to customers who have a current account already, so that it can transfer benefit payments to that existing account. Where they do not, we are looking at the slightly more difficult areas—for example, identification in areas such as homelessness, or opening an account for a prisoner who is due for release. The intention is that, where customers typically have relied on a Post Office card account, the ability for them to continue to use a card via a basic bank account will be as seamless as possible as we transition away from the Post Office card account.

Baroness Primarolo: There is a problem with customers accessing banks. It was very reliant on digital contact before, but COVID has accelerated that. How are you dealing with that in making sure that you have a proper assessment of customers' needs?

Eric Leenders: We have had to be very thoughtful about the requirements of distancing and lockdown intermittently over the last 12 months. Naturally, that has created some delays and queues, as we have not necessarily been able to provide exactly the same service as we would have done pre-pandemic. However, I think we are coming through, with the vaccination programmes. Data not dates is the maxim, and we are coming through to the other side of that, so I expect there to be fuller provision in bank branches as we move towards the point when customers need to migrate from the Post Office card account to an alternative product.

Baroness Tyler of Enfield: Thank you very much for that. I invite Viscount Brookeborough to ask a question.

Q16 **Viscount Brookeborough:** Before going on to the question about literacy itself, I think we are all very disappointed in the lack of government action on education in schools, and we could go into that in a very long way.

Could you please tell us something about the role of the FCA, UK Finance and the banks in promoting financial literacy and capability amongst consumers? Secondly, we would be very grateful if you could tell us a little about the Vulnerability Taskforce.

Eric Leenders: To your first point, the work we do is primarily with the Money and Pensions Service, less with the Financial Conduct Authority, although, as Sheldon and Nisha referenced, it is obviously a keen supporter of financial regulation and financial capability. Each of the major banking brands runs a comprehensive financial education and capability programme. Our role, in a co-chaired working group with the Money and Pensions Service, is to co-ordinate to ensure that for children and young people across all age groups—three to five, five to seven, seven to 11, 11 to 16, et cetera—there is distribution across a number of brands; that there is choice for teachers and for parents if they would like to avail themselves of financial education materials.

The second thing we have done is work with the Money and Pensions Service to ensure that there is a quality standard with regard to the good outcomes we would expect from a child going through one of those training programmes.

The third thing we have done is to look at the areas of the highest levels of, I guess, social deprivation across the nations and regions of the UK. We have identified the top three most deprived areas and allocated them to at least one brand, to ensure that in those most deprived areas there is distribution of financial capability programmes. Currently, we are well on track to hitting the Money and Pensions Service 2030 target of 2 million extra schoolchildren obtaining some form of meaningful financial education.

Viscount Brookeborough: Do you have an estimate of the number of people or the proportion of children you are actually reaching? The numbers may be quite high, but what is the actual proportion throughout the whole child population?

Eric Leenders: I would have thought that there are in the order of 8 million or 9 million schoolchildren, and currently we are reaching between about 1.8 million to 2 million schoolchildren. The uplift will of course double that number. To be clear, that is just across the five leading banking brands. A number of other actors are very proactive in this space, such as charitable organisations, and you have mentioned of course that the Government themselves also have a statutory responsibility in this space.

Viscount Brookeborough: And just a few words about the Vulnerability Taskforce.

Eric Leenders: To the Chair's reference to the Money Advice Trust, I should be clear to the committee that Joanna Elson, the chief executive of the Money Advice Trust, is also a main board director of UK Finance. I mention that, because she was the chair of our Vulnerability Taskforce back in 2016.

It is interesting and significant to note that so many of the recommendations in that taskforce report—on treating customers empathetically, inclusively, and with respect, et cetera—still hold. We very much agree that the FCA's approach in its latest guidance on higher-level guidance in itself, as opposed to formal rules, is the appropriate way to go, and that we need to avoid some form of tick-box culture. By way of continuing to improve on the current approach to vulnerability, we will facilitate best practice sharing across the industry. While falling short of codification through rules, we are confident that that will ensure overall that a rising tide will float all boats.

Q17 **Baroness Tyler of Enfield:** Thank you very much. I have one more question. We hear quite a lot these days about challenger banks and the disruptive effect that they have. What impact do you think challenger banks are having on the relationship between banks and customers? Is technology advancing at a faster pace than it can be regulated?

Eric Leenders: I will take that question in two parts. As a trade association, we absolutely recognise and value competition. We see that the challenger bank, digital bank, fintech, big tech communities have all brought new innovations to the market. I think that the success of some of those innovations is reflected in the extent to which the incumbents have replicated some of them. Switching off gambling pay codes was mentioned in an earlier session. One of the newer digital banks in the vanguard set the pace, and a number of others have now adopted similar practices. Absolutely, as a force for good, and in a wider sense, providing meaningful choice for consumers is always a good thing.

Baroness Tyler of Enfield: My second point was whether the technology is in some ways advancing more quickly than it is possible to put an appropriate regulatory framework in place.

Eric Leenders: I have a lot of sympathy with the regulators because of the pace of change. We have talked about digitisation and its impact on access to cash. That has come up in previous sessions. Significantly, technology is driving a change in the way we do our banking. It is also driving a change in the way we shop, and the way we live our lives generally. It is moving at such a pace that it is very difficult for a regulator, or a legislator, to second-guess the direction in which it might go.

Your question was whether technology is moving too fast for the regulation. I would frame that slightly differently, and see it more as that

the regulators, as they are, should be very alive to the innovations and developments that have been driven by technology, and ensure that they fall within the bounds of what they consider appropriate behaviour, as for example in the FCA handbook, or the Prudential Regulatory Authority's handbook.

Baroness Tyler of Enfield: Thank you very much indeed. Do any of my colleagues who have been asking questions want to come in with supplementaries?

- Q18 **Baroness Primarolo:** On technology driving innovation, and therefore the regulators needing to be alive to it, do you have a view on whether the perimeters of the FCA's regulation should be expanded so that the FCA, when it sees changes that are necessary in regulation, could make a recommendation to the Government, and that it could make that representation formally rather than in this informal way when we do not really know whether it has been acted on? Would that give greater transparency and certainty for the banks?

Eric Leenders: That is a very good point. The Treasury is currently consulting on a revised regulatory framework for financial services. A particular point we have made is, broadly speaking, "The same service, the same risks and the same regulation". Where something walks and talks like a duck, it should be regulated like a duck, if you will excuse the poor analogy.

- Q19 **Viscount Brookeborough:** The closure of bank branches is one of the biggest issues we have in rural areas. During our inquiry and since, the banks have said that they consult on their closures. We did not find a single time when they had consulted and then changed their mind. What is the point of the consultations?

Eric Leenders: Speaking as a former bank manager myself, and having experience of the importance of banks on the high street, I take very personally the industry's view that it does not close branches lightly. It is interesting that in the conversations this afternoon the social role of the bank branch has not necessarily come up, and I guess that is probably because it is a social inclusion issue rather than a financial inclusion issue, but human interaction is certainly a significant consideration.

To the point you make, we instigated, and the FCA has now formally codified, an approach that should be taken when considering the closure of a bank branch. It is very much about making sure that the right communications have taken place, so that consumers are aware that their bank branch will close, and that alternative facilities available to them nearby have been highlighted to them. Ultimately, as a trade association, it is certainly not for us to intervene in a commercial decision by a bank to close one of its branches.

Baroness Tyler of Enfield: Thank you very much indeed, Eric. Again, we have covered a lot of ground in a relatively short time, and we are extremely grateful to you for giving up your time to talk to the committee today. Thank you again, and back to you, Lord Chair.

The Chair: I thank Eric for his evidence. It was very helpful and useful. It is nice to see him again. With those warm remarks, I draw this evidence session to a close. Thank you very much.