



Treasury Committee

Oral evidence: [Treatment of Financial Services Consumers](#), HC 631

Tuesday 13 January 2015

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Members present: Mr Andrew Tyrie (Chair); Rushanara Ali, Steve Baker, Mark Garnier, Mike Kane, Teresa Pearce, Alok Sharma, John Thurso

Questions 450-546

Witnesses: **Eric Leenders**, Executive Director, Retail Banking, British Bankers' Association, and **Catherine McGrath**, Managing Director, Transaction, Insurance and Mass Market, Barclays, gave evidence.

Q450 Chair: Thank you for coming this morning. Perhaps I could begin with a question to you, Mr Leenders. The Parliamentary Commission on Banking Standards concluded that a voluntary agreement was needed 18 months ago. Why did it take 18 months to get a deal when the banks themselves said they were keen?

Eric Leenders: I think the start point predates the Parliamentary Commission. It was the report in November—

Chair: That makes the point I am making all the more relevant.

Eric Leenders: Indeed, but for completeness it is important to note that we started conversations with Consumer Focus a couple of months prior to the Parliamentary Commission. The discussions were in some ways unique for us as the BBA, because there was clearly a commercial element to the negotiation, which we were clear to avoid for anti-trust reasons. Then, during the course of negotiation, there were a number of developments: different banks—eight of whom who have subscribed in our membership; one of whom is without—had different priorities as the negotiations progressed. It took a while to work through those.

Alongside, it is important to note that there was the parallel development of the payment account directive and there was certainly a keenness to ensure that whatever was developed by way of voluntary standard aligned with the payment account directive, such that on implementation of the directive there was not a requirement for further mandatory change.

Q451 Chair: Ms McGrath, why did the banks agree to this in the beginning? Was it because they felt coerced or because they wanted to do something anyway?

Catherine McGrath: Barclays basic bank account met all the requirements bar one before the discussion started, so we are very significant in the basic bank account market anyway. The change for discussion point for us was around the removal of the fee. These accounts are loss-making for us anyway; that therefore makes it worse. Our reflection—I spent some time with the Citizens Advice Bureau—is that for financially vulnerable customers, that fee is problematic so that was why we took the decision to remove the fee.

Q452 Chair: Do you hold the amount that you are losing on these accounts to be commercially confidential information?

Catherine McGrath: We do, but we are happy to share numbers with the Committee subsequently.

Q453 Chair: On condition that we do not publish it, or that we may? Is this commercially confidential?

Catherine McGrath: It is commercially confidential.

Q454 Chair: Then it falls to the BBA to put together for us the full true cost of the provision of basic bank accounts and we would be grateful if you could do that. Is that possible?

Eric Leenders: Yes, certainly.

Q455 Chair: Unless you know the number now.

Eric Leenders: I am afraid we do not.

Q456 Chair: Do you think that serious consideration was given by the Government to other possible vehicles, such as the use of NS&I or the Post Office, or were the banks are always going to be the only likely vehicle for this?

Eric Leenders: In our conversations with Treasury officials, we discussed a possibility of a Post Office Card account. In fairness the fact that there was already an established basic account product rather led the consideration of that as the vehicle they chose.

Chair: Is there anything you want to add on that?

Catherine McGrath: No.

Q457 Chair: Why did it take so long from the commitments made in principle to rolling this out?

Catherine McGrath: From a Barclays perspective, my reflection on this is that the basic bank account usage has been broader than for the financially vulnerable customers. That has caused some problems and challenges as we have thought through what Treasury wanted to achieve. What I mean by that is if I jumped off a plane and arrived in the UK, I would have gone into the basic bank account because the banking system would not know anything about me, because I would not have necessarily had a track record in the UK. So this blurring of the purpose of the basic bank account meant that it has been used for purposes that were not intended.

From our perspective, to comply with the final change, what we need to do is get the account back to what it should be, which is for financially vulnerable customers and some time and systems changes are required for that to happen.

Q458 Chair: Sorry, I should have put one further question about the cost, probably to you, Mr Leenders. Do you think the Government is getting something that should be covered by public expenditure on the cheap—something that they would need to do one way or another, which is to provide some sort of payments platform to enable benefit payments and other transactions to be made?

Eric Leenders: I do not think it is unarguable that the structure of universal credit will require some form of account. The extension of the Post Office Card account contract to 2021 will provide some facility funded out of Government. To the point that Catherine made, in the conversations I had with the retail chief executives, the industry saw that this was an opportunity to demonstrate its responsibility to the more vulnerable customers in society.

Q459 Chair: I am asking a different question. I am asking about the motivation for the Government imposing this requirement, or strongly encouraging this voluntary agreement. Does the Government have a strong financial incentive to see this delivered?

Eric Leenders: Certainly the Government has a strong financial incentive. Equally though—

Q460 Chair: So they are picking up something on the cheap or for nothing?

Eric Leenders: To an extent. They also of course have extended the Post Office Card account contract, so it is not a unilateral ask.

Q461 Chair: You are saying they have also made a contribution.

Eric Leenders: That is right.

Q462 Chair: But it would have been a bigger contribution, so they are getting it on the cheap, so my earlier suggestion has—

Eric Leenders: Yes, I would agree with that. I would also agree that we felt it was the right thing to do, so I do not think coercion would be the right description.

Q463 Chair: Do you think it is a more efficient way of delivering the service than would be the case if the Government tried to do it themselves? Is there an efficiency justification for what has been done?

Eric Leenders: Certainly in the context of distribution of a payment account the expertise sits within the banking industry, so that has to be—

Chair: So the answer is yes?

Eric Leenders: Yes.

Chair: Would you agree with that, Ms McGrath?

Catherine McGrath: Yes, if I was a customer, I would not necessarily know before I went in and talked to anybody which account was appropriate for me. So the natural place to go is to a bank, and it is important that we provide for and serve all customers.

Q464 Chair: If there is slippage on this agreement, how are we going to make sure that it is noticed and rectified?

Eric Leenders: As we negotiated with Treasury, the agreement is that within four months of the December start date the individual banks will provide details of the product they are going to bring to market, and then within the 12-month implementation timeline they will provide far more detailed terms and conditions and precise functionality of the product.

Q465 Chair: I am talking over time about how it is run, whether we are going to get attrition to the scheme.

Eric Leenders: The scheme will be monitored annually by Treasury; we will provide data to support that. That is one element of that aspect of monitoring. Certainly the way the agreement was worded was “inclusive” such that if there is additional functionality or if there is—to your point—slippage on the original agreement, that is a discussion for Treasury to have with that particular bank.

That is also supplemented by the Financial Conduct Authority’s supervisory oversight of current accounts through the banking conduct sourcebook and certainly the banks will be having separate discussions with the FCA—

Q466 Chair: Has the FCA made that clear?

Eric Leenders: I do not know they have made it clear to date. We have certainly provided—

Chair: Perhaps you would like to come back to us on that point—whether the FCA now consider it part of their remit in scrutinising current accounts that the basic bank account voluntary agreement be maintained. That is something we should know.

Q467 Mark Garnier: Can I just ask questions a little bit about the dynamics of why people want to go and secure basic bank account customers? Catherine McGrath, you said that these accounts are loss-making, although you do not want to discuss quite how much. Presumably, if you know they are loss-making, then you must know how much a normal current account makes or profitability per current account. It is slightly beside the point.

Catherine McGrath: Yes, we have a broad view on overall profitability. The reason I say it is broad is obviously the allocation of costs is quite a complex issue within the bank.

Q468 Mark Garnier: Fair enough. There may be some more questions on this later on. The thing is: if they are loss-making why would you take them on?

Catherine McGrath: We do see it as part of being in banking in the UK that ensuring all customers have a capability to access finance is important. Secondly, the other thing that we do know is customers generally are in financial vulnerability only for a period of time, so helping them move and become full service banking customers is an important part of what we do.

Q469 Mark Garnier: The first part of that question is one of simple morality, simple social conscience. With this group of people—while I quite agree there are opportunities for people to get themselves through difficult problems and then come out the other side and perhaps be quite profitable customers for you—what slightly troubles me is the first thing is we do not know how many people there are out there who are unbanked; and, secondly, if you do not know they are unbanked, you have no track record, as we discussed.

It is quite a punt for a bank to take on somebody who has been unbanked beforehand, who could be in their middle ages who may have a track record of just not understanding how bank accounts work, in the hope that at some point in the future they may turn into a profitable customer. What is troubling me about this is that, knowing that banks have a duty to their shareholders and their customers and to the security of the bank, I cannot quite see what the dynamic is that is going to drive a bank to want to go out and compete against each other to secure customers that would go for the basic bank accounts. But I would like to hear more on that.

Catherine McGrath: I do not think you will see specific innovation in the basic bank account space and that banks will heavily compete to acquire basic bank account customers, for exactly the reason that you described. The way we look at it is the services that we provide more generally, whether that is mobile banking or payment innovation, are as available to our basic bank account customers as they are to our standard customers, and that is how you will get a breadth of offering to the basic bank account customers. I do not think you will see that competitive dynamic in the market, but basic bank account

customers will benefit from the broader enhancements that banks are making for their standard current account customers.

Q470 Mark Garnier: But how are you going to market these? If you come to a town like Kidderminster, are you going to be sitting there with a sign outside Barclays saying, “We would like as many people who do not have bank accounts to come along and open accounts”? Are you going to be competing against each other or just waiting for people to knock on the door as they feel they have to have it, as a result of the fact their benefits will not be paid unless they have a bank account?

Catherine McGrath: I anticipate if we are doing any advertising it will be for the standard current account, not the basic bank account, and that when customers that come in to get that end up with a basic bank account, it will be because they do not qualify. I think it will be a consequence as opposed to something that we drive. We have been doing that very successfully for a number of years and we have quite a significant share of the basic bank accounts. Today, we are the only bank that banks undischarged bankrupts. People like Citizens Advice and StepChange are our charity partners; they know the sorts of services the banks provide and they encourage customers to go to a bank that is going to best meet their needs.

Q471 Mark Garnier: Potentially there are 3 million people who are unbanked. I know the numbers are pretty wild and erratic and nobody knows for sure how many there are, but let us call it 3 million. That is 3 million loss-making accounts that need to be divvied up. What troubles me is that no one is going to go out actively advertising these accounts, and no one is going to go out actively seeking this type of person because the chances are that, if they are unbanked, they are not going to move on to being a profitable customer that quickly. What is the incentive to take them on?

From what I know about markets and the drivers that make institutions want to go out and find customers, nobody wants to go out and find a loss-making customer. That simply does not make any sense, even if there is a possibility. Overall, the chances are this is going to be something that loses money. It may not lose much, but the opportunity probably is not going to be there to make the whole thing worthwhile. What I do not understand is this: let us say there are 3 million people out there and the cost of administering one of these accounts is £100 a year, so that is £300 million worth of potential losses. How are you going to divide it up among the banks in order to take on these basic bank accounts?

Catherine McGrath: What is going to make a difference is that now the functionality of the basic bank accounts needs to be equivalent across all providers. That, by definition, is going to start to mean that you get the provision of basic bank accounts spread more broadly across the banks.

Q472 Mark Garnier: So you share that hypothetical £300 million loss between everybody?

Catherine McGrath: Yes. It would be fair to say it has not been that, even in allocation historically, given that there has been significant variance between the functionality of the different basic bank accounts.

Q473 Mark Garnier: How would you suggest that would be done: on balance sheet size or market share?

Catherine McGrath: Market share is probably the one that makes most sense. We expect that that will be looked at and viewed and monitored as part of the Treasury monitoring.

Eric Leenders: If I might pick up that point. The data we provide to the Treasury is the stock and flow of basic accounts and also the stock and flow of personal current accounts, full service accounts. So a proportionate share can be analysed to make sure that, relative to their market share, each bank is distributing an appropriate number of basic accounts.

Q474 Mark Garnier: The trouble with that is that, as you have pointed out, Ms McGrath, there are going to be within that group of people who are potentially attracted to a bank those ones who maybe are going through a bad part of their cycle, maybe a bankrupt, and the bankrupt, when they have been discharged, can be a very profitable customer for a bank. Given the fact you have potentially these 3 million people who require these basic bank accounts, what is to stop the banks coming in very early and cherry-picking to secure their market share of those customers who could potentially turn into profitable customers, thereby leaving a great rump of not only the unbanked but the unbankable at the end of it, when people will then be compelled to try to take on these customers. It is a very difficult market. You can see the social implications of this. Given the fact that you cannot get a job now without a bank account because you cannot get paid without it is very important. The reasoning behind my question is that at the end of the day you drive a group of people further and further into that impossible-to-help section because there is no commercial interest in it whatsoever. I am trying to see how you are going to get past that so that each bank will take a fair share, dice and slice that customer profile, so you do get some of the ones who are that are going to be potentially profitable, not just one bank being cleverer than others and grabbing that section, meaning it will be more difficult for others. What is the answer to that?

Catherine McGrath: The only way I can answer it is to say, yes, you do not go out and actively look for unprofitable customers, but we know that we have a social imperative. For exactly the reasons you have described, it is very difficult to operate without a bank account. That it is part of what we need to do—to offer bank accounts to people who do not make us money because that is part of them being able to be a full part of society. We genuinely see—

Q475 Mark Garnier: But you are not a charity, you are a bank. You have shareholders and you have a P&L—

Catherine McGrath: We are but we genuinely—

Mark Garnier: And you have a duty of care to your existing depositors.

Catherine McGrath: We do, but we genuinely see that part of our role is to ensure financial inclusion is operating effectively in the UK. Now, the shareholders would no doubt have a very strong view if the only customers that Barclays were acquiring were unprofitable customers, but as a mix of the customers that we have, we see that financial inclusion is part of our important contribution to the community.

Q476 Mark Garnier: Do you think all the other banks see that? I know it is difficult. Probably Mr Leenders—

Catherine McGrath: I cannot—yes.

Eric Leenders: I think if one of Catherine's peers was in the room alongside us, they would express much the same sentiment. They all broadly see this as a social good.

Q477 Mark Garnier: Do you think it is a genuine sentiment or do you think it is just rhetoric to keep the Treasury Committee happy and the general wider society happy?

Eric Leenders: I think it to some extent falls to the industry's acknowledgement that it needs to rebuild trust and confidence, and among the retail bank chief executives there is a genuine commitment to demonstrate that rather than—

Q478 Mark Garnier: Do you think that will last? Do you think that, once we get past this difficult period for banks, they will continue to want to have social responsibility or if we will get back to some slightly more—

Eric Leenders: Candidly the points that you raise, the point the Chairman has raised, have been issues that have been discussed in the course of negotiations. Different banks have had concerns periodically that among the providers some might be perhaps more progressive than others. That is why we looked to create a review mechanism with the Treasury such that if there was a disproportionate allocation, that could be corrected.

Q479 Mike Kane: I find it very difficult to see how these are such loss-making accounts in the long run. In 2010 I employed a man who was 22 years of age; he had no driving licence, and no utility bills because he lived with his mother. He did not live on benefits, but he could not get a bank account, and that was 2010. He is now living in his own house with £30,000 a year-plus with a long-term partner and child and still maintaining the bank account I eventually got him after two months with the local Co-operative Bank manager. Is he a bad asset to that bank?

Catherine McGrath: No, and that reinforces a point that I made earlier that there are groups of customers that start in a basic bank account who will go on and become very normal and standard customers. Equally there is a segment of customers who will always be financially vulnerable and they are likely to always be loss-making. So you get that full mix.

Mike Kane: I will leave it at that.

Chair: Come back later if you want to.

Q480 Alok Sharma: Right now, as I understand it, there are 9 million customers with basic bank accounts in the UK. Just to clarify: I assume the new conditions that are in place will apply to those 9 million bank customers?

Eric Leenders: The intention is the eligibility criteria for the revised basic account could potentially be considered against the stock of basic accounts that a bank has. Therefore, to the point about migration, if customers have perhaps moved beyond the basic account then they could be moved to—

Q481 Alok Sharma: Sorry, just to clarify the question I am asking. There has been a huge amount made about this new scheme that is in place, and for the first time we are going to get free banking with a basic bank account. What I am asking you is: will the 9 million people who currently have basic bank accounts also benefit from these changes?

Eric Leenders: Certainly those who are eligible for the revised basic account will.

Q482 Alok Sharma: How many would you expect of those to be eligible?

Eric Leenders: That is a matter for the individual banks to work through just now as part of the preparation for the launch.

Q483 Alok Sharma: Would you like to hazard a guess?

Eric Leenders: I would be cautious—we could perhaps return to you.

Q484 Alok Sharma: Those 9 million basic bank account customers currently, how are they spread among the high street banks? Who are the top four or five providers of basic bank accounts currently? Clearly Barclays is one.

Eric Leenders: It is fair to say that Lloyds also has a high proportion of basic accounts just now.

Q485 Alok Sharma: Just in rough percentage terms, how would you say those 9 million are split?

Eric Leenders: I would not know how that breaks down individually, but I am aware that Lloyds has a high proportion of basic accounts, and also the Co-operative Bank. So if there was a top three it would be Barclays, Lloyds and the Co-op.

Q486 Alok Sharma: In the last 12 months, how many basic bank account customers have moved on to hold a standard current account? Do you have those statistics?

Eric Leenders: We do not hold them at an industry level.

Q487 Alok Sharma: Will you be providing those statistics? Is that something the Treasury is demanding as you go forward? There are two things. We need to see, first, whether this is working and the industry really is providing basic bank accounts and, secondly, those people who are wanting to move on from holding basic bank accounts are able to go to a standard current account. Again, the only way we will see that is if there are some stats available.

Eric Leenders: We can certainly look into building that into the data.

Chair: It is absolutely essentially that we can distinguish between—if I might call it—the Mike Kane case and others, so we would like those please.

Q488 Alok Sharma: Just on that point, how actively do banks monitor their customer accounts to basically say, “I determine somebody needs to move to a basic bank account or indeed from a basic bank account into a standard bank account.” Is there any kind of form of monitoring that stuff? Maybe Ms McGrath might answer from Barclays’ perspective.

Catherine McGrath: No, there is not any formal thing that is done pan-bank that understands customers that move from the basic bank account. We do look at our customers and do migrate customers when we can see that they are not financially vulnerable and should be in a standard account, because we think it is important that they have the ability to build up a credit track record.

Q489 Alok Sharma: Forgive me, I just want to go back to the point that Mr Garnier has been raising, which is that we have all these changes and there has been a huge amount of fanfare around it, but actually, from what you are saying there is no real framework in place at all to monitor who has a basic bank account, whether they should be moving to a standard bank account, or vice versa. It goes to the point Mr Garnier was making that there seems to be absolutely no incentive on the part of the banks to make sure people have the right type of bank account and to encourage those who need a basic bank account to take one on.

Eric Leenders: I think that the intention with the upgrading provisions was that within individual banks they will have a range of personal current accounts. They will consider which account is most appropriate for an individual customer across a range. You are quite right that we do not capture that level of data presently. The more proactive upgrading of accounts is something of a newer concept relative to the basic account that was originally distributed from 2003. That is, for example, one reason why there is this very large stock currently of basic accounts. It is something that banks will be looking at individually for commercial considerations because of the benefits to customers to migrate,

Q490 Alok Sharma: What does it mean “looking at”? Are they going to do it or are they not?

Eric Leenders: I certainly think they are.

Q491 Alok Sharma: Will there be any sort monitoring of this, because if you were to come back in some months and the Chairman or any of us was to ask you the same sort of questions, would you have the answers in terms of the number of accounts that have migrated across, backwards or forwards, and what you are doing in terms of actively monitoring accounts? Would you be able to give us concrete answers?

Eric Leenders: As we went into this agreement we saw that at an industry level it was incumbent on us to monitor the number and the distribution of basic accounts. We rather saw that the migration of those accounts to different products within an individual bank’s range was more a matter for the individual bank concerned.

Q492 Alok Sharma: Let us say an individual has a standard current banking account and they decide they may benefit from moving to a basic bank account. What is the provision for them to come into, for instance, Barclays, and make that happen?

Catherine McGrath: The starting point is that that customer generally would not meet the criteria for a basic bank account, because they have already qualified for a standard bank account. The way that Barclays will be looking at it is that for customers who are in financial vulnerability and need the support of that account for a period of time, our intention is to move them into the basic bank account while they are in that period and then we will move them back when they do not need that support anymore.

Q493 Alok Sharma: That will only happen if you have a formal process of monitoring, and Mr Leenders—forgive me—I think you have been quite woolly about what banks do in terms of that monitoring process.

Eric Leenders: If I was to pick up that point, I certainly did not intend to be woolly per se.

Chair: Perhaps it would be best if we drop you a line with a list of things we would like the BBA to come back to Parliament on, on a 12-month basis, so that we have some substantive answers. Any other questions, Alok?

Q494 Alok Sharma: Yes, just one final question. Ms McGrath, you made the point that you are the only bank that offers accounts to undischarged bankrupts and you talked about working with the CAB and StepChange as your charity partners. Why do you think other banks do not offer this facility?

Catherine McGrath: Some of the other banks have a concern about whether there is too much risk in offering bank accounts to undischarged bankrupts. Our view is we have looked at that risk and we have evaluated it. We have not seen that risk realised at any point in the last 14 years, so that is why we are comfortable to do it. I cannot speak any further for the other banks.

Chair: You are making money out of it—sorry.

Q495 Alok Sharma: So would you say that the BBA and individual banks should be a little bit more proactive and follow your lead?

Catherine McGrath: Our preference is that there is absolute commonality across the basic bank account provision, including offering accounts to undischarged bankrupts.

Q496 Chair: Are you making money out of the undischarged bankrupts, those accounts?

Catherine McGrath: I do not know about that specific cohort of customers and whether we would have the analysis on that.

Chair: That would be interesting to know; you may want to send that on a commercially confidentially basis. Mr Leenders and then it will be Steve Baker.

Eric Leenders: Regarding this point about undischarged bankrupts. My understanding is that the Deregulation Bill is in its closing stages of enactment and that will tackle the issue because it removes the legal risk that other banks have seen as a barrier. The commitment within the agreement is that once that change to legislation is made then all the nine providers will provide the basic account.

Chair: It might be also helpful if Barclays come forward with why they do not think it is a barrier now, if you could drop us a line on that rather than hold up the Committee with it now.

Catherine McGrath: All right.

Q497 Steve Baker: Good morning. Are students profitable?

Catherine McGrath: Generally students per se are not that profitable.

Q498 Steve Baker: An enormous amount of effort is put into marketing accounts to students, but while they are students they are not profitable, are they? So presumably banks are very accustomed to marketing accounts to people who will later become profitable, because you do it with students, is that right?

Catherine McGrath: Yes.

Q499 Steve Baker: So the case that Mr Kane mentioned of identifying people who will subsequently become profitable if given a chance, presumably that is just a slightly harder variant of the problem you have with students—picking people who will later be profitable.

Catherine McGrath: It is harder to identify which of the customers are going to become profitable, whereas, on the whole, students do tend to be a subsequently profitable group of customers.

Q500 Steve Baker: So that is the nub of the problem: identifying those people, assuming you had a commercial motivation, which you have largely set aside as you have said it is a social duty. I think by implication you have. So the agreement reached by the banks says that these bank accounts will be “visible to potential customers alongside full service accounts”. I think you have already said, Ms McGrath, that people will come in looking for a standard account, fail to qualify and then drop down to a basic bank account. Is that what you meant?

Catherine McGrath: On the visible point and the marketing point, if you came into a Barclays branch and you picked up a brochure that was about current accounts you would see, “Here are the current accounts that we provide: basic, standard and premier” and so it will visibly sit absolutely alongside everything else.

Q501 Steve Baker: Equally visible?

Catherine McGrath: Yes.

Q502 Steve Baker: Thank you. Would you expect, Mr Leenders, all of the banks to make the basic bank account equally visible?

Eric Leenders: Yes, that is certainly the intention.

Q503 Steve Baker: Thank you very much. The chief executive of StepChange, Mike O'Connor, said he hopes banks will go beyond this commitment to make them visible and promote them actively. We have already established that there is largely perceived to be no commercial interest in actively promoting it. Do you expect banks to actively promote basic bank accounts and, if not, will you do anything about it?

Eric Leenders: Frankly, the promotion will be as Catherine has described. It is part of a range of personal current accounts. The issue that we were trying to address was a concern that a basic account becomes something of a stigmatised product, something below stairs, and the intention is to make sure that it is seen as an entirely appropriate equivalent for a period of time.

Q504 Steve Baker: On that point, Citizens Advice told the Parliamentary Commission on Banking Standards that people were sometimes “made to feel very small when opening basic bank accounts”. Is that a phenomenon that you recognise and what is to be done about it?

Eric Leenders: That is certainly what we are trying to address through the agreement, so by offering it as part of an integral part of a range of personal current accounts, there will not be this separation or segregation of the basic account product, and

through the functionality we have looked to address some of the concerns that a number of consumer advocates have raised, that as a basic account holder, some of the more straightforward functionality of the full service account is denied and therefore customers are made to feel marginalised relative to the full service account offer.

Q505 Steve Baker: So if this whole thing is going to be done and you are going to be attracting customers who need that bit of extra help to become profitable because their lives are turned round, would it not be a good idea to do it with a good heart: to get hold of people as they come through the door and say, “We are proud to have you,” and make sure actively that they are not made to feel small—that in fact they are welcomed, embraced and given perhaps even a bit of extra help to get their lives into a place where they are finding more fulfilment through work and going on to be profitable customers. Should you not be actively helping people to turn their lives around if you are going to do this at all?

Catherine McGrath: From a Barclays perspective, I am confident we do that already. The fact that our basic bank account did not have reduced access and was full service and was the most attractive in the market says that customers were very comfortable to come and get the basic bank account with us. We do see it as a very important part of being able to have a full bank account and be able to borrow money and do things and buy houses that we proactively move customers from the basic bank account into a standard account.

Q506 Steve Baker: To be absolutely clear, I would not expect banks to provide full welfare services. So in helping people along this journey have you identified partners that you should work with?

Catherine McGrath: We already work very closely with people like StepChange, Citizens Advice and Toynbee Hall, and a number of other parties.

Q507 Steve Baker: Finally from me, it is clear that, unlike in the case of students, you are finding yourselves going down a path to making these accounts to people who are less likely to be profitable. The bottom line: what is your incentive to do this?

Eric Leenders: Perhaps to pick up the previous question, the first point I would make is regarding partners that you suggest we work with. Through our consumer panel, we have presented the agreement; the phrase in the room was “an element of learning by doing” and if additional guidance is seen as necessary that is certainly something we would want to discuss with them.

On why is this account being distributed, the point has been made previously: it is all about the banks demonstrating that they recognise their social responsibilities. They also want to demonstrate their desire to rebuild trust and confidence beyond rhetoric and certainly that incurs an element of cost. As Catherine has suggested, that element of cost is seen as part of the bargain to be in the personal current account market.

Q508 Steve Baker: Have the banks sought a subsidy to cover these costs?

Catherine McGrath: No.

Eric Leenders: I do not know. No, I do not think that is the case at all.

Q509 Chair: Do you offer advice to new basic account holders who have been using payday lending?

Catherine McGrath: Sorry?

Chair: Do you offer advice to them?

Catherine McGrath: About? Sorry, I do not—

Chair: Do you offer advice to those who have been in the payday lending market?

Catherine McGrath: We offer accounts to people who are in the payday lending market, and if a customer wanted to have a conversation with us about borrowing and where their borrowing is, colleagues would be comfortable to talk to them about that.

Q510 Chair: Is this not part of the solution to payday lending?

Catherine McGrath: Yes and no. When we look at customers of ours who are borrowing from payday lenders, the reason that we are not lending to them is simply because they cannot afford to repay the debt. We have had quite a good look at that. So there is a group of customers who are borrowing from payday lenders—irrespective of whether they are on basic bank accounts or standard base accounts—because a bank under responsible lending would not lend to them.

For customers, moving from the basic bank account to a standard account so they can build up a credit record, enabling somebody who has not borrowed before to get mainstream lending, is a very important part of what we need to do with this. So not leaving customers permanently in the basic bank account where they cannot build up that credit record is very important.

Q511 Chair: So the answer is, yes, what we are discussing this morning is part of the solution.

Catherine McGrath: Yes, providing we move customers from the basic, because if you are in the basic bank account you will not build up a credit footprint.

Eric Leenders: A supplementary point, Mr Chairman, is that a revised basic account is also designed to be provided to customers who have found themselves in financial difficulty, such that they can start again.

Chair: That is why I raised it.

Q512 Rushanara Ali: I want to turn to the topic of de-risking in this context. In the “Anti-Money Laundering” report, the FCA suggests that some banks are withdrawing from

offering financial services to certain customers in the light of perceived increased costs and compliance and their own risk appetite.

Can you say a bit more about what the perception of unlawful activity is and whether that has changed? What is the evidence base for making the decisions about whether to provide a bank account to an individual or a charity or a money-transfer business, for instance? Perhaps Mr Leenders could start and Ms McGrath can speak from her bank's perspective.

Eric Leenders: I should say, with apologies, Mr Chairman, this is not my area of subject matter expertise. I know that the Treasury Select Committee has requested some information from the BBA just last week. Regrettably I have not had the opportunity to compile that information, but it is certainly our intention to provide that. Therefore I could only give you a broad answer specifically relative to the revised basic account.

One component is a desire that banks can credit score customers so that they can understand if there is a proven fraud history. In that way, some of the allegation that suspicion of fraud is a barrier is dealt with much more objectively. Within the agreement itself there are provisions whereby the account can be closed if there is fraudulent activity on the account. Again, we would expect that to be demonstrable on a more objective basis, but I just do not have any more granular information on that question today.

Q513 Rushanara Ali: From the bank's perspective, Ms McGrath, what sort of information would you give a customer if you decided not to proceed with allowing them to open a bank account, or if you are closing down a bank account of an individual, as we have seen reports of this with the Syrian refugee student case in the case of HSBC. How do these decisions get made and what is shared with the customer?

Catherine McGrath: There are bits of the question I can answer and there are bits that I do not know, so we would have to come back to you if you wanted further information. From a personal customer perspective, it is important we can do the credit score of a customer to see if there is any adverse fraud history. That has also been an important part of implementing, for example, the Immigration Act, to ensure that we can check whether people that are applying for accounts are supposed to be in the UK or not. Those are the only circumstances—if we got adverse information on either of those—in which we would say that we would not be opening an account, irrespective of whether that is a basic bank account or a standard account.

Regarding your second piece about what information we give the customer if we close the account, I do not know.

Q514 Rushanara Ali: Do you think there is ethnic profiling going on in the banking sector? There are reports of this—again in the case of the HSBC example—according to *The Independent* newspaper.

Catherine McGrath: We do not make any decisions on accounts based on ethnicity.

Q515 Rushanara Ali: But there are major concerns.

The second point I wanted to ask is about charities. There are a number of charities that face issues around bank accounts. This was the subject of a study by Demos, for instance. There seems to be a major challenge. Banks on the one hand are very concerned about receiving heavy fines and fulfilling their regulatory objectives, and on the other hand there are major concerns about organisations or individuals falling foul of an overzealous de-risking approach by banks. What do you think the Government should be doing? What should the regulator be doing here to try to deal with this potential gap and risk of organisations unfairly finding themselves not being able to continue to have bank accounts?

Eric Leenders: Again from a slightly higher level, my observation would be that you have identified the tensions very succinctly. The difficulty for the bank is, as you say, on the one hand providing the customer service, and on the other making sure that they do not breach any anti-money-laundering legislation. That is largely, as I understand, international so it is something of an international issue as well as a local one. One of the requests that as an industry we might have is that the conflicts between national and domestic requirements and international obligations are better reconciled, such that it is easier for the banking industry to determine when it may or may not provide an account.

Q516 Rushanara Ali: Is the British Bankers' Association involved with the cross-border remittance group in the discussions about what is done, given that bank accounts have been shut down, for example, by Barclays in the case of a number of money-transfer businesses? Are banks co-operating as part of that discussion or are they leaving it to the agencies and Government to address the problem?

Eric Leenders: My understanding is the BBA is actively involved. I do have to repeat the point that this is not my area of subject matter expertise.

Rushanara Ali: I would be very grateful for further information on what is happening in this field.

Chair: We are dropping you a line and we will add some questions on that as well.

Q517 Rushanara Ali: I just have one final question for Ms McGrath. Barclays has withdrawn from a number of money-transfer businesses and in that case there have been major concerns about a lack of transparency and information to those organisations. The Government has issued guidance to help banks feel more confident and also improve the professionalism of money-transfer businesses. This was the subject of a major campaign—I declare an interest: I was involved with that campaign and helped set it up. Given that the guidance has been issued by the Treasury, do you feel more confident that money-transfer businesses could have bank accounts with banks like Barclays or is this a complete no-go area for Barclays and other banks?

Catherine McGrath: I am sorry I cannot answer for Barclays on that. It is outside the scope of my role, so I would just be not giving you an informed view.

Rushanara Ali: Could we have a written response from Barclays on that question? Thank you.

Q518 Mike Kane: There was a promise—I am trying to articulate it—from banks that they would not abandon the last bank in town but they would keep a bank in the town. Have banks gone back on that pledge now?

Eric Leenders: I will pick that point up by saying that technology has changed the way that customers live their lives, and banking is no exception. The pattern of branch usage has continued to change substantively from the time the pledge on the last bank in town was given. There was a view that it was a sustainable pledge to give, but in today's environment, where we have seen online banking, mobile banking and other innovations, the industry has found that very difficult to continue to subscribe to. I should stress, though, that that does not mean the industry does not have concerns regarding those customers who perhaps prefer to bank locally in branches, and that is why we are actively working with the Post Office to provide a proxy alternative for customers to at least transact local to where they live.

Q519 Mike Kane: Apparently the Business Secretary has written to banks to ask them not to close the last branch in town. How are banks responding to that request, do we know?

Eric Leenders: The response that we are co-ordinating through the British Bankers' Association is to develop a utility level of transactional access across Post Office counters. Our view is that where it is no longer economically viable to provide a bank branch but there are still customers that would like to use a counter to undertake their banking transactions, then we should find a way. The preference at this stage is to use the Post Office.

Q520 Mike Kane: Do you think there is an ethical reason how one should close banks? Should it be on a geographical spread or customers through the branch?

Eric Leenders: Alongside the transactional agreement that we hope to reach—and I should stress that we are in an early stage of those negotiations—we are also looking at a protocol to establish when a bank branch might be closed, and, if it is to be closed, the level of communication locally, so that individuals, businesses, and the community more widely are aware.

Q521 Mike Kane: I represent a town in Wythenshawe of about 80,000 people. Barclays closed its last bank about—sorry, bad day, Catherine—six weeks ago. Is that right that a town that size with hundreds of businesses, with an international airport, does not have a Barclays Bank, one of the major players in the UK?

Catherine McGrath: As you would expect me to say, we are genuinely very thoughtful about our branch footprint. We would have done quite a bit of work with the local community to talk about what we should leave behind. Our commitment is to ensure that customers always have the ability to transact in their local markets, which they will have in your town.

The other thing that we are doing is investing in different ways of customers being able to interact with the bank. We think video banking is going to be quite a significant change in the way that we would expect to do our bank normally in the future, so investing in that early becomes very important.

Q522 Mike Kane: Thanks for that answer. I put it back to you though that it has been done on a socioeconomic basis. There are five Barclays Banks along the A56 corridor which radiates out of Manchester, which is a much more profitable area than the one out of the A103 or M56 corridor, which is the same length and has no Barclays Banks.

Catherine McGrath: We have a look at who are the customers and how are they transacting and how often they are coming into the branches and where their local branches are. A lot of factors are taken into a decision about where we open and close branches.

Q523 Mike Kane: I put it to you we are creating banking deserts on some estates in the UK. Are there any more innovative solutions that we could be thinking about to make sure people, first, can get these accounts and, secondly, have access to the financial system and credit?

Eric Leenders: Alongside the work that we are doing with the Post Office, alongside the protocol, which will perhaps across the industry respect a number of the considerations that Barclays makes when it closes an account, the Link initiative to place a number of ATMs in a number of otherwise deprived areas is an important development.

It is always challenging to put ATMs into certain locations, because planning consents and planning permissions can be quite difficult to obtain, but the point is that we do see that customers should be able to transact in their local communities, and this is another and perhaps a slightly more tangential way beyond simply access over the local Post Office counter.

Q524 John Thurso: Good morning. Can I come to you first, please, Ms McGrath? Barclays is one of the largest providers of basic bank accounts, and the basic bank accounts with the most features, so you are broadly at the good-guy end of the spectrum in this. You are Managing Director for Transaction, Insurance and Mass Market so this would fall solidly in your area. I want to follow up a little bit on the questions that Rushanara Ali was asking, based on your experience, but first: the new arrangements that have been put in place with the Treasury will be superseded in September 2016 by the EU payments directive. Will the agreement that has been made with the banks and the Treasury conform to that directive, or is it a stopgap until the directive is implemented?

Catherine McGrath: At the time that we were having the discussion with Treasury, the final requirements of the directive were not clear, so we chose to untangle, in effect, and therefore move forward PAD from the memorandum of understanding. I think on the whole it will. Where we have a concern is the objectives of the memorandum of understanding are about financial vulnerability. The objectives of the directive are about access to financial services irrespective of whether or not you are financially vulnerable.

The scenario that we did not want to have playing out is this: Catherine McGrath arrives from Europe, she is earning a reasonable salary but she is unbanked in the UK; I do not think Catherine McGrath should get a financial vulnerability product; she should get a standard product like any other UK consumer because when somebody goes from the UK to Europe they are not going to get a free bank account because that is not what is offered there. So there is a slight complexity due to the UK's model of banking being so different to Europe's that we just need to try to untangle—

Q525 John Thurso: Sorry, can I ask a slight “daft laddie” question, which is: my assumption is that a basic bank account is offered when somebody has been either turned down or is not eligible for a normal current account. In other words, it is not a product that I go and choose: “I will just have the basic.” It is a product that largely I choose because that is all I can get, but what I really want is to move up to a fully functional account. In your analogy the reasonably well paid person coming from Europe into this country would not be applying for a basic bank account anyway. Do I have that right?

Catherine McGrath: They would be applying for an account. Because in the UK we know nothing about them and they have no credit history, historically they would have been put into the basic bank account, which is the account that you went into if we did not know anything about you. I think that is an error on the bank's part.

Q526 John Thurso: Are we defining the problem as being that you, on a reasonably good salary, moving from an executive job in France or Germany arrive here and you cannot get a bank account here because of our rules?

Catherine McGrath: You would have been able to get the account and you would have probably been given a basic bank account. Then what has become problematic about that is that the basic bank account is intended for financial vulnerability and it has absolutely no fees. That is not the right account for you because our basic bank account in the UK is for the financially vulnerable.

Q527 John Thurso: Have I understood this right? You are seriously saying a well paid executive coming from Europe to the UK cannot get a standard bank account?

Catherine McGrath: Yes.

Q528 John Thurso: Right. Turning to article 16—going to the other side of the coin, which is the people who would not normally—one of the things that the article says is,

Member States shall ensure that consumers legally resident in the Union, including consumers with no fixed address and asylum seekers, and consumers who are not granted a residence permit but whose expulsion is impossible for legal or factual reasons, have the right to open and use” such an account. Does that cut across money-laundering regulations as they currently sit in UK legislation?

Catherine McGrath: Our view is there is still some work to be done on the payments account directive and reconciling it with our obligations about knowing our customer and that the knowing your customer requirement is particularly important.

Q529 John Thurso: On the other hand, section 7, paragraphs 3(a) and (b) actually define what the relevant person, which is the bank, need to do in this, which is, “Determine the extent of customer due-diligence measures on a risk-sensitive basis depending on the type of customer, business relation, product or transaction”. All the requirement that is placed on the banks is that it should be proportionate.

There is quite a worry across all banks—you happen to be the one here today—that this is actually, “Let us have belt and braces, Mae West and everything, irrespective of the circumstances,” rather than what the regulations require, which is measures on a risk-sensitive basis depending on the type of customer; the inference being that a basic bank account customer is one who, first, would not be able to produce half the information normally required and, secondly, is unlikely to be somebody operating in volumes of money that may cause problems with money laundering or terrorism.

Eric Leenders: If I picked up the thread of your observation correctly, Mr Thurso, I should say that, with my involvement with the European Banking Federation as the chairman for their retail committee, I led a number of the discussions with the European Commission. The point that you make around the potential conflict between anti-money laundering legislation, particularly the fourth anti-money laundering directive and the payment accounts directive, was well made.

To Catherine's point, I think that we will need to work with Treasury and the Financial Conduct Authority to establish exactly what that means relative to the UK. I know that the Treasury intends to consult during the first quarter of this year and that will give us greater clarity and the opportunity, I think, for some further discussion around quite how the distribution of the account, the revised basic account, fits with the payment accounts directive. That said, I think that the functionality of the revised basic account aligns very well with the payment accounts directive and actually some of the items that are not listed—the multi-channel access, including the text alerts and so on that are already established in the UK—will be a feature of the revised basic account but are not necessarily mandated in the payment accounts directive.

To Catherine's point, I know Treasury was keen to establish that the social inclusion requirement or financial inclusion requirement for the UK was not lost within the European legislation.

Q530 John Thurso: The critical point is the next subparagraph of the regulations, which is “to be able to demonstrate to his supervisory authority that the extent of the measures is appropriate in view of the risks of money laundering and terrorist financing”. Clearly, there is another element in this, which is if the FCA decide that they are going to take a stiffer view than the bank view as appropriate, or indeed the Treasury in Parliament would want to achieve an equitable solution, we would have a problem. How are we going to link the FCA as the supervisor, the bank as the deliverer and Parliament as the legislative

body, the desirer—it sounds poor English, but the people who wish to see these people have an account—how do we put that all together, or is there a disconnect between the relevant parts of the equation?

Eric Leenders: My understanding is that the Treasury and the Financial Conduct Authority have worked quite closely throughout the enactment of the payment accounts directive. Now, clearly an element of that discussion would have happened outside the boundaries of the banking industry. In the conversations that we have had with the Financial Conduct Authority, I think that they would see that the Treasury would lead, if you will, in the consultation around implementation.

Q531 John Thurso: In summary, you would expect the Treasury to lead but we need the FCA and the bank to come to an agreement as to what is appropriate in these cases to give the bank the comfort they are acting appropriately and the FCA the comfort that the bank are not trying to pull a fast one.

Eric Leenders: That is correct, and I would see the vehicle for that as being the forthcoming Commission meeting.

Q532 John Thurso: Can I come to you with another set of questions that again—if I may, Chairman—go back to some earlier questions around the nature of costs? I am deliberately asking you because in your role as the executive director of the retail side presumably you have had quite considerable discussions with your members around the area of the cost of providing basic bank accounts.

Eric Leenders: I am afraid that no, I have not. The external legal advice that we took very much suggested that the role of the BBA in the development of the revised basic bank account should be creating an industry standard, and that any discussions around price and cost would be for individual banks to consider and for bilateral conversation and discussion between that bank and the Treasury.

Q533 John Thurso: The BBA is excluding itself from the key part of the decision or the most important actual consideration, “What is it costing the banks, and therefore the banks’ other customers, and therefore society generally?”

Eric Leenders: I think that is quite an aggressive way to couch the situation. Clearly, we have to respect antitrust and Competition Act legislation. We took advice, we discussed with Treasury how we could most efficiently conclude a successful negotiation, and that is how we landed. I appreciate that it sounds like the two sides of the negotiation are somewhat disconnected, and to an extent, that caused some delay.

Q534 John Thurso: Do you have an idea of the cost of a standard current account?

Eric Leenders: The extent to which I have an understanding of price and customer distribution of personal current accounts is twofold: it is from my historic involvement through NatWest and RBS 10-plus years ago, and from any public or published

information that is in the marketplace. We are absolutely not party to any commercially sensitive information whatsoever within the BBA.

Q535 John Thurso: Let me assist the BBA. If you go onto the Post Office website and look at their Control account, which is their basic model—they have another one that I cannot now remember—it is about £5 a month, from memory, which they charge on a profit-making basis. At the other end, certain private banks that I am aware of charge £50 a month and I believe that they make money out of that. Therefore, the cost of a current account would be somewhere between £5 and £50 a month. Would that be an accurate statement?

Eric Leenders: I think that reflects the price of an account in the market. I do not know that is necessarily the same as the cost of the account. However, again I am talking somewhat hypothetically.

Q536 John Thurso: That is very true, but I suspect that both of those entities have a profit element involved.

Eric Leenders: There would be a margin, yes.

Q537 John Thurso: So the cost element—you are right to pick me up—could indeed be somewhat lower than £5 at one end and somewhat lower than £50 at the top end. However, broadly speaking, that is a range of cost of a current account.

Eric Leenders: I would want to rehearse my answer to that, I think. As I say, it is not an area that we have previously been involved with.

John Thurso: We love it when people give unrehearsed answers.

Eric Leenders: My unrehearsed answer, therefore, would be that I understand the logic behind what you have put forward and I would not disagree that that would be a ballpark from which to start, but if I was to give you an unequivocal answer I would have to consider that separately.

Q538 John Thurso: If you were to take that and if you look at the evidence of what the Post Office has done, you might come to a conclusion that the cost to a bank will be less than £10 a month to operate and could well be less than £5 a month to operate, and you would not be a million miles out. The reason for this is not to pin you down on what the cost is, what X bank's cost is or Y bank's, but to have an idea of what we are asking the banking industry to do in a societal way as opposed to a purely money-making way.

Eric Leenders: Yes, I do recognise the point, Mr Thurso. I think that the working hypothesis that I applied specifically for the basic account so that I had some mental understanding, albeit that it was outside that aspect of the negotiation we were involved with, was that I think the Parliamentary Commission on Banking Services reached an aggregate cost of about £300 million for the distribution of the current suite of basic accounts. Dividing that by 9 million or 10 million gives a ballpark of roughly £10 per

account. That would be, for this account, in this exercise, the theoretical number that I would have applied.

John Thurso: Okay. I will stop there.

Q539 Chair: It took a lot of persuasion to get the £300 million figure into the public domain, both publicly and then subsequently privately. We need more transparency in this field and I think you have picked up that message this afternoon.

While we are on the themes that John Thurso has been on with respect to current accounts, do you know to what extent free and credit current accounts are cross-subsidised by different parts of the business, for example through overdraft facilities of those who are not in credit?

Eric Leenders: I am afraid we just do not hold that data at the British Bankers Association.

Q540 Chair: Do you know what those figures are for Barclays, even if you do not want to provide them in public session?

Catherine McGrath: Yes, we obviously have the figures that say what is the revenue that we generate from holding credit balances versus overdrafts versus interchange. We do have those figures.

Q541 Chair: I think it would be useful to see these figures in aggregate. Please take this as a request from the Treasury Committee to obtain this information from the major clearers and to provide it to us in a form, therefore, that does not breach the commercial confidentiality that understandably Ms McGrath will want to maintain.

Money laundering regulations were mentioned a moment ago by John. Do either of you know much about money laundering regulations?

Eric Leenders: I am afraid, Mr Chairman, I probably exhausted my knowledge earlier.

Q542 Chair: You do not? Okay. I have one last question that takes us back to where we were on the Post Office agreement for the basic bank accounts that I began this hearing with. I would just like clarification on one point. The agreement with the Treasury was announced on 15 December, I think, and the renewal of the Post Office Card account was announced on 16 December. That looks like more than a coincidence. Was the bank's agreement conditional—

Eric Leenders: No, it was not.

Chair: —on the Post Office Card agreement going through?

Eric Leenders: No, it was not conditional.

Q543 Chair: What connection was there between those two?

Eric Leenders: There was no connection as far as I was aware. We have had—

Q544 Chair: It was a complete coincidence?

Eric Leenders: It was a complete coincidence as far as I am aware. We had been developing the revised basic account based on a working assumption that the Post Office Card account would have been withdrawn.

Q545 Chair: Therefore it would be quite incorrect that you were identifying the risk that there might have been too much demand for basic bank accounts.

Eric Leenders: Forgive me, could you repeat that?

Chair: Was there a risk that, without the renewal, there would have been too many people chasing these accounts and therefore the loss-making would be higher for each bank?

Eric Leenders: To be clear, the discussions or negotiations around this—

Chair: After all, this is demand for a product that makes a loss.

Eric Leenders: —were for the distribution of this product in the knowledge that the Post Office card account was likely to be withdrawn.

Q546 Chair: The Post Office Card account had nothing to do with this. It was not a deal-breaker and you were banking on it being withdrawn at the time you were negotiating the agreement? The announcement is a pure coincidence?

Eric Leenders: As far as I am concerned, absolutely it is a coincidence.

Chair: Okay. Thank you very much indeed for coming to give evidence to us this morning. Our morning sessions sometimes end with me pointing out that it is now the afternoon but in this case we have got there a little earlier. We are very grateful to you, not least because I think you came at short notice. I think it is the first time either of you have given evidence for the Committee and we are particularly grateful for you having done so this morning. Thank you very much indeed.