



HOUSE OF LORDS

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Inquiry on

FINANCIAL EXCLUSION

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Witnesses: Neil Couling and Gwyneth Nurse

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Members present

Baroness Tyler of Enfield (Chairman)
 Bishop of Birmingham
 Viscount Brookeborough
 Lord Empey
 Lord Fellowes
 Lord Harrison
 Lord Haskel
 Lord Kirkwood of Kirkhope
 Lord McKenzie of Luton
 Lord Northbrook
 Baroness Primarolo
 Lord Shinkwin

Examination of Witnesses

Neil Couling, Director General of Universal Credit, Department for Work and Pensions, and
Gwyneth Nurse, Director of Financial Services, HM Treasury

Q23 The Chairman: Good morning, everyone. I thank our two witnesses very much for appearing before us today. For the record, we have Gwyneth Nurse, the director of financial services at the Treasury, and Neil Couling, the director-general of universal credit at the DWP. Welcome to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live via the parliamentary website. A transcript will be taken and published on the Committee website, and you will have the opportunity to make any necessary corrections or amendments to it.

Without further ado, I will ask the first question, which is very general and is about government strategy in this area. How do the Government define financial exclusion, and could you give the Committee a brief overview of the Government's strategy to tackle financial exclusion?

Gwyneth Nurse: We tend to talk more about defining financial inclusion rather than financial exclusion. They are flip sides. The Economic Secretary to the Treasury is responsible for the financial services sector in the UK. Her role includes making sure that the industry is stable and secure, that it embraces new technologies and that consumers can access the products and services that they need. In particular, the Economic Secretary is focused on making sure

that the financial services are there to help people at every stage of their lives so that they can achieve their goals in life. She has been very clear that this must include everyone and that we need an inclusive financial services sector to help us to achieve this ambition.

The Economic Secretary delivered a speech recently at the launch of the FCA's occasional paper on access to financial services in the UK, and she set out three areas in particular on which she has focused in the financial inclusion agenda. I will say a bit about each of the three areas, which are: working in close partnership with the financial services industry to help to open up access to financial services; making sure that consumers are protected in their financial dealings; and making sure that people have the information and the tools that they need to make the best decisions for them at the right point in their lives.

The Government work in very close collaboration with financial regulators as well as across government and with the financial services industry, and have made good progress against each of the areas that the Economic Secretary has set out. In particular, on access, the Government have supported LINK in its work to bring free-to-use cashpoints to remote and deprived areas in the UK where previously consumers had no choice but to use pay-to-use cash machines or to travel to find a machine that did not charge. The Government have been active on delivering an open application programming interface standard in UK banking, which aims to open up data so that firms can come in and help consumers to plan their finances and track spending across their products. That is very much work in progress.

The Government have also played a major role in improving access to banking services, which we will come back to this in this session. We have reached an agreement with the nine largest providers of current accounts to offer new fee-free basic bank accounts that do not charge for failed payments and are available to people who cannot access other types of current account. We are also requiring the banks to provide data on the market share of basic bank accounts. We will publish that for the first time in the autumn and will report on how many customers have been refused a basic bank account. We have also been busy supporting the credit union movement through the DWP credit union expansion programme, which has had £38 million of funding to help the credit unions to modernise the sector, and we increased the amount that people can charge on loans from 2% to 3% a month, again to help the sector to modernise.

On consumer protection, the Government have also taken many steps to help to protect people particularly when they are vulnerable. Here, we have made fundamental reforms to

the regulation of consumer credit. We have moved regulation to the FCA and toughened oversight of the sector. We have also taken action to require the FCA to cap payday loans. There will be a question on that later, and I will return to the success of that action later in the sitting. We have also put funding for the important work of specialist teams to tackle illegal moneylending on to a permanent footing. Those are some of the consumer-protection elements that we have focused on.

In order to ensure that people have the information and the tools that they need to use that information, we have introduced a range of reforms so that this starts in school. The Government have introduced financial education into English secondary schools' curriculum, and the Chancellor announced at the 2016 Budget that he was going to introduce the Help to Save scheme, which will make it easier for people on lower incomes to save up for a rainy day.

Also, of course, we are doing a lot on public financial guidance. At the recent Budget, the Government announced that we will bring all the pensions guidance into one body and replace the Money Advice Service with a new money guidance body that will ensure that more funding goes to the front line.

The strategy works around those three areas. That is what the Economic Secretary set out, and those are some examples of how the Government have been making progress against the agenda.

The Chairman: Thank you. Just before I invite Neil to come in, I have a quick supplementary. I know that Viscount Brookeborough also wants to come in. To what extent do the Government see their financial inclusion or exclusion strategy as part of a wider strategy to tackle other forms of disadvantage, exclusion and deprivation?

Gwyneth Nurse: The Prime Minister's Life Chances strategy—the current Prime Minister's—is where a lot of these different issues are coming together. We wait to see where that goes under the changed Administration, but that is the key place in which some of these things come together.

Neil Couling: I am not sure that I have that much to add to Gwyneth's tour de force on the Government's strategy, except to say that these things are interlinked; stuff that we are doing on universal credit will clearly serve greater financial inclusion, and financial inclusion helps universal credit. That is true for a number of aims across a number of government departments. This is about people being able to participate fully in society. That is what

welfare reform is about and what a whole series of the Government's policies are intended to do.

Viscount Brookeborough: That is a pretty lengthy strategy that includes an awful lot. I am quite interested in this, because logically if one is looking at the community as a whole, the first stages of learning anything about money are at a younger age. Yet all your strategy is about older people, until you say, "We're involved in schools and it's in the national curriculum". Why is that not No. 1? First, you cannot build on any of the others unless you have cash literacy, if you like, at a school age. Secondly, we have already been told that not all schools are bound by the national curriculum, so surely we are simply not building a bedrock on which to build access to things later, because people simply may not know how to. Why are we not placing more emphasis on education?

Gwyneth Nurse: It is certainly something that Treasury Ministers have been interested in, and the economic sector has been very supportive of the action taken by the Department for Education in order to get it on to the curriculum.

Viscount Brookeborough: This does not sound very joined up. You have just said that you are interested in it but that it is up to the Department for Education. Is this not one of the pitfalls of government in general: that you have to be bound in it together? It is no good saying simply that it is up to the Department for Education.

Gwyneth Nurse: Sure. I can only speak from the Treasury's perspective on the question. I think we think that we have made good progress. I think we think that there is more progress to make. Indeed, I have discussed this with colleagues from the Department for Education. Yes, many schools are not bound by the curriculum, so there is a question about what to do about those that are outside it. I would hope that colleagues from the Department for Education would be able to provide a fuller answer.

The Chairman: We will also talk later in this session about the co-ordination of government policy.

Q24 Lord Harrison: Chairman, I must now declare an interest, as Gwyneth's father was my dearest political colleague in the 1980s on Cheshire County Council.

Gwyneth, you said that financial exclusion and financial inclusion were flip sides of each other. Is it worth making this distinction, as we have decided to do by talking about financial exclusion?

Gwyneth Nurse: If we could get our actions right on getting everybody included, getting people the information that they need, getting people access to the services that they need at the stages of their life at which they need them, I would hope that that would eradicate financial exclusion. People tend to use the terms reasonably interchangeably—tackling financial exclusion or promoting financial inclusion—so I am not sure that the distinction matters that much.

Lord Northbrook: Gwyneth, you mentioned capping payday loans, which is excellent, and basic bank accounts, which is fantastic, but when those unaware of basic bank accounts who have small amounts on current accounts get into the situation of having unauthorised overdrafts, they are paying huge amounts, which are even higher than payday loans. I understand that the Treasury Select Committee may examine this area. Is this the sort of area that you are looking at?

Gwyneth Nurse: I think you are right: it is an area where, if you go into an unauthorised overdraft and particularly if you hold it for a number of days, very high costs are involved. Which? has recently published some research showing this. It is an area in which we are interested. Of course, the Competition and Markets Authority has also been looking at this area through its review of retail banking. It is due to publish its final report quite shortly, so we will be very interested to see what it has to say. We shall certainly watch this situation very closely. We are also working closely with our financial conduct regulator, which also has powers in this area. Yes, we are interested in this space.

Q25 Lord Shinkwin: I am interested to know, if financial exclusion is the inverse or the opposite of financial inclusion, who you would say are financially excluded. How would you identify those groups?

Gwyneth Nurse: I suppose the clearest segment that we have identified over time has been those who are unbanked. That has been an ongoing topic under successive Governments. That is why one of the most important policies that we have put in place has been on improved basic bank accounts. When we looked at this issue with DWP colleagues, when we looked closely at universal credit and the need for people to be banked, we discovered that basic bank accounts were not necessarily fit for purpose and that people were still getting themselves into difficulty through the application of unpaid item fees. That is why we acted and made a new agreement. I think that basic bank accounts are now entirely fit for purpose.

We want to encourage people to take up the opportunity to have a basic bank account and to become familiar with the mainstream banking system. I know that this is a key plank of the universal credit policy. If, through that policy, we get many more people into mainstream bank accounts, that would be a major step forward. I think we have taken steps forward, but people are still a bit tentative about opening a bank account. That is partly about the bad experiences that they have had in the past with unpaid item fees: you cannot have an overdraft, but you could get yourself into trouble with bounced direct debits and standing orders. I was very interested when we did some work on this, because I said that a basic bank account cannot have an overdraft, so there is no way in which it can become overdrawn, but I discovered that it could have a negative balance because of unpaid item fees. If it could have a negative balance but could not be overdrawn, that just did not make sense. We have corrected that, and that is the area that I would like to highlight the most. I do not know whether Neil wants to say anything about that and about universal credit.

Neil Couling: You asked about financial inclusion or exclusion. Our aim in life is to get people into work, and once they are in work to increase their hours and therefore their income from work. We know that having a bank account is a key passport to getting a job and to employers considering your job readiness. Remember that the employer is buying the labour, so we need that. We want to work on this holistically with the Treasury and any other partners we can find. We have been working very closely with the Money Advice Service, for example, on trying to encourage people to be confident enough to open a bank account. They are reticent on occasions because of previous experiences of having a bank account, or because they are worried about the impact that may have on their credit record and their ability to borrow money in the future. There is a confidence issue as well as a products issue to work with here.

Baroness Primarolo: I am not quite sure whether this would be your area, Gwyneth, or if this is for Neil to answer. I understand the point that you have both made about the importance of access to bank accounts for job readiness or maintaining work, and for an introduction to mainstream banking. However, you have not touched, unless I missed it, on vulnerable members of our society, of whom there are quite a lot, who cannot manage or are fearful that they cannot manage. They are not caught by your point, Neil, about confidence or worries about their credit rating; the current basic current account just does not meet their needs. Will you say something about that? I would be happy if you want to pick that up

under universal credit. I am interested in the very vulnerable and the protection of those people, which does not seem to be included at the moment.

Neil Couling: I can say what we are doing practically, unless there is anything you want to say from a policy perspective first, Gwyneth. No, okay.

We recognise this point not just in relation to financial exclusion but in relation to the way in which universal credit works. It is designed deliberately to encourage people to take responsibility, for example for their rent. It pays people monthly, which for some people is a change, given that previously, through the welfare state, they have been paid every two weeks. It pushes the boundary out a bit. We recognise that for a significant part of the population, that will be too much to ask. Through universal support we have an attempt to identify people who are going to need extra help. We will pay people's rent directly to the landlord where they get into difficulties or we think they will do so. We can split payments. We can support people through guidance; most people who claim universal credit will be referred to the Money Advice Service or others for help, where we identify the need for that. We are still learning and we are still exploring and developing some products, but we have very much identified that we need to do something for that segment of the population who will not be able to respond to the greater responsibility that universal credit puts on the majority of the population.

The Chairman: We are going to move on to universal credit in a bit more detail now.

Q26 Lord McKenzie of Luton: May I follow up that specific point about rent payments? A recent survey by the ALMO association suggests that 80% of council tenants receiving universal credit are in arrears, and that half of them were not in arrears under the old system. How do you respond to that? More broadly, how do you go about measuring the impact of universal credit on levels of financial inclusion?

Neil Couling: I will take the second point first. That is rather difficult to do, if I am totally honest. It is very difficult to disaggregate the effects of universal credit from the general level of financial inclusion or exclusion, but we track things that correlate to greater financial inclusion or exclusion. Yesterday, we published some data on the number of people claiming our services digitally, and for the full service it is up at about 99%. That suggests to us a very high likelihood that individuals will also be banked in that situation and so forth. It is very hard to do. I have resisted the urge to have a separate target for that, because I just do not

know how I would measure it with any confidence and without people saying that we cannot disassociate other effects from it.

Lord McKenzie of Luton: If you do not know how to measure it, how do you know whether it is a reality and whether it is assisting financial inclusion?

Neil Couling: We know through the correlations that I have talked about, such as some of the activities that universal credit will generate. For example, we get more people into work than under the predecessor benefits, and they have a higher propensity to be banked and financially included. Similarly, there is a greater propensity for people claiming online to be banked. I could not look at our dataset and say, “Yes, X number are now financially included because of universal credit”. That would be really difficult to do.

I am not going to duck your first question, Lord McKenzie, about what the ALMOs are saying. I have now met the ALMOs twice, with Lord Freud. There is an acceptance that our data and their data shows different numbers. The Chartered Institute of Housing shows very low numbers of arrears. The ALMO numbers show very high numbers of arrears. Our own data suggests that the number is somewhere in between that. We are trying to establish how much of that arrears is generated by universal credit and how much people are bringing those arrears into the system. We have been accused of starting with the easy cases for universal credit, and to some extent that is true: we started with single unemployed people in the first wave of take-up. Actually, they are some of the people with the most disruptive rent records, because the current system, as they move in and out of work, generates arrears. They go from having the responsibility for paying their rent to not having responsibility, and they are in that gap in between arrears build-up. The position is therefore very complicated, given that the ALMOs now accept that you cannot write an easy headline that says that there are more arrears. We need to do more work to establish just what is going on here and the extent to which our work can help to minimise that situation.

The other thing that we have done with universal credit is to increase the amounts by which landlords can recover arrears through universal credit compared to legacy benefits. That means—and the ALMOs have been good enough to say this—that when arrears occur they are extinguished much quicker than they were under the old legacy system. The picture is very complicated. We have to do some more work. Yesterday, we published our first set of data on additional payment arrangements, and I think that will start the discussion going.

Lord McKenzie of Luton: Thank you for that. On the support schemes that are there for vulnerable people on universal credit, there is the personal budgeting support and the universal support delivered locally. Those are two separate arrangements. Is that correct?

Neil Couling: Personal budgeting support is available everywhere, in every jobcentre and every local authority across Great Britain, and it is intended to provide guidance on how to budget around the monthly payments and identify people who might be appropriate for an alternative payment arrangement—in effect, paying rent direct to the landlord or splitting payments, and the like. Universal support delivered locally is a pilot that we have been running to see whether you can deepen those services. The assumption is that, because local authorities are in more contact with a broader range of people’s experiences than, say, the jobcentre, we can partner up and in effect use each other’s expertise in that—and we have been trialling 11 variants of that to try to work out what model we might use for the next phase.

Lord McKenzie of Luton: Have you had a chance to measure the impact of that personal budgeting support programme?

Neil Couling: We are tracking how many people are taking it up.

Lord McKenzie of Luton: How about the outcomes of that take-up?

Neil Couling: So far, quite low numbers of people have been taking it up, but I would counsel caution in drawing too many conclusions from that. As I said, the people we started with on universal credit, particularly single unemployed people, are not necessarily the ones who will experience the greater difficulties. I am doing a kind of “hold your nerve” piece on this with local authorities at the moment and saying that we should mature the reform a little more before we jump to conclusions.

Lord McKenzie of Luton: One last supplementary, if I may. We know that local authorities are under enormous financial pressure. What is your assessment of their capacity to engage in these programmes and to do what they should be doing?

Neil Couling: Across the 380 local authorities—it may be wrong to generalise, but if I dare do that—I would say that typically they are keen to play a part. We have had some very robust discussions about funding, which I am sure will not come as a surprise to you. We have overfunded for the volumes that we are getting at the moment, and I have given them a guarantee that, should the numbers coming to them in any location be in excess of the money that we funded them for, I will meet those costs. There are good discussions, and we

have delivery agreements with every local authority, I think—it varies as to which have been renewed and which have not. But in general, this has been working across the country quite well.

Lord Kirkwood of Kirkhope: Is it true that you have been described as the senior responsible owner for universal credit?

Neil Couling: Yes.

Lord Kirkwood of Kirkhope: You have our sympathies.

Neil Couling: I am the sixth one.

Lord Kirkwood of Kirkhope: I know, and you have lasted the longest.

Neil Couling: I tend to say, “Divorced, beheaded, died, divorced, beheaded, survived”. We had to learn that in history.

Q27 Lord Kirkwood of Kirkhope: You are looking very well on it. You do very important work, and I acknowledge the contribution that has been made over many years. I am interested in what has been happening in Scotland because, for other obvious reasons, other things are happening there. Is it too early to say that an agreement has been reached between the DWP in Whitehall and Edinburgh about the possibility of choice in payment of rent direct to landlords being a default position? That was the stuff that Lord McKenzie, rightly, probed you on. Is it too early to say that, in Scotland, when people apply for universal credit they will have that choice, which is not available in the default position in the rest of the United Kingdom?

Neil Couling: How do I handle this question? I watched the Cabinet Secretary, Angela Constance, before the Social Security Committee in the Scottish Parliament at the weekend. One of the things that the Cabinet Secretary said was that these were still early days in Scotland. We are just about to devolve the first set of powers to the Scottish Parliament, which very reasonably wants to go out and consult the people of Scotland about how they exercise those powers.

However, since the referendum result—the referendum on the independence of Scotland that is; I need to be specific now that both Governments have achieved an equality of esteem by both losing a referendum—we have been working very well together on making sure that both sets of Ministers, in the UK and the Scottish Governments, have the same access to evidence on which to make judgments. We are really encouraged by the way in which a unified Civil Service has made that happen, serving the Governments to which it is

responsible but making sure that the quality of administration is really strong. I therefore think that it is too early, Lord Kirkwood, to give you a definitive answer on that, and it would probably be wrong for me to talk for the Scottish Government on what their policy is, but we stand ready to help them to discharge their responsibilities. It is a rather unique—I was going to say “strange”, but that is the wrong word—form of devolution. We are devolving the power to make changes to a GB system. Normally the devolution model means that the responsibility for education is in the Scottish Parliament and that is it—they can go off and do whatever they like. Most of the welfare reforms are based on that model, but universal credit is a shared responsibility. We have to work together; it is a bit like a three-legged race, so we need to continue to work together and not get into the position where one side is saying, “We’ve got to do this”. We have to try to work our way through it, but we are in the early stages and I am sure that you will see a different model emerge.

Lord Kirkwood of Kirkhope: But the relationship is positive?

Neil Couling: Very.

Lord Kirkwood of Kirkhope: There is best practice available to be shared. If design faults appeared in one part of the United Kingdom, they could be picked up and translated through to the policymakers. You are finding no barrier or difficulties?

Neil Couling: No. We are talking about our current experience in Great Britain. In Scotland at the moment, we are talking about the stuff that we have learned over, in my case, 30 years in this game. Others have different experiences. We are not trying to dictate; we are just saying, “This is the information. This is our experience. You now have to make some choices”. I think that is a good thing.

Lord Kirkwood of Kirkhope: Okay. What I really wanted to put to both of you, and Baroness Primarolo has raised this already, is that there is a concern that financial exclusion/financial inclusion refers to different parts of our populations. I think that financial inclusion is going well and that the Government’s strategy has been rational in the past period. I was a bit disappointed that Brian Pomeroy’s task force was not continued, because I think it was successful at putting pressure on Ministers in a positive way. The 70% or 80% of the population who can get through life might find bits of difficulty but their situation is okay. It is the 15% or 20%—the two lower deciles of income—who are failing now, and it is getting worse. My worry is that the policy is not integrated enough yet. My question for Neil Couling is therefore this. When people apply for non-legacy universal credit for the first time, of

course the focus is on work, and I do not know whether it is a job contract or a claimant contract—

Neil Couling: It is a Claimant Commitment.

Lord Kirkwood of Kirkhope: A Claimant Commitment. When the officials at the Jobcentre Plus have that individual in front of them for the first time, it is a wonderful opportunity to get the data that they need in order to decide whether they are a household that is at risk or whether they just need a bit of advice, because they are substantially different and there should be different routes. We heard from Joanna Elson in an earlier evidence session about the importance of warm handovers, which is becoming a term of art in this Committee. Warm handovers are very important. I want to know about universal credit that is locally delivered, although it is confused by the fact that local authorities now seem to be in charge of that. I am disappointed about that because I think it makes it easier for people to get lost. How can we best integrate that initial interview into a process that takes people into support rather than just advice? You mentioned 11 pilots, and I do not know quite what they are doing or trying to achieve. Can universal credit that is locally delivered be integrated with confidence into a national advice service for that segment of the population between now and 2020, in your view?

Neil Couling: There was a different question at the end than I thought I might be asked at the start. We are working, in the spirit of what you are suggesting, Lord Kirkwood, on how best to knit services together that are provided by different agencies to the benefit of the citizens who we all serve. Some people need no help at all, some need a bit of help, and some need some quite serious intervention. At the far end of the spectrum in England there is the troubled families programme, the Scottish Government have their equivalents, Wales has different approaches, and we are trying to knit services together. Nobody has yet found the magic solution to this, probably because it is quite hard to do. You can go to certain places and see some very deep integration. I do not know whether the Committee has seen the Margate Task Force, for example. It is quite incredible.

Lord Kirkwood of Kirkhope: The Margate Task Force?

Neil Couling: Funnily enough, it was a fire service initiative. The fire service was going into people's homes and fitting smoke alarms. It was one of the most successful interventions by government in the past 20 years; the number of deaths from household fires has fallen by 80% to 90% in this country through the fitting of smoke alarms. The fire service was allowed

into people's houses to fit smoke alarms and what they were seeing really worried them, not from a fire prevention perspective but because of other things. They started to refer to other agencies. In Margate, to pay tribute to the fire service, they got all the local agencies involved and said, "We need to put a task force together", and they have been going from street to street identifying problems. That is at one end of the spectrum.

Other places have lighter-touch approaches. The reason for the "universal support delivered locally" trials and some of the other trialling that we have been doing has been to find out what the best interventions are that one can make. As of today, I do not know the answer to that. We are still gathering data and still looking at what might work, because we are all working in a world where resources are constrained, for all the reasons that we know. We are trying to find the answers to some of this. I agree, Lord Kirkwood, that this is extraordinarily important to do. It is complementary to what the department is trying to do to support people into work. We are big advocates of this. The good news is that the local authorities are, too. I think we will reach a solution, but I am trying to avoid jumping into it too early before we have the data and the experiences.

Gwyneth Nurse: I would add only a point about the review of public financial guidance that we have just undertaken. The new money guidance body will spend more of its resources identifying gaps, commissioning things and working closely with DWP colleagues on universal credit, so we are also looking for opportunities to link national money guidance to the work that is going on. Again, it is work in progress, but it is definitely one of our aspirations for the new money guidance body.

The Chairman: We need to move on to other areas now.

Q28 Viscount Brookeborough: I have a question about post office card accounts. Of those recipients now receiving universal credit, what proportion receive payment into a post office card account and what proportion receive payment into a bank account? May I work backwards a little? We have a long paragraph all about the post office card account that shows that it has had a very unsettled life, to say the least. In fact, at one moment the account was within three months of total withdrawal. It was then decided to give it to the post office. Would you like to explain not what has gone wrong but what has been going on and how it is developing? Can you confirm that the post office card account can be used only for benefits to be paid into it and that it cannot be used for anything else?

Neil Couling: I will start with the facts, otherwise I will forget to give them to you and you will be annoyed. Before I come on to DWP payments in total, I will give figures for universal credit. In June, 2.2% of the total volume of universal credit payments were to post office card accounts. That is 4,323 out of 194,250 payments.

Viscount Brookeborough: That means that 97% were paid into bank accounts.

Neil Couling: Yes. There might be the odd emergency payment outside that, but in general you would not be far wrong. For the department as a whole, 12% of payments are paid into POCAs, and around 87% are paid into mainstream bank accounts. That is predominantly pensioners. The contract for the post office card account runs until 30 November 2021. That is when we have extended it to, and we have no plans to change that commercial agreement. However, in my area of the department's business—in effect, working-age people—we know that the post office card account is not a suitable product for someone who is in work, so we are trying to encourage people away from post office card accounts into mainstream banking.

Viscount Brookeborough: But it is totally necessary for some people. Why has it been so on/off? Presumably, this has not mattered to the customer, because the customer has simply used the account, but in the actual administration of it there seems to have been a lot of doubt as to whether you would continue with it. If some people will always require it—the 2%, or whatever—what would you have put in its place if it had fallen without being accepted?

Neil Couling: We are making something like £3.5 billion worth of payments a week in DWP, so making sure that that stream of payments continues to people is objective number one of the department. In the period up to the contract extension, we looked at an alternative to the post office card account and considered whether we could do something else, such as making payments through other bodies. There are other ways of getting money to people now, and we have a very small proof of concept running, such as making payments direct to people's mobile phones. Ultimately, we may emerge with a number of methods to get payments to people, particularly working age people.

The problem with the end of the post office card account contract was that it was probably too soon, as that contract was ending, for those alternatives to be in place to pick up the load there. As I say, our priority is to make sure that people are paid. Some people like the post office card account. To speak very personally—how persuasive an individual am I?—my

mother and father both have a post office card account. They are 81, and I have given up trying to persuade them off it, although I have explained the financial reasons. They like having a jam jar to put some of their pension into. My dad is paid another pension that goes in to pay bills through a bank account. People like that ability to pot their money separately. It is a standard way of budgeting, and it is how my parents learned to budget. If we are going to replace it, we will have to invent something that allows that potting to occur.

Viscount Brookeborough: Does that mean that you believe that the post office has been a brand name for this sort of thing over many years and that it would be unwise to move it out of the post office, because you would have to rebrand it to somewhere where people felt that it was easy to go to, and that putting it out to contract would mean that it could go anywhere?

Neil Couling: I do not know about that. The post office has a very strong brand. We work with it a lot. It now provides some of our identity services on universal credit and is doing very well on it for us. I would not rule anything out at this stage. My career has been bedevilled by people telling me that the changes that we were making were not going to work, from moving away from interviewing people for their claims to claim forms and then moving from claim forms to the telephone. Each time people said, "That's not going to work". We are now moving it online. People have said that that is not going to work either, but it is working. It is a question of how you do it, the time you give yourself to make the change and the support that you give people on the way through. I would not rule anything out. For the moment, we have committed to this contract until the end of November 2021 and we will stick to that; the Department for Work and Pensions does not break its agreements with people.

Q29 Bishop of Birmingham: I have to read out my interests, because this is the first time that I have spoken. I am a member of the Banking Standards Board, and a member of the General Synod of the Church of England in support of the Archbishop of Canterbury's task force on responsible credit and savings. I also chair the University of Birmingham's Policy Commission on the Distribution of Wealth. I think that we have covered most of the points on the post office savings account, but I want to tease out a bit more about the marginal group. This comes back to the point made by Baroness Primarolo about those who are never quite going to join in at the speed at which we want them to. On the success in transferring to bank accounts, have you any data on access to branches? With the post office, people like

to go in and be part of something both physical and social, and they like face to face. Are you keeping an eye on that in the next five years?

Gwyneth Nurse: I can pick that up. The post office is a very important addition to what we have done on basic bank accounts in particular, working closely with the banking industry on the access to banking protocol, which needs to be put in place if a branch is going to close. One aspect that the bank will look at when considering that planned closure is whether there is a post office in the locality that is offering banking services. That is in place, and is being reviewed this year—Professor Russel Griggs is looking at it, so we will be very interested to see his findings to see whether that is working well, or whether there are areas where it can be improved. Secondly, we are working to see whether the banking industry can agree a set of standards, which every bank will sign up to and which we will offer through the post office. So at the moment, in certain post offices you can do some things but not others, and that is a bit of a confusing proposition for people. It would be much better if people knew whether they could do this thing for sure at their local post office. We are hoping that this is put in place reasonably shortly.

Bishop of Birmingham: Thank you very much. On a slightly sideways question, picking up on your interesting point about negotiating fee-free banking for start-up bank accounts, I note that you are going to monitor the data on market share. Is there any thought of doing that by region so that in local participation, linking up with care for people through the universal support system, there could be some more granular understanding of how people are getting access and how the banks are doing with their offer?

Gwyneth Nurse: That is an excellent point. With a lot of the things on which we have published data, such as the lending statistics, we have gone for a regional breakdown to add that granularity. We have not yet agreed the format in which we are going to publish this data. In the autumn, we are going to agree it with the banking industry. We are certainly looking to go bank by bank. There has been a suggestion in the past that some banks have been rather keener on offering basic bank accounts than others, so making the data publicly available will put some pressure on and we will see who is the best at offering these accounts and who is offering the least accounts. It is an interesting question whether we also look at that regionally. We can take that away and see what we can do about it.

Q30 Lord Northbrook: I move on to the subject of credit unions. By mid-2015, 1.6 million adults were using credit unions, and the Government stated in 2014 that they wanted to

increase that number to 2 million by 2020. Following the consultation on the future of credit unions in 2014, the Government agreed to consider legislative amendments to be brought forward in the new Parliament. What was the result of that consultation?

Gwyneth Nurse: The result is that it is still under consideration at the moment. I looked at the document and realised that we had said that we would actively consider it—and, indeed, that is what we are doing. It is taking a bit of time to reach a conclusion because the views from the credit unions that came through—we published the responses to the consultation at the end of 2014—are quite varied. It is quite a varied movement in that you have credit unions that want to stay exactly as they are today and that like the rules and a restrictive set of legislation, seeing it as part of the identity of the credit union. Then you have others that are very big and professional and are moving more into the mainstream. There is a divergence of views about what you should or should not do with the legislation. At the moment, we are continuing to engage; the door is open. There are six different trade bodies representing various different bits of the credit union sector. We are talking with each of those and with the individual credit unions, and at some point in the next couple of years the Government will reach a conclusion.

Any legislative changes will obviously be subject to finding a suitable primary legislative vehicle, but the thinking is ongoing. One interesting question that we thought about, which was ruled out in the 2014 paper but not ruled out for ever, was whether you need one set of legislation or need to open up the legislation for the bigger and more capable credit unions, or the more professional ones, and keep the legislation as it is for some of the smaller players, which are quite happy as they are. We reached the conclusion that that was not the right time but that perhaps the right time will come. That is where the deliberations are on the legislation. In the meantime, of course, there is a lot of other action, such as the DWP credit union expansion project, which is helping to meet that 2020 aspiration.

Lord Northbrook: There are two other areas on which I thought the Government had agreed to act: funding the pilot savings programme, which was established by the Archbishop of Canterbury's credit union task force; and asking the FCA and the PRA to factor evidence into a review of the credit union sourcebook.

Gwyneth Nurse: Indeed. On the Archbishop of Canterbury's task group, the LifeSavers programme, we have provided £650,000 to help fund its initial stages. That is a really great initiative. The scheme goes into schools and is run by children to set savings goals, and it

means working in the local community to link credit unions with schools and with the Church. The Government have been very keen on that and have so far put in that sum of money.

On the point about the Financial Conduct Authority and the Prudential Regulation Authority looking at the rulebook, I believe that they have done that and have updated the rules, and I think there were some positive changes. I do not have the exact details in front of me, but I would be very happy to send information about where they ended up, if that would be helpful.

The Chairman: May I ask for clarification on one point that you raised, Gwyneth, about the Government response to the consultation in 2014? Did you say that we might get the Government's formal response to the consultation any time within the next two years, or that we might get it in the two years before legislative proposals are brought forward?

Gwyneth Nurse: The latter. We published a response to the consultation in December 2014.

The Chairman: But since then there has been no formal response?

Gwyneth Nurse: No. There has been no formal publication and no decisions have been taken.

Q31 Lord Haskel: I move on to the Social Fund, which deals with the most marginalised people. What have been the effects of the recent changes—for instance, the provision of goods rather than the provision of money—to the Social Fund? It has been moved to locally based support, which from the figures that we have been given in the paper seems to have been considerably underspent. What has the effect of the changes been, and what is happening with the Social Fund?

Neil Couling: As at least a couple of members of the Committee know, I have form on this because I led the policy team that designed the reforms that were enacted under the Welfare Reform Act 2012 and because I was running the operations for DWP that endured a tripling in the number of applications for crisis loans from 2006 to 2008, which was pre-recession. The reason for localising the crisis support—crisis loans and the like—was because we recognised that, across the telephone, we were very ineffective at meeting need. It became known what you needed to say to get a payment from the Social Fund. We thought that putting crisis loans back to where they started out—funnily enough in 1948, when the welfare state was originally conceived—would, with local knowledge, enable there to be a more effective distribution of resources. The review that we conducted in 2014 found that.

The underspending was not of benefit to the DWP, because we devolved all the money to local authorities and told them, “If you meet this need more effectively than we are currently doing, we’re not going to take that money back off you”. That is the nature of the reform. My anecdotal information from talking to chief executives at about that time—I was very interested in how this was going, because it was big departure to localise in this way—was that local authorities embraced it really well. They provided help and support to individuals, some in goods and services and some in cash, so it not as though there have been no cash payments. From the Government perspective, we think that the reform has gone very well, which is what our partners in local authorities also tell us.

Lord Haskel: Do you think that one reason for the underspend is the proliferation of food banks? Are the people who look to the Social Fund also the people who have come to rely on food banks?

Neil Couling: A lot of work is going on to try to understand what is driving increased food bank usage. The rise in the number of food banks predated the changes that we made in 2013 to localise the Social Fund. Clearly, some of the people presenting at food banks for help will be presenting with the same needs that they formerly presented to the Social Fund. There are questions that can be asked about how effective local authorities have been in identifying that need and making sure that people are not going to food banks, but I do not think there is straight causality between the localisation of the Social Fund and increased food bank usage.

Lord Haskel: From the point of view of this Committee, there is therefore no relationship between the provision of help in kind and the provision of help in money?

Neil Couling: On the logic of providing help in kind, all we in the DWP were able to do at the time was to sit at the end of a telephone and issue people with a cheque to provide them with money. That can be an appropriate response, but it can also be an inappropriate one. The logic is that if you see someone face to face, you can judge that person’s needs. Money may be the answer for them, but it might not be. That is what we were worried about.

Q32 Lord Fellowes: Can you explain to me the capping of payday loans? How does it operate? Surely it is meant to be a preventive measure rather than one for after the event. How do you operate to ensure that you are ahead of the game?

Gwyneth Nurse: As I understand it, there are three different elements to the payday loan cap introduced by the FCA: there is a daily cap on the amount of interest that can be charged

when you have taken out the loan; there is a cap on the default charges that can be charged if you fail to repay the loan, which is a flat £15 cap in addition to the interest rate cap; and there is a final backstop, which means that the consumer will never have to pay back more than twice the sum they have borrowed. It is a three-way cap. Ultimately, if you borrow £100 you cannot pay back more than £200. That is how it operates technically.

Lord Fellowes: That is very kind. Leading on from that, there must be quite a lot of incidences of a person having a good and unblemished record, but for one reason or another not being regarded as a creditworthy by the mainstream banks and financial institutions. Is there a safety net for that person? Can he or she hope to find an understanding ear?

Gwyneth Nurse: That is a good question and one that the FCA has focused on. There has been a reduction in payday lending as a result of all the action that has been taken. What has happened to people who previously went to payday lenders and may not now be able to find a place from which to borrow the money they need? One answer is that their ready availability and the fact that payday lenders were sometimes lending to people in inappropriate circumstances means that there has been a reduction in the number of people wanting to take out such a loan in the first place. There is also some anecdotal evidence that people turn more to family and friends than to a payday lender in this situation. Credit unions can also play a role, which is why the Government are very keen on building up credit union numbers and putting in place the credit union expansion programme to help them to professionalise so that they can supply finance to more people.

I am also interested in some work, which I read about in preparation for this Committee, called the rental exchange project. Some of the housing associations have been working with credit rating agencies to help people paying rent to build up a credit history, much as people do when they buy for a mortgage. That is a very positive pilot: 75 housing associations are involved in it at the moment. There are a variety of different measures that we are trying to take to help people, because it would obviously be better if people could access mainstream credit.

The Chairman: Before we pursue the issue of short-term lending in a bit more details, which I know other colleagues want to explore, could I check that you want to ask just one further supplementary on the Social Fund, Lord McKenzie?

Lord McKenzie of Luton: Yes, although I have two if I can get away with it. The first is that I remember that when the change was made there was a big debate about whether the

funding that was devolved should be ring-fenced for local authorities, for obvious reasons: they were under pressure and we wanted to ensure that the funding would be used for the purpose for which it was devolved. From recollection, I do not think that is where we ended up. At the start of the process, there was a line in the local government settlement that showed what had been included, but it was not ring-fenced and could be used more generally, as I understand it. Has that changed at all? You can understand the downward pressure on local authorities, given everything else that is going on.

Neil Couling: My understanding is that we specified it in the 2013-14 and 2014-15 spending review period. If I am wrong I shall write to the Committee and correct this, but I am pretty certain. This was money that in effect went to councils after the local government spending resettlement, so it was identified there.

Lord McKenzie of Luton: But not ring-fenced.

Neil Couling: No, which is what the local authorities wanted; they did not want it ring-fenced, they wanted it to be identified but not constrained by ring-fencing. There has never been a ring-fence and there is no ring-fence. After that period, no separate line was identified for the next local government spending review, simply because—the Treasury can probably explain this better than I can—at each point at which the Government set their budgets there was no longer any money to come over from the DWP; it was already in the calculations that the Treasury made with Communities and Local Government and the devolved Administrations for the money that was available for local authorities. If that is wrong, I will write to the Committee, because I am skating a little beyond my competence.

Lord McKenzie of Luton: My other question was about the provision of goods rather than cash and whether we have undertaken any assessment of the impact and the stigma that might be attached to somebody being given a voucher for specific outlets that identifies them as, “Here we are. We are poor. We have been given this to buy these sorts of goods”, rather than having the freedom that others of us have.

Neil Couling: I do not know of any research on that, but I will check whether there has been any. I know from previous experience of historical assessments of things like free school meals. There has been a lot of thinking in schools about how to deliver free school meals. When I was at school they used to give out the vouchers in front of everybody. I do not think that happens in schools now, thankfully. There has been some thinking about how you can do this.

The Chairman: If you do find any research on stigma, could you write to the Committee?

Neil Couling: Of course.

The Chairman: That would be very helpful. We are going back to short-term credit.

Q33 Lord Shinkwin: I am very interested to know a little more about the regulation of the high-cost, short-term credit sector. As we know, reforms came into effect in January 2015. I appreciate that it is quite early days, but I am interested to know your thoughts on the effectiveness of those reforms, and particularly how that effectiveness is best measured. You referred, I think, to anecdotal evidence. Even though only 18 months have passed, what indicators are being used to measure the effectiveness of those reforms?

Gwyneth Nurse: As you say, we are in a reasonably early phase, but we have some evidence on the payday lending cap, which was allied to other changes that came in when consumer credit was moved across to the Financial Conduct Authority, such as limiting continuous payment authorities to two unsuccessful attempts on any loan. There was a raft of changes, and then the payday lending cap came into complement them.

On the question of how effective the reforms have already been, there has been a significant decline in the number of payday loans being made by lenders since the introduction of the new regulation. I have some numbers here. The number of payday loans fell from 6.3 million in the first half of 2013 to 4.2 million for the same period in 2014, and to 1.8 million in 2015. Those numbers come from the FCA. Allied to that, Citizens Advice has also been looking at this issue, and in June 2015 it reported that the number of problems reported to it about payday loans had almost halved compared to the period before the regulation was introduced. Therefore in January to March 2015, it helped with about 5,500 payday loans, which was a fall of around 45% on the same period in 2014. That was probably the immediate effect of the payday lending cap itself.

On the question of what we will do in the future, the FCA will conduct a proper review of its price cap after two years of its operation. That will happen in early 2017, so it will be interesting to see what that reports and whether further changes need to be made then. The FCA is also monitoring the market continuously to see whether there are any unintended consequences of the price cap for consumers or for firms. There is a continuous monitoring operation, and I am not aware of any problems having been raised yet through that mechanism.

The FCA is also working closely with the illegal moneylending teams that are out there in England, Wales and Scotland to make sure that there is no increase in the number of loan sharks moving into the space. That is another element of the monitoring that is going on.

Q34 Baroness Primarolo: I want to pick up the point about short-term lending, but first I have to say that I am really concerned that it sounds as though the Government's policy is potentially—I qualify this—pulling in two different directions: the first relates to responsibility and inclusion and is about pulling people into bank accounts; the second is about trying to identify those who are vulnerable and having special strategies in place but in doing so perhaps reinforcing the stigma that is attached to being more vulnerable and forcing those people to change their behaviour and adjust to desperate circumstances.

Gwyneth, you have talked about payday loans, but can you say more, because we are seeing an apparent expansion of that short-term lending at exorbitant rates, particularly to the vulnerable. I have in mind here the BBC reports that we have seen about rent-to-own firms, whereby people who have nowhere else to go or people who are less than clear about what they are signing up to end up in the same dire position. That seems to apply particularly to those whom the DWP has already identified as being on benefit and in debt. I have heard nothing so far to be grateful for from Gwyneth on the FCA and Neil on the DWP strategy about how you are going to deal with this, because you are in danger of inadvertently isolating and stigmatising the vulnerable and leaving them with no alternative but these mushrooming firms. It is a bit like tax avoidance: you change one scheme down and another one appears somewhere else. It is a big question, so could you just give headlines for now? We might want to follow this up in more written evidence from you.

Gwyneth Nurse: Sure. I will start on the Financial Conduct Authority point. I agree that it is a bit like tax avoidance: you squash it down somewhere and it appears somewhere else. I, too, have been following the recent coverage on rent to own, and there are aspects of it that look very much like the payday lending practices that we introduced new regulations to stop. I checked this out before the session; the FCA has the power to introduce a cap on the rent-to-own lending if it chooses to do so, because it has that power in the consumer credit regulation that we transferred to it. The Government mandated the FCA to act on payday lending, because there was such a mushrooming in that regard. If problems emerge with rent to own, I think there are tools in the armoury to deal with it. That is something that no doubt the FCA is looking at.

Baroness Primarolo: I am going to ask you quickly before Neil comes in—you may legitimately say that this is not a question for you, and I appreciate that—whether the Government think that rent-to-own loans are legitimate in a sense or should be out there in the first place and on offer to very vulnerable people.

Gwyneth Nurse: I am not sure that the Government have a view on that that I would be able to express to you today.

Baroness Primarolo: Okay, that is fine.

Neil Couling: On your questions, I agree and disagree. I do not think that government policy is acting in different directions, although I suppose that I would never say that. But you are right to identify the danger of stigmatisation here if we get this wrong. I can tell a safe story. When we first started to identify basic skills in jobcentres about 15 years ago, we got into rather tricky situations, because we were basically saying, “Can’t you read and write?”, and stuff like that. People were insulted by that and would not identify that they had a problem. Why would they? It was almost as though they were a bit ashamed at not being able to do things. So we had to find different ways into that in order to encourage people to open up without making them feel that they were somehow being judged by the adviser in front of them. That is what we are trying to do here, which is why to the question asked by Lord Kirkwood I said that we are not yet ready to say that we have the answer on some of this, because there is a danger that people will feel stigmatised. We have tried to design the system so that it is as light touch for the mainstream as possible and then increases in the help that it gives, although that carries the risk of stigmatisation, as you say, if we get that wrong. There are people who know a number of things about the citizen in front of them, so we have been thinking about how we can access that in a simple way or how we can refer on rather than it being judged exactly in the jobcentre. That would be a better way in which to proceed. As I said, we do not have the answer yet, but you are right to identify the risk.

Gwyneth Nurse: We consider the stigma point very carefully when it comes to the basic bank account agenda, because we are very keen for the basic bank account to be part of the offering of a bank. We do not want people to go into a bank and someone reaches into a dusty drawer and makes them feel as though they are asking for something that is not quite legitimate, so we work closely with the banks to make sure that the basic bank account is part of the normal suite of banking products, and we are very keen to monitor that to make sure that it is.

Bishop of Birmingham: Has any study been done on connecting up a person who needs a washing machine as an emergency—one of the classic cases of rent-to-own decisions being made very unwisely—with the underspent Social Fund?

Gwyneth Nurse: Not that I am aware of, no.

Lord Haskel: You mean giving goods instead of money?

Bishop of Birmingham: I mean giving the right amount of money—the market price and not the inflated market price, so that you are not paying prohibitive premium on the washing machine. It could be the money, not just the goods.

Baroness Primarolo: I want to come back on that point about goods rather than money. If insurance companies can do it—you put in an insurance claim and they replace the goods—why cannot the department find a way in which to have not a direct provision but something through a not-for-profit organisation that does the same thing? That would cut out the issue of money.

Neil Couling: As a matter of government policy, we do not do so, but I know of organisations and charities that provide such a service, and run cards and repayment schemes at zero rates of interest, or near-zero, to do so.

The Chairman: Thank you. I move on to an issue on which we touched earlier: the co-ordination of government policy.

Q35 Lord Empey: Thank you, Chair. I want to follow up on matters such as paying housing benefit. In Northern Ireland we deliberately pay that to the landlord, because then at least the tenant is guaranteed a roof over their head. If you have that sort of money coming in to somebody every month, I understand that the idea is to make people more responsible and to handle it and so on, but you can see the sky blackening with the vultures gathering at a particular date every month. Unscrupulous elements would pounce on young mums in particular. We therefore take the view that we should at least pay the rent in that way. Then people are not chasing after arrears, with all the hassle that goes with it, which means that people go down and down. It is the biggest single transaction that anyone would have, although that is just an aside.

How is the policy to tackle financial exclusion co-ordinated across government? To what extent is there co-ordination with devolved Administrations across the UK? I was the Minister responsible for friendly societies and credit unions for more than three years, and I

do not recall ever having any policy discussion with the Treasury about it. Has that improved now? Is it more up to date?

Gwyneth Nurse: I think it has improved. We have an active programme of engagement with the credit union sector, so I would be happy to assert that it has improved from the situation that you described. As for how financial inclusion policy is co-ordinated across government, the Government decided, when they decided not to continue with the financial inclusion task force that was based at the time in the Treasury, that financial inclusion should be embedded in policy-making across different departments, so each department takes responsibility for the particular area of financial inclusion that falls within its remit. As I set out at the beginning, the Economic Secretary has responsibility for financial services, takes a keen interest in this across government and has conversations with her ministerial colleague and officials. Particular issues arise, such as basic bank accounts, which we have spent a fair amount of time discussing today. Very efficient work was done on that between the Treasury and the DWP. Then there is the credit union expansion project, again worked on by the Treasury and the DWP. That is basically how it is organised, with the normal channels of engagement between departments. There is no single committee that sits and looks at those issues.

Lord Empey: Viscount Brookeborough made the very important point earlier that unless this is fixed from the ground up for future generations, somebody needs to ramrod this policy. We all know how departments work. Everybody has to look after their own bailiwick at the end of the day, and co-ordination sounds good, but you know, because you have been at it for years, that you have meetings with different departments and they all sit around and do their bit, but somebody somewhere has to say, “This is or is not being done properly, and it needs to be fixed”. Are we going to get into a situation with the devolved Administrations where we have a policy that I detest and which I call “Devolve and forget”? I think that is happening. With financial services and so on, which are so transportable, people move about from one part of the country to another, and they will all be in different regimes.

Gwyneth Nurse: Of course, financial services policy is not devolved, so the policies that we make in the Treasury will apply everywhere, but various aspects of financial inclusion are devolved. I agree that it is a question of having to work very closely together—we have lots of conversations with the devolved Administrations, as do our Ministers—but it is a good point.

The Chairman: May I just press you on the point about co-ordination between government departments? We have both the Treasury and the DWP before us today, which is great. We also have BIS, and we have talked about the Department for Education. In my view, the DCLG has a role to play. The Financial Inclusion Commission came up with up a series of recommendations for improving both the leadership and the co-ordination of policy in this area, which have obviously not been acted on yet. Have the Government actually rejected those recommendations? What has their response to them been?

Gwyneth Nurse: Ministers are obviously interested in the Financial Inclusion Commission's work. In fact, when I met Sir Sherard recently, we looked through the recommendations and commented on how many had been actioned or were being actioned across the piece. As I think Lord Kirkwood said, it felt as though good progress had been made. On the specific points about a Minister for Financial Health and about co-ordination, the Government has not taken a view on those things. I think those are questions for Ministers.

The Chairman: When we have Ministers before us later on, we can press them on those points.

Q36 Bishop of Birmingham: May I ask about the broader area? We are near the end of our time, so thank you very much for all your answers in this intense sitting.

Neil Couling: It is a dangerous moment.

Bishop of Birmingham: It is not that broad. On the whole area of financial technology, the Government said, as long ago as September, that they wanted to lead the world in financial technology. There are two questions. First, what is the approach of both your departments to the use of financial technology in this area of financial exclusion and inclusion? Secondly, as this spreads out, as it surely will, how can we ensure that it does not inhibit further inclusion in relation to some of the policies, which we have talked about already, that are less digital at the moment?

Gwyneth Nurse: Perhaps I can make some overarching comments and Neil can come in on more of the specifics. You are right about the Treasury agenda, the Government's agenda; the Chancellor has been very clear that we want the UK to be the centre of excellence on fintech. The strategy that we have adopted is very much focused on, I guess, increasing competition in financial services, using innovative and disruptive technologies to put pressure on the incumbents to achieve better outcomes for consumers.

It is interesting that existing players are innovating and that new entrants are trying to disrupt them. We have new challenger banks, and more of them are in the pipeline. Some challenger banks want to do business only through online methods, and we have waiting lists of people who want to use those services. It is interesting, in relation to the inclusion agenda, that a segment of the population, particularly the younger part, might prefer to do business on their mobile phones rather than going anywhere, speaking to anybody or even making a phone call. It is all done by way of an app, and they are facilitating that.

The incumbents, the existing sector, are innovating to make access to banking easier. I am interested in a programme, Barclays Digital Eagles, that one bank is running that aims to improve people's confidence in using digital channels, whether or not you are a Barclays customer. There is something online, and you can also do something face to face, so they are trying to cater for lots of different people. Nationwide is out there with a new video advice service whereby you can go into one branch and if nobody is available to help you there you can be video-linked to a branch somewhere else where somebody has time to see you. It is really interesting: we are on the cusp of lots of changes to make things easier for people.

I talked earlier about the application programming interfaces. That is a technical term, but it means in effect that the banks together will open up their systems to fintech firms, which can come in and help people to look across the whole of their finances and at their budgeting to see what is going in and what is coming out. A lot of innovative firms are very keen to get into that space, but first we need to set a standard so that they can plug into each person in the same way rather than have multiple different ways of doing so.

Bishop of Birmingham: This is the open banking standard.

Gwyneth Nurse: Yes, the open banking standard. There is a lot of activity, and it is a really exciting time at the moment.

Neil Couling: I am delivering the biggest change programme in government at the moment. There is a tension between wanting to do that safely and embracing what is new in the market. I have what I might describe—perhaps others would not—as a very small toe in the water. I am very mindful that, over the next five years, I have to pull 7 million people on to universal credit. I want to do that safely. I do not want their payments to be interrupted. I do not want to add to the sum of human misery through what we are doing. I want it to go well, because if it goes well we will get more people into work and the policy will be a success.

We are looking at this, because certainly some of the stuff on blockchain looks interesting. I am not sure whether it is the answer for us as a department, which is essentially a big thing, to use to pay millions of people, but it might be. We have a little proof of concept running on that. Ministers announced it the other day. I have been trying to tell people that it is a proof of concept. It is very much the universal credit approach of testing and learning and of taking a look at it, not a presumption that this is the direction in which we will go. Quite frankly, I have my hands full at the moment in trying to deliver universal credit. I have the joy of the Public Accounts Committee in a couple of weeks, which I am sure will encourage me to enjoy delivering it.

Lord Kirkwood of Kirkhope: It is very compelling television at the weekend. It is much better than “Strictly Come Dancing”.

Neil Couling: I am pleased that I at least make your weekends, Lord Kirkwood.

Lord Kirkwood of Kirkhope: I do watch it.

Neil Couling: Seriously, there is potential here. I am also mindful that our financial services industry is one of the competitive advantages that we have over the rest of the world, so why would we not want to get involved? As I say, we are getting involved. It is very early days. I think there are about eight people on the trial at the moment, so the numbers are tiny, but we are taking a look at it. If the technology proves to be something that we could exploit, we will exploit it, but we have not made any strategic decisions yet.

Lord Empey: I have a quick supplementary on a related matter. Because different bits and pieces of social security are becoming devolved in different parts of the UK, where is the software to back it up? If you are running different regimes in different places, some things are universal throughout the UK but is the software supportable any longer? The stuff we had was old, and if we are now moving away from the GB mainland—we always had a policy of parity—and Scotland is now coming into the picture, where is the software to support all this?

Neil Couling: We are mindful that we will have to run different instances of the service in Northern Ireland—although less so in software terms—particularly for the mitigations in the welfare reform agreement there, and in Scotland for the flexibilities. The two Governments are refining their policies exactly. In effect, they will come to us and say, “These are our requirements for running it in Scotland and in Northern Ireland”. We will need a period of time in which to write that software and make sure that it works not just for Scotland and

Northern Ireland but for the rest of Great Britain. That is why I said earlier, I think in answer to Lord Kirkwood, that we are in partnership and that we must stay in step.

Lord Empey: Who is going to pay for it?

Neil Couling: The agreements are that the devolved Governments will pay for the—

Lord Empey: Variations.

Neil Couling: —changes that they want. However, we are a Government of the United Kingdom, so where we are doing things where a tiny tweak to how we set systems up is doable along the way, we will do that at no cost. I have also said that to Scotland and Northern Ireland. Tommy O'Reilly, the chief executive of the Northern Ireland Social Security Agency, sits on our programme board, and we have very good discussions with him in that respect.

The Chairman: We are technically at the end of our time, but two colleagues would like to come in with very quick follow-ups. Do you have another five minutes?

Gwyneth Nurse: Yes.

Neil Couling: Yes. I am sure we will regret it.

Q37 Lord Haskel: I will be very quick. The fintech that you describe—the distributed ledgers and everything else—is very effective in handling small amounts. In fact, it is very cheap to handle small amounts. However, the people who need small amounts are the very people who might be excluded. Are you taking any steps to make sure that they are not excluded? For instance, does the personal budgeting support that you provide include assistance for what we call fintech?

Neil Couling: The little proof of concept that we are running—we are working with GovCoin, Barclays and a couple of other providers in a little consortium—is looking at whether we could provide payments directly from our systems to people's mobile phones. They would then use Apple Pay to make purchases and get around the need to have a bank account, but they would be financially included. The trial at the moment involves a bank account that actually makes the payment right away. We are not at the point of having developed systems that allow us to work directly to a mobile phone, but that is the kind of thing that we are looking at.

On the question I was asked earlier about the post office card account—I cannot remember whether it was Viscount Brookeborough or Lord Harrison—I said that there was probably a series of solutions. It is not a one size fits all, with everybody on a mainstream bank account:

bang, bang, bang and away we go. It is probably a case of picking up a number of products and including people through the development of technology that works for them. Smart phone usage in this country is rocketing and is continuing to rocket. Surely we can exploit that. I just do not want to run so fast on this that I set something up that collapses while I am trying to do the rather difficult task of getting universal credit in safely and securely.

Lord Haskel: But you have to show people how to do it.

Neil Couling: Exactly, and we need to talk people through how they might use this kind of capability. That is what we have learned. We ran a payment card trial in Kent recently, and some of the learning from that was that people did not know what product they were getting or how they could exploit it and use it. There is a fair amount of coaching to do—I do not want to sound patronising—such as how to exploit the stuff they already have on their phones. There is a whole job there. This takes us back to the point about education, although I cannot remember who raised that now. This is a big live issue for the country.

Lord Kirkwood of Kirkhope: I have a general, quick question. How do we nudge this subject more into political salience? It is not a question that I should address to public officials, because it is for us to do that. We have a new Government—you will be writing the new folders for them—and the concrete sets over a period, but we now have an opportunity. Are there any obvious nudges that we as a Committee could give to make this a more highly significant public area for consideration by Ministers during the next six months?

Gwyneth Nurse: I guess that by forming this Committee and having these discussions you are already putting a spotlight on this area. Certainly, our existing Economic Secretary would say that she is very seized of the issue and keen on the recommendations of the Financial Inclusion Commission, which we have discussed today, many of which are already in train. I think she would say that the record is actually quite good and that we are making some really good progress in this area. I think that would be her answer.

Neil Couling: Dare I say that this pretty much cuts across the political spectrum? I have never yet met a Minister who is in favour of greater financial exclusion. I would not put it beyond the bounds of possibility—who knows?—but I have never met anybody like that. When we think about citizenship in this country and what it means to live and work in the modern world, financial inclusion has to be part of that, as does digital inclusion. Officials can try to encourage the development of the way in which we deliver services that enable some of

that to happen, and that is what we are about with universal credit. I know that others across government are trying to do that in their space, too.

The Chairman: Thank you both very much. It has been a very rich and wide-ranging session and we are very grateful to you. I just have two points to make, if I may. I think that one or two supplementary follow-ups will arise from this session. Is it all right if the secretariat writes to your departments with follow-up points that we have not been able to cover today?

Gwyneth Nurse: Yes.

Neil Couling: Of course.

The Chairman: Neil, you said something, when we were talking about measuring the impact of universal credit on financial inclusion, about working on a list of correlations from the data? Would you be able to provide us with a note on that?

Neil Couling: I could certainly give you a note on what I think might be correlating bits of evidence. I was trying to say that I do not think it is possible for me to isolate the impact of universal credit on financial inclusion, but by looking at some of the stuff I have already published and some of the stuff we are planning to publish, I could certainly do that for you.

The Chairman: We would find that extremely helpful. Thank you again for your time. This has been very helpful.