



HOUSE OF LORDS

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Inquiry on

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Witnesses: Catherine McGrath and Matthew Carter

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)
Lord Empey
Lord Haskel
Lord Holmes of Richmond
Lord Kirkwood of Kirkhope
Lord McKenzie of Luton
Baroness Primarolo
Lord Shinkwin

Examination of Witnesses

Catherine McGrath, Managing Director, Transactions, Insurance and Mass Market, Barclays, and **Matthew Carter**, Director of Products and Marketing, The Co-operative Bank

Q38 The Chairman: This is a very hot day, so if witnesses and Members wish to remove their jackets, that is absolutely fine by me. I do not want anyone to overheat. This is our fourth evidence session, so thank you very much indeed for attending. For the record, our two witnesses today are Catherine McGrath, who is managing director, transactions, insurance and mass market, at Barclays Bank, and Matthew Carter, director of products and marketing at the Co-operative Bank. 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. This meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the committee website, and you will have the opportunity to make any necessary corrections to it. If you are ready, may I just kick off with the first question, which is a very general one? How does your organisation define financial exclusion? What is the incentive, or the business case, for banks to address financial exclusion?

Catherine McGrath: First, the definition of financial exclusion, or inclusion, is quite difficult, because it can manifest itself in a number of different ways. On one level, we would describe it as a customer being unable to access the products or services that they should have. The reasons for that could be incredibly different, though. It could be to do with financial vulnerability. They might be a member of the Armed Forces, and standard banking does not work that well if you are one of those. It could be to do with disability. The reasons are quite broad. We think it is important, because we see part of our broader role in society as

ensuring that everybody can participate fully, and we are very aware that access to banking products and services is a cornerstone of that.

Matthew Carter: I think that our view is quite similar. It is difficult to define in one phrase or sentence, but we see it as part of our broader focus on customer vulnerability more generally. Financial exclusion is often a key consequence of wider vulnerability, so we look at it in that context. From a business strategy perspective, the Co-operative Bank has always been committed to financial inclusion and banking for customers whatever their circumstances, so it is fundamentally embedded into the heart of our business strategy.

Lord Haskel: You say that your purpose is a broader role in society or financial inclusion. To what extent does your organisation's work fall within the social agenda that you have just described, and to what extent does it form part of your business development agenda?

Catherine McGrath: The fact that neither of our job titles here says "corporate social responsibility" indicates that it is quite intrinsic to the organisation's structure. My job is not corporate social responsibility, but do I have a significant obligation to ensure that we are inclusive in providing banking services to customers? Absolutely.

Another key way in which Barclays looks at this is that we think that digital enablement is a big part of financial inclusion, so our decisions about providing things like Digital Eagles, working with BT to find black spots in digital capability and ensuring that it can be provided, and putting in digital services are key. All those things are part of our key business strategy and not something that we necessarily look at under the banner of corporate social responsibility. We would see it as a key part of our business strategy.

The Chairman: Could I follow up on that point? Are you saying that your digital enablement strategy is primarily to help financial inclusion—to get more people having accounts? How much does it come from an understandable desire to cut costs?

Catherine McGrath: The way we look at digital enablement is broad. A Digital Eagle will help a customer get access not just to their banking services but to Skype and video banking, to Facebook and anything else that they want to have. A digital revolution is happening, and that is part of our role. We have the capacity and ability to help people to be part of that revolution rather than be left behind. It is aimed at all our customers. It is interesting for us that our basic bank account customers are twice as likely to use our digital platforms as those who are not on that account. Our view is that everything that we do to get customers

digitally engaged very much supports the financial inclusion agenda, but it is a far broader plank of our strategy than just financial inclusion.

The Chairman: Thank you. We will return to the digital issue a bit later.

Q39 Lord McKenzie of Luton: Who leads your companies' work on financial exclusion? To what extent is the board involved? Is it routinely an item on the agenda for the main board meeting? What reporting measures are used? How is the activity covered in your annual report?

Matthew Carter: For us, it is embedded in our ethical policy, which is defined by what our customers think is the most important thing—what they believe is fair and right in the way we conduct business. Therefore, it is a reflection of that, and vulnerability and inclusion are core pieces of it. But I would describe it as being both top down and bottom up. At board level, we have a values and ethics committee that looks at how we apply the ethical policy in its broadest context, particularly how we include all our customer groups. From a fundamental point of view, that is critical. The director for the retail bank has specific empowerment for the execution of financial inclusion and in relation to vulnerability throughout the business. However, that has to be embedded from top to bottom. For us, it is very often the training and support that we give to colleagues on the front line that is fundamental to identifying areas of customer vulnerability where we need to apply certain policies or practices to support customers in financial difficulty. That is obviously then monitored not in one particular way but by using a plethora of metrics: everything from fraud analytics to analysing customer behaviour, complaints and customer feedback. We look at a whole series of measures to try to identify how well we are dealing with financial inclusion.

Lord McKenzie of Luton: Are these measures routinely on the board agenda?

Matthew Carter: Yes. They are certainly reported on every two months when the Values and Ethics Committee meets. There is a regular standing agenda item on customer vulnerability, including financial exclusion.

Lord McKenzie of Luton: Do you know what that data has shown in recent months and what the trend is?

Matthew Carter: The reporting tends to be about how we are progressing on the activities that we have identified and are trying to put in place, such as working with third-party institutions to support debt advice. Equally, it is about how we are progressing on the

identification of customer vulnerability and financial vulnerability through, for example, the development of our data and systems. It is the tracking against those core pieces of work that is, we hope, moving the organisation forward in the right way.

Catherine McGrath: What is complicated about this, referencing the remark I made at the beginning, is that it is difficult to define a customer who is either vulnerable or going through moments of inclusion and exclusion. It will happen for very different reasons for different groups of customers. We look at it by asking, “If we are making changes to our business, how is it likely to impact different groups of customers?” If I am making a change to overdrafts or to digital policies, I think about a group of customers who are digitally not engaged. If I am doing something that benefits those who are digitally engaged, how do I think about supporting those who are not? You could argue that they are being financially excluded because of some things that are happening in the digital space. It is very multifaceted. I have one definition of financial vulnerability, which is customers on the basic bank account. It is very easy to see them, what is working for them and what is different for them versus customers who are on our standard accounts. It is more difficult if I am trying to understand whether somebody is financially included or excluded because of dementia or because of being in the Armed Forces. We look at it across the board. We try to look at it cohort by cohort of customers, and we look at it issue by issue. Financial inclusion or exclusion will change depending on the issue, or on the banking service that people are trying to access at the time.

Lord McKenzie of Luton: I can see the challenges. Just to be clear, does the “we” in all this include the main board?

Catherine McGrath: Yes it does, irrespective of whether it is Jes talking about the shared growth agenda and saying, “Investing in the UK overall must be good for the banks, so supporting all segments of society as part of that is critical”. Ashok Vaswani runs Barclays UK, the UK part of the bank, and it is very high on his agenda. Across the board and part of everyone’s role is the question, “How are you supporting all segments of society?” However, if you tried to find one page on a report somewhere, it would be quite hard to summarise it because of the complexity of the issue. The specific issue will vary from customer group to customer group and banking service to banking service.

The Chairman: I will bring in Lord Haskel in a second, but could I first follow that up? At board level, does anyone's remuneration include consideration of what they have achieved on greater financial inclusion?

Catherine McGrath: Sorry, I do not know the answer to that question.

Lord Haskel: In your reporting process, do you also report on the cost of all this socially oriented work? Presumably that is included in your overheads structure. How do you take all that into account?

Matthew Carter: Not on a specific case-by-case basis. Over the last few years, we as an organisation have had to make some balanced and commercially based judgments about that. As Catherine said earlier, the growth of the digital agenda in particular means that we as an organisation need to re-orientate where we invest. For us, there has been a very clear strategy. We have said, "We must invest massively in our digital agenda, because that is consumer demand. That is what customers expect", and those expectations are rising significantly. At the same time, we are seeing far fewer transactions in traditional branches. Last year alone, we experienced a 30% reduction in branch transactions. That means that you end up with branches that become economically unsustainable. Yet those decisions, such as decisions to close branches, and our commercial decisions were very clearly driven by customer data. Are customers actually using the branches? There is a series of considerations. How do we decide whether it is commercially sustainable to close the branches? You have to decide how you embed financial inclusion and broader customer vulnerability when you execute any of those policies, and you have to decide on a case by case basis. However, I reiterate the point that the ethical policy for us as an organisation is in effect consideration of these things as part of any decision, change or development that you make. If you do not consider them, you are out of line with the policy itself, which is quite clear about embedding financial inclusion and how the organisation will then take decisions, which we hope will be in a balanced way.

Lord Haskel: So if you were on a cost-cutting exercise you would not say, "We're going to cut out this socially oriented work and cut our overheads"?

Matthew Carter: Absolutely not. For example, we have been in the basic bank accounts market since 2000, and we have been the market leader in the provision of such bank accounts. Our market share is around 2%, but our provision of basic bank accounts is significantly in advance of that: it is 20% of our entire customer base. That has always been

an incredibly important element of our approach, strategy and broader contribution to society. We are massively supportive of the new access to banking protocol, which came in at the end of last year, but we have also been encouraging the remainder of the industry to share some of the burden and the cost. For us, there is quite a significant cost in running the basic banking book to support financial inclusion in the way we are. That is not to say at all that we would want to remove our commitments from that. Absolutely not—it is enshrined in our strategy as a business—but we would want that cost to be shared proportionately across the industry.

Catherine McGrath: Can I build on that point? You would not find a number for us that indicated the commitment that we are making on financial inclusion. But, to touch on Matthew's point, the basic bank account is a key component of financial inclusion. That is a loss-making product but part of our investment in society. A couple of things are worth mentioning. Ensuring that all banking participants are party to that, not just the subset that is currently signed up to it, is important; otherwise you have people going into the branch of a bank that they think would be great for them and they are told, "Sorry, you're not someone we want to bank. Can you go down the road and be supported by someone else?" That is not a good outcome.

The second opportunity is the payment accounts directive, which is quite interesting. It requires that people who are unbanked can open what has been defined in the UK as a basic bank account. This presents the issue that if my accent were not New Zealand but French, for example, and I earned what I earn today, I would still be entitled to open that basic bank account in the UK, because in UK circumstances, as currently defined, I am unbanked. I think that is completely wrong; the basic bank account is there to support financial inclusion and should absolutely be there for people who require that sort of account. Someone who is not part of financial inclusion should have no entitlement to go into that basic bank account. That is an interesting thing that we need to think about: how we implement the Payment Accounts Directive in the UK to make sure that it is targeted on those who need it, not on a more general audience because they are unbanked.

Q40 Baroness Primarolo: Catherine, could you explain to us how many people you think try to get access to basic bank accounts who are not entitled to them, in the sense that we already heard from Matthew and you about the growth in demand from customers who want to be able to do things on more sophisticated digital platforms?

Catherine McGrath: It is a new requirement, but the UK Government still have the opportunity to determine how they interpret that. Can people who are not financial inclusion customers get into the basic bank account? The current thinking behind the interpretation is that if I am unbanked in the UK—in other words, I am coming in from an EU country—I could have access and must be offered the basic bank account.

Baroness Primarolo: Why do you think that is wrong?

Catherine McGrath: Because if I am earning, if I am not a financial inclusion customer, I should be offered a bank account but not the basic bank account, and I should not be entitled to the basic bank account.

Baroness Primarolo: What would the benefits be to somebody deciding that they wanted a basic bank account and nothing else? What would be the advantage to them?

Catherine McGrath: Absolutely no fees are associated with it.

Baroness Primarolo: But they can do nothing on it.

Catherine McGrath: They can. A basic bank account is a full service account that lets you do what you need to do; it just does not have overdraft lending on it. With the basic bank account, you are not charged the fees that you are charged for similar behaviour with a standard account. That is absolutely right for financial exclusion customers. It is not right that somebody from outside the UK is offered an account with a different price structure than somebody inside the UK can get.

Q41 Lord Empey: To some extent you have touched on one or two of the things that I was going to raise. What has been the level of take-up of the basic bank account product that you respectively offer? You have referred to it already, Matthew, in some of your comments. Since the launch of the new basic bank account, has there been a corresponding decline in the number of customers who are rejected for bank accounts?

Matthew Carter: I gave the number for us earlier. We have 300,000 accounts. The number of people applying for accounts has dipped but only very slightly. The number of declines is absolutely stable. Other organisations might see this differently, but because it was such an embedded part of business anyway we have seen that continue. We have probably seen slightly fewer applications, but only by a couple of percentage points down this year. Some customers who would have come to us before have probably gone somewhere else.

Catherine McGrath: From our perspective, when HMT publishes its data I would expect to see that our share of new flow has also declined. The reason for that is that we were one of

the few banks that were offering a full-service basic bank account before, so we were doing significantly more than our natural market share.

Lord Empey: You are saying that you had already captured some of that market.

Catherine McGrath: Yes, similarly to Matthew's organisation, Barclays would have been one of the organisations that was overperforming on the basic bank account since the previous version of basic bank accounts. The flow has reduced because other major banks are now required to offer basic bank accounts. That has now been measured, which is good because it means that there is a breadth of supply and competition in that market.

Another thing that we will discuss with HMT is that if we can see from the turnover in someone's account that they no longer require a basic bank account, we will proactively engage the customer about moving them into a standard account. We believe that that is the right thing to do, because they can start to build up a credit file and a credit footprint, which means that they can get access to broader financial services, which we think it is a critical part of financial inclusion.

Lord Empey: That leads me neatly on to a supplementary question. What is the process for customers moving from the basic bank account to a regular current account? How is this move instigated, and what accompanying support are customers provided with in that regard? In other words, what is the trigger point for somebody moving from the basic bank account to the regular bank account, and what is available?

Matthew Carter: Catherine is absolutely right. In our book, too, some customers start to behave in a way that suggests that a broader banking product could be made available to them. However, you cannot automatically assume that people wish to do that. A lot of research will tell you that customers often like the controls that a basic banking product gives them—for example, you cannot get overdrawn and it puts quite clear rules and boundaries in place. We do not automatically upgrade people, but we do go through a contact programme that says in effect, "You seem to be displaying the behaviours of an upgrade", and we encourage people either to come into a branch or to have a conversation with one of our telephony advisers about moving to a more mass-market product.

Lord Empey: I suppose some people prefer pre-payment meters for exactly the same reason.

Matthew Carter: Absolutely.

Lord Empey: You have a product that is free of service fees. The thing that would trigger a change is behaviour; perhaps a customer wants to borrow.

Matthew Carter: Yes, possibly. There are also payment differences and the availability of a chequebook—those sorts of things—which will make a difference. You are absolutely right, but even if a customer wants to take those other facilities they do not have to take an overdraft as part of that broader range of services. That is why we are keen that if people want to avail themselves of an overdraft, for example, we will have two quite distinct and separate conversations with them.

Catherine McGrath: We are still working through exactly what that will look like. On our standard account, customers can have all the same controls as there are on a basic bank account. You can choose the ability never to get overdrawn if that is what you want. We would absolutely encourage customers to have a standard account if their account conduct indicated that they if they applied again today they would be offered one. The credit turnover of the account is one of two things that we tend to look at. If it is £2,000 or £3,000 a month, they are less likely to be financially vulnerable. But we would also look at the conduct of their account. If a customer is constantly bouncing up against zero, that indicates that they are probably still in a financially vulnerable state. If they have a reasonable amount of credit left in their account at the end of every month, that indicates that they are probably in a good place to be able to move on. You would generally want a standard account because it starts to give you access to all those other things that you can get. Having customers with the ability to get lending at bank rates as opposed to payday lender rates is a critical part of financial exclusion, which is why that conversation will happen with a customer.

The Chairman: Can I pursue the point about the annual number of declines and whether that has gone down since the introduction of the basic bank account?

Catherine McGrath: My answer is similar to Matthew's: it has not gone down at all. The reason why it has not is the only reason why we would decline a customer for an account before: because of fraud. Barclays has consistently offered accounts to undischarged bankrupts, for example, in a way in which the rest of the industry has not, so there was no reason to expect our rejection rates to change. Fraud is the only reason why you will not get an account with us.

Q42 Lord McKenzie of Luton: I would like to move us on to Brexit, if I may. These are early days, I know, but the Payment Accounts Regulations are the UK Government's way of implementing the European directive. I have two questions. The first is a narrow, technical

one. When we eventually depart the EU, does anything need to be done to reconstitute those regulations in UK law, or are they still embedded sufficiently so that they continue?

More importantly—Catherine has answered this at least in part—if there is no requirement to follow the EU directive, what changes would you like to see in the regulations?

Catherine McGrath: I do not think that I can give you the technical answer to the question of what would be required to reconstitute the regulations.

Lord McKenzie of Luton: Forgive me, but could somebody perhaps write to us on this?

Catherine McGrath: Yes, we can definitely pick that up. From a basic bank account perspective and a UK perspective, that has been put in by a memorandum of understanding between the banks and HMT. It is not a regulation or anything else, it is just an undertaking that we have given, so nothing further needs to be done because it is an undertaking that a subset of the industry has given.

If there are no requirements to follow the EU, irrespective of Brexit, the Government have a choice about how they implement some of the payment services regulation. We have a slight concern that someone who is not a financially vulnerable customer coming from Europe could get the very basic bank account in the UK, but that the same thing would not happen the other way around. Irrespective of Brexit, there is plenty of room for the Government to choose to interpret the most appropriate response. Our view is that having an account that works and is completely free for the financially vulnerable is important. Irrespective of memorandums of understanding, we believe that we would offer such an account as part of our broader commitments to the UK. So I see nothing changing. It is important that the account is there for the financial vulnerable and that it is not there for an audience that is broader than that. If it is loss-making, it is cross-subsidised by other parts of the bank. It is really important for the financially vulnerable, and it should not be available for people who are not financially vulnerable.

Matthew Carter: I would reiterate those points, particularly with regard to the EU payments directive. The FCA and the BBA, and the industry as a whole, are engaged on the best way to implement certain elements of that. There are some slightly contradictory regulations. For example, it is difficult for us to comply with our AML regulations at the same time as honouring the principles of banking foreign customers in the UK that Catherine was talking about. That is an industry challenge which the BBA and FCA are engaged in.

Lord McKenzie of Luton: You say that it is an existing industry challenge.

Matthew Carter: It is one of our concerns about the implementation of the EU PAD regulations, which have started to come into effect. I would reiterate my point about whether, given the change in the broader environment in the post-Brexit world, that interpretation is still the most appropriate. We clearly have to continue to honour EU regulation until such time as we do not. In the meantime, we need to find the most pragmatic ways of working through that.

Lord Haskel: Can we come back to the basic bank account? Do you see it as a sort of loss leader, a public service hopefully leading to a regular account? Is that how you market it?

Matthew Carter: We have a very simple range of products. We really have only two. We have either a broadly standard bank account or a basic account. We market them both equally and present them in exactly the same way through all distribution channels, whether you walk into a branch, access them through the internet or via phone or contact centres. The prominence of the accounts is absolutely equal in that regard. Clearly, we go through a process where generally we want people to take the standard product if that is right for their circumstances. A customer can actively take a basic bank account if they do not want anything that is a slightly more comprehensive proposition. If customers apply for a standard account and unfortunately are declined for that product, they will obviously be offered the basic bank account as an alternative. We offer these things in a very open and transparent way.

Lord Haskel: So you make it absolutely clear that the basic bank account is available.

Matthew Carter: Absolutely, and the basic banking protocol that we are committed to with HMT makes it really clear that the product has to be available in exactly the same way and through the same distribution channels as our other products.

Catherine McGrath: Equally, for us, the basic bank account sits alongside. If you opened a brochure, you would see the range of products offered by Barclays, and the basic bank account is there alongside the other accounts that we offer. If a customer came in and was not specific about what they wanted, we would take them through the standard account-opening process first. If they were not accepted into that, we would specifically talk to them about the basic bank account. Looking at our marketing approach you would not see press ads that said, "Come to us and talk about basic bank accounts", because we tend to market our standard products. But if a customer comes in, it sits with equal prominence in what they will see.

Lord Haskel: So it is made absolutely clear that the basic account is available?

Catherine McGrath: Yes.

Q43 Lord Shinkwin: I have two questions for each of you. First, could you tell me whether your company envisages expanding the basic bank account concept so that it includes savings or insurance products that tackle financial exclusion—you used the term “financially vulnerable”? Secondly, if so, would this be something that the market could support, or would it need to be mandated by government so there was a level playing field?

Catherine McGrath: From our perspective, we have a broader range of products that we think meets the requirements. A few years ago, the Sergeant Review looked at simple financial products, particularly in savings and insurance. We have chosen to launch—and I think we are the only organisation to have launched—a simple life insurance product. That has taught us that customers are very positive about it and about a kite mark that says that something is stamped as a simple financial product. It would be fair to say that overall within the industry there has not been a lot of traction in that space. Simplicity and transparency are cornerstones to financial inclusion. Do I think it is relevant that there are broader products that have that stamp? Absolutely. That is why we launched our life insurance product. Financial education is a key part of it, because you only really get balance in society when people are educated enough to be able to make a sensible choice. Kite-marking helps, but the level of education is important.

On the question of making it mandatory across the industry, again, if a thing is loss-making, the answer is probably. With basic bank accounts, we found a couple of providers that were still choosing to offer a full-service basic bank account and therefore getting significantly more than their natural share, because others were stepping away from it. Life insurance products can be made so that they are not loss-making. If part of our role is being a bank that supports all segments of society, there will naturally be products in that space. The risk in the UK is that as new competitors come in, they quite understandably say that they want to serve only segments of customers. Either by choosing where they put their branch footprint, or by choosing to be a digital only proposition, by definition they are choosing not to serve large segments of society. If we want the breadth of suppliers in a financially vulnerable or financially inclusive space, a degree of undertaking or mandatory behaviour will be important.

Matthew Carter: I think that some co-ordination would be helpful. There are often a load of initiatives. The Sergeant review was very insightful and said in effect that the simpler you can make things, the more you can remove from more vulnerable customers the nervousness or uncertainty about accessing financial service products. It is interesting that there is now a separate initiative—I am trying to recollect whether it is HMT's—that is looking at simple products for financially vulnerable customers to encourage savings.

Going back to Catherine's point, the challenge is that if you do not almost mandate this, a number of people will simply step back from it. The burden will then be taken by too few, who perhaps have some of those things more embedded in their principles. Having said that, on a broader point, our underlining ethos, particularly since the bank's transformation and rebuilding since 2013, has been relentlessly to simplify the business. We fundamentally think that the simpler you can make things, the greater access that gives to all. For us, there is a general principle of making things really, really simple. We are relentlessly reviewing everything, from putting terms and conditions into plain English so that people understand exactly what they do to having very simple, basic offerings in the market, which means hopefully that more consumers can become engaged. The one thing that all research, and certainly the Sergeant review, said was that people are fundamentally put off and block things. They know there is a need, but they are too confused by the complexity of some of the products on offer.

The point about how the industry moves forward together on this is an absolute point of principle. As an example, we are, and remain, the foremost banker for prisoners in the UK. We made that an explicit part of our policy and it is an intrinsic part of the rehabilitation of prisoners. Clearly there is a correlation between committing further crime and financial exclusion. We used to bank for the vast majority of prisoners in the UK. We are now taking the rest of the industry with us. Again, we want to support this with what we believe is a proportionate amount for what is a relatively small banking organisation relative to others, spreading that burden and cost across a range of other institutions. That is now being done across the UK. We will absolutely continue to do what we are doing, but we want to make sure that we are not disproportionately taking the load from others.

Lord Empey: What you are really saying is that you do not want your competitors to cherry pick. You want everybody to have a responsibility, whereas some can pick and choose so

that you, who already operate in that market, will bear the burden of the cost. Other people get away with the premier customers. Is that what you are saying?

Matthew Carter: I would suggest that the market will change dramatically over the next two years. We can talk about PSD2, the payment services directive, and how that will dramatically change the landscape of the banking industry. Equally, as Catherine alluded to, we have a lot of new entrants. More competition in the market is absolutely the right thing to have, but, equally, a number of the stated commercial objectives of those organisations is to be very specific about the types of segments that they wish to attract. For example, a number of digital-only banking providers will specifically target mass affluent males aged 30 to 45 within the M25. I suggest that one question that needs to be asked is how we all share responsibility for financial inclusion. That is something that we take very seriously, but it should not be disproportionate. That is the broader consideration.

Q44 Baroness Primarolo: I want to ask a question about the identification that needs to be provided by those seeking to open a basic bank account. It was interesting, Catherine, to hear about Barclays' slightly different route into the standard account first and, only when they failed that, then into the basic bank account. There are clearly issues to do with proof of identity. I understand that it is complex, because it also links in with money-laundering, but if we are to accept that having a basic bank account is also, as we heard, a way of being included, being work ready and managing money, we have also heard complaints that the ID can be very difficult for particular groups to comply with. There are migrant workers and asylum workers, and Catherine touched on people with dementia understanding a utility. Through the banks' experience in dealing with basic bank accounts, do you have any comments to make on how identification of an individual could be assisted in opening a basic bank account?

Catherine McGrath: Let me just clarify one point. If a customer came in and asked for a basic bank account, that is what would be discussed. If they did not ask for anything in particular, we would start with the standard account. Identity is quite difficult, for the reasons that you suggested. It is also difficult for the reasons of fraud. It is an interesting process for a bank to be in, because if you are the most open with identity in the market, you are more likely to get a higher proportion of fraudulent accounts being opened. It was well known across the industry in the UK for a period of time that bank accounts opened with certain forms of identity from other countries in the EU had a very high likelihood of being fraudulent

accounts. A real balance has to be struck. I do not get the impression when I look at our complaints about basic bank accounts that the ID requirements in particular caused the problem. I think we are pretty broad about the sort of identity that we accept. Do I think that it could be made easier? It would be great to identify customers as being okay to be in the UK through a government source, for example. Banks could rely on that for a whole lot of other things. That would be fantastic, not just for financial inclusion customers but across the board. That is the far broader issue. “Identify me once. Then everything follows”, would be a great thing to achieve and focus on.

Matthew Carter: I do not have a lot to add to that. There are some challenges with documentation. It is an industry-wide issue, and the BBA’s work with the FCA on this is important. It explores issues such as how we can access centralised government data electronically to try to help that ID&V process, rather than somebody physically having to bring paper into a branch. The more that can be streamlined, the easier it will make it for everyone involved in the process.

Baroness Primarolo: It has been suggested to us in previous evidence that the banks are not particularly flexible when it comes to ID and that there is no benefit of the doubt. The person opening the account might say, “This proves my identity”, but when it goes into the system it is rejected. Obviously the individual working in the bank will be under pressure if they give a bit more latitude each time. If, as you suggest, there is work on a gateway that would trigger it, rather than bits of paper—utility bills or whatever—which puts people off, can you direct us to where we could get more of that work? Is it being done on universal credit, for example?

Matthew Carter: It is being done by the BBA. We can certainly give you the details on that.

The Chairman: Could you provide the Committee with a short note?

Matthew Carter: Yes, we can do that.

The Chairman: Thank you. That would be very helpful.

Q45 Lord Kirkwood of Kirkhope: Could I ask a question, first off, about the access to banking protocol that was concluded in March 2015? How many branches of your respective banks have since closed? How many of them have been salvaged after the local engagement process that you are obliged to go through in relation to the consultation that is currently in place?

Matthew Carter: In the past year, we have closed 54 branches. As a bit of context, the Co-operative Bank and Britannia merged in 2009, and the process left us with duplicate branches, often two in the same town. You had Co-operative Bank branches that were predominantly current account and transactional, and Britannia branches that were predominantly savers. The branches that unfortunately we have needed to close over the last year were all Britannia-based. That has been driven by the fact that the transaction levels in those branches had declined significantly and were down to fewer than 50 to 100 transactions a week in some locations. That puts the viability into context, and those are the decisions that we clearly had to make in relation to that. The size of our estate is still bigger than it was pre the merger in 2009, if that makes sense. We at the Co-op have a bigger footprint now than we did then. Equally, over the last 18 months, we have invested in excess of £20 million¹ in refurbishing the remaining network to demonstrate our commitment to community banking. That is quite an important piece.

On the branch access protocol, it is also important to say that while we have always engaged with a range of local stakeholders in relation to any branch that is selected for closure, the decision to close is already based on a whole range of reasons. The focus for us in relation to the branch protocol is how we manage the impact of that in a way that ensures continuity of service, financial inclusion and customer education. A lot of things that we would do go above and beyond the protocol, such as one-to-one engagement with customers in branch and specific strategies for customers whom we define as vulnerable or requiring financial inclusion. That might include hand-holding those customers to register for online banking or to use the local post office, or reallocating them to the nearest branch where available. In answer to your specific question, the branch access protocol has not changed those decisions, but it never set out to do that; rather, it set a series of standards on how we might best minimise the impact and work in a way that is entirely customer-centric.

Lord Kirkwood of Kirkhope: You describe this as a consultation, but the decision is taken. It is a way of transitioning to a new situation.

Matthew Carter: It absolutely is.

Lord Kirkwood of Kirkhope: So you are talking only to your account holders. You are not talking to the local authority or the local CAB.

¹ Note by witness: the correct figure is £12 million

Matthew Carter: We engage local government and local MPs—a whole load of people—because we know that these things are very sensitive. We will then go through a whole series of steps to ensure that those customers end up with an absolute continuity of service.

Lord Kirkwood of Kirkhope: And you guarantee as part of the transitional process that you will not leave anybody not only without a local branch but without any account at all.

Matthew Carter: No, we do not close accounts, but we will also go through an upgrade process that gives people better access to things like post offices and digital banking. We will walk them through those processes as we close a branch.

Lord Kirkwood of Kirkhope: Presumably that applies roughly to Barclays as well.

Catherine McGrath: Yes. The story for us is that, at the end of 2015, we had more than 1,300 branches, which is the largest single-branded network in the UK. Since the protocol came into effect, we have closed 120 branches, and opened one branch in Newcastle. We take the engagement process very seriously, and we were mentioned in Parliament by Chris Evans MP for the standard that we are setting in the way we engage with the community. Stakeholder engagement has never reversed a decision about whether a branch should stay open, but that is because we do a lot of quite hard work even to get the point of deciding whether to close a branch. However, what such engagement has done is change what we have left behind or how we have done it. The engagement is broad; it is with community groups, MPs and local councils. As an example of some of the things that have changed as a consequence, customers are often most concerned about ATMs, so leaving those behind to enable people to access cash is very important. We have also postponed closures. Where significant roadworks have meant that getting to the nearest branch was taking twice as long as it should have, we have postponed the closure or changed opening hours for some of the nearest branches. That, for us, felt like quite a good way of doing it.

We talked before about digital engagement. Although we have Digital Eagles across our branch network in the UK, if a branch is going to close we will concentrate effort in that environment so that individual customers can come in and have sessions with the digital eagles to get them more digitally engaged. That also helps to manage the transition.

Lord Kirkwood of Kirkhope: Would it be a natural consequence of such local engagement with your account holders that those who were engaged could be handed over to perhaps more appropriate CDFIs or credit unions? I understand that there is some consideration of how this protocol is to be operated in the longer term; I am just thinking about whether

there are other things you could do—warm handovers—not just to keep hold of an account but to get better service, such as insurance. Do you have any ideas or resources in gestation to improve the protocol?

Catherine McGrath: Customers are primarily saying that they want access to transactions and the ongoing ease of that. The relationship with the post office network for that purpose is really important. In the New Zealand market, what was the old post office bank has become a more fully fledged bank in its own right, and it is starting to play an important role in propping up—to be honest—post offices in the local community, because it means that there is another source of income for that environment. That support for post offices to have transactions made through them is important both for customers and for having that hub of the community. Working out how that transactional service can be supported, possibly even more than we are doing today, is key.

Matthew Carter: Yes, the post office is crucial. What we have learnt to do as we have gone along is really understand the detail and the cohorts of customers that we have. We have put bespoke approaches in place for customers who we have identified as being potentially at risk of some financial exclusion. We have a programme, for example, where once a branch has actually shut we phone its customers to hand-hold them through the transition to the new arrangements. We have found that the number of customers who have ultimately left the organisation is minimal as a consequence of such changes. The number of complaints that we have had as a proportion of total customers is less than 0.25%. If you can manage it in the right way, with the right degree of sensitivity and humanity, and with real precision about the different groups of customers, hopefully some of those things will come back from the review of the protocol and be embedded more broadly.

Q46 Lord Kirkwood of Kirkhope: Catherine has just put the idea in my head, which I might take up with the Chair, that we visit New Zealand to study the post office there. It sounds like a worthwhile thing to do.

On trying to fill the gaps in data, we are trying to make positive, constructive suggestions to the Government. On an individual account basis across the United Kingdom, you will have at your disposal as an industry a huge amount of detail. I just wanted to tax you both on this. Obviously there is commercial confidentiality in this, which everybody understands, but is there some way of making your data available so that policymakers at our level could fill in some of the gaps? Do you track accounts that are closed, for example? If an account was

closed, would you know that it was probably because of high interest charges, for example? When you require accounts to be closed—I noticed a bit of a flurry in the press about telling some account holders, “You have to close that account”, as an instruction. I think there are rules for doing that. Do you have figures available that you could share in some way with the Government so that we might get a clearer picture of where the hotspots and the gaps in the policy are? We could then perhaps talk sensibly to you about making changes that would assist the excluded part of community which the Committee is particularly concerned about.

Catherine McGrath: My top-of-the-head response to that is that if we try to define a set of data that we would like consistently from across the industry, I do not know whether that would give you what you want. I am just trying to think through the bits of data that would be particularly—

Lord Kirkwood of Kirkhope: Not even trends over time?

Catherine McGrath: I was going to make an alternative suggestion, which is not a good, consistent thing but it is an insight thing. It would be very sensible for you to ask us to give you our thoughts, based on the data that we have, about where we think the issues and the hotspots are, from what we can see—a broader thought process—and therefore why we think that your being bothered about these particular things in this particular order is a good idea. While it would not get you that consistency, it would probably get you a broad view of some of the things that you might want to think about. The reason for saying that relates to one of the things we are quite thoughtful about. I look at our customers on basic bank accounts and I see where they are different. I know that they are heavier transactors and heavier users of all our services than someone with a standard account. We believe that happens because they are managing finances on the absolute edge. They will call to ask whether a transaction has gone through yet, or whether it will go through tomorrow, and what they should do with their money. One reason for doing that is because they do not like direct debits, which feel very uncomfortable because they are hard to control. It would be great to have a more flexible direct debit so that you could call up and delay it for two or three days. If you asked us for generic data, some of those issues might not come out, but if you asked me for my thoughts on what is important in the supporting data and why, you would get a more insightful view.

Matthew Carter: The only other thing is that we are about to see anonymised data through the BBA—I do not think we have had it yet—on basic bank account openings. There may be

some way to do both those things and perhaps use the BBA as a way of trying to get data collectively, at an industry level, that does not compromise any competitiveness or commerciality issues.

The Chairman: We are slightly up against time now, so I will ask for the remaining questions and their answers to be as succinct as possible.

Q47 Lord McKenzie of Luton: I was struck by some data in our briefing that said that, in 2014, the UK had 170 branches per million inhabitants, compared to 410 in France, 500 in Italy, 430 in Germany and 690 in Spain. I am sure that there are myriad reasons why that is, but could you give us a brief comment on it?

Catherine McGrath: I do not have good insight into why the branch density in other European countries is different. I think that digital take-up and usage in the UK has been at a pace. As Matthew was saying, we are certainly seeing a 20% decline in transactions in branches year on year. My working assumption is that density of population may also have an impact on this, but I cannot comment more broadly than that.

Matthew Carter: I would say the same. I think that it is quite often about urban versus rural.

Baroness Primarolo: I wanted to follow up on something that Catherine said just now about how, by looking at basic bank accounts and seeing the transactions, you can distil some themes. You mentioned direct debits, which have been mentioned to us before as an issue. This relates to a question about being able to track and understand your customers who may be vulnerable to sudden changes in their income. Rather than take time now, might both of you be able to give an answer in writing to the specific point about direct debits? We know that people are reluctant and that this is about when money is going in and out of their accounts. They are trying to juggle, a bit like with jars of money, to meet different bills. Could you give us something a bit more substantial on how the perennial problem of direct debits might be improved?

Secondly, is this also linked to the fact that their income into the account can vary? For example, they might be on zero-hour contracts and end up with no second income, or a much reduced one, going into the account. The money going out—the question of direct debits—is one thing, but that is dependent on what is coming in, possibly from a multitude of sources, and whether income is reliable every month. Could you give us that sort of information?

Catherine McGrath: We could certainly look to see what we have that would be useful. I think that the objective of your question is: help us to understand why direct debits are an issue and what could be done to improve this.

Baroness Primarolo: Yes. That leads me on to wanting to understand how you can assist your customers who might hit a crisis—a car that needs repairing or whatever—so they need access to something else in order to maintain their income. That is what I am trying to drill down to.

Matthew Carter: Would you like that as part of that submission? From our perspective, we can articulate exactly what we do to identify the pinch points where customers might be getting vulnerable and the entirety of the activity that we then undertake, whether that is internal or referral to debt referral agencies. We can do that.

Baroness Primarolo: Yes, absolutely. You have touched on that several times. I do not need you to repeat it, but it would help enormously if you could draw it into a focused piece so that we can understand the vulnerabilities for different cohorts of customers.

The Chairman: Thank you very much. Just before I move on to Lord Shinkwin, Lord Northbrook, who was not able to be here today, has asked if I could send you very two very specific questions about bank overdraft fees. If I do so, could you give a written response?

Matthew Carter: Of course.

Q48 Lord Shinkwin: My question is about financial capability, including education. I would be very interested to hear from both of you, but perhaps we could start with Matthew. In answer to my previous question, you made a point about co-ordination being helpful. With regard to financial capability, do you think that there would be any benefit in some form of co-ordination or oversight of the various financial capability projects undertaken by banks? If so, what form might this take?

Matthew Carter: With all these things, co-ordination is very powerful. I emphasise that a number of retail banks are involved in very impressive, wide-scale programmes on financial education and capability. For us specifically, we tend to have a very focused colleague volunteering programme. Part of that is a minimum of two paid days per year on which we allow people to go out and do community-based activity. Financial education and inclusion are, among other things, key areas of focus of our broader community strategy. We have a long history of other things that we have been involved in from that perspective. I do not know the answer, but there is certainly a broader debate about this and the education

curriculum. At their most basic, financial services are far simpler than most people probably perceive, but the lack of understanding is the root cause of a lot of people's later misconceptions and the reason why consumers do not necessarily wish to engage. I would encourage co-ordination. Equally, the broader point about financial education through the curriculum is critical.

Lord Shinkwin: Further to that, Catherine, what appetite do you think there is for co-ordination across the sector?

Catherine McGrath: I would broaden the co-ordination point beyond simply the banking industry to across the debt advice sector, government and everybody else. I think there has been violent agreement in this room that financial education and capability are a key foundation. It would be good to ensure that that is broad and is not just targeted at children but is important for adults too. In the UK, pockets of this have been done in different ways. I do not think you would want to erode any of that enthusiasm because it has been done off its own bat. Mapping it out and saying, "Where are the gaps, and how should we take best practice in one area and roll it out more broadly?" would be very important.

Baroness Primarolo: I am sorry to ask for lots of notes, but again you might want to develop your strategy here. You both touched a number of times on the importance of new technologies and using innovative projects to support those who are financially excluded. A niggle in my mind is people who live in rural areas and cannot get access to a digital platform, or those who are reluctant to deal with or do not want the digital platform—they might be vulnerable. Could you either briefly explain now, or offer us a note on, how you deal with that? People like us being offered IT is fine, but if you live in a rural area—I live in a rural area—you get kicked off the site when your speed drops and after a number of attempts your bank account is locked. As somebody who is also vulnerable, that becomes impossible to deal with if, as Catherine said, people are watching their accounts much more closely and need to be reassured all the time because of worry about not having enough money. Where are the innovative projects, and how do you cross-reference that with understanding that some people just do not have access to that digital platform in any shape or form?

Catherine McGrath: There are ways to ensure that you deliver innovation, even if you are not fully digital. One thing that we have done is roll out more than 14 different types of SMS alerts. The vast majority of the UK population has a mobile phone, even if it is not a

smartphone. We can see that over 40% of customers respond to alerts. The likelihood of response is higher if they are also digitally engaged, but it is equally easy if you get an SMS alert just to call the bank and say, "This is something I want to do with my money". We have been very proactive about getting customers into those programmes, and we deliberately chose to move customers into them without asking them to opt in. We did that because we know it works. It takes some of that stress away. I have SMS alerts coming from my account that say, "You are starting to run out of money. Move stuff across". What is great about that is that it means I do not have to keep checking all the time, because I know that the bank will do that for me. That is a very straightforward innovation that uses platforms that most of the population has and makes it far easier for me to keep on top of my finances. The issue for some parts of the sector is that every time I do that, frankly, it costs the bank money, but it is the right thing to do, so we choose to do that anyway. Getting the industry to do some of those things more holistically would be a very good way forward.

Matthew Carter: Proactivity is incredibly important. The point is that access to multiple channels is utterly critical. Interestingly, if we look at digital adoption, for example, we know that the biggest growth area has been the over-60s over the last 18 months. We have seen a 200% or 250% increase in the number of over-60s who have adopted digital banking. Having said that, each of those customers could equally phone us up. We are not discriminating by distribution channel. We are not saying, "You have to use that," or, "You have to use this". If customers want to use the branch or to transact with the local post office, they can. Mobile and digital banking are crucial but as part of multi-banking. We see the examples of this all the time now; someone may well be online, but they will still phone up because they want confirmation that something has happened. They want that reassurance. For us, it is about providing that in a holistic way, which does not discriminate in any way and gives customers the choices that they want. We find that the more choice they have, the more choice they exercise in the sense that they become better and more engaged customers. You could look at that as a long-term investment in our customers and making sure that we are having the right conversations with them on an ongoing basis.

The Chairman: Lord Empey has the final question.

Q49 Lord Empey: Yes, you will be glad about this. We just commented that direct debits are part of our worry about the poverty premium. I can imagine the bedlam if you have 50, 100 or 250 customers who want to move to that in two days. You might have to find a

technological solution or a new product. I am just asking you for a bit of advice for us. In considering financial exclusion, where do you think we should focus our attention?

Catherine McGrath: There are several areas, which we have already touched on. Digital inclusion is important. The way that technology is evolving, it is important to get more people comfortable in the digital space, irrespective of whether that is in banking or anything else. Secondly, there are things that improve customers' engagement with products. Simple, transparent products are important, as are kitemarks so that I do not need to engage my own brain to work out whether it is good for me, as somebody else has done that process. A lot of work has already been done on that through the Sergeant Review. Another part of that is SMS alerts and making sure that customers get the information at the right time and have an easy way of accessing it. Thirdly, there is education throughout life, so I would focus primarily on digital, simplicity and transparency, and education.

The only other point I would make is the one I made earlier about actually understanding the specific issues. If I am living on the edge, direct debits do not really work for me, so how can we get direct debits to work better? If I am in the Armed Forces, the issue is not having a consistent address. You tackle that problem in a different way. I would try to get to the specific issues as opposed to the big issues, because we could make a lot of progress tackling pain-point by pain-point, rather than just the big banner of financial inclusion or exclusion.

Matthew Carter: I would absolutely say that the devil is in the detail, as Catherine says. We have recently looked at the number of direct debits for customers who make small payments to charities. You find that some customers end up paying 20 or 30 direct debits of £2 a month to various charities. Is that what they wanted or intended? Is that the right thing to happen? Are they getting stopped in the street all the time and being asked to sign up for X and Y, and being good citizens they do so? That in itself might be a form of financial exclusion. While that is one specific example, understanding that and the nuances of exactly how direct debits work is an incredibly important issue. Those are the small issues.

The big issue is a question you asked me earlier: how do we make sure as an industry, and as the industry changes, that we all move together in the right way and in a way that shares the burden and responsibility across new entrants and existing players, big or small? That is the only way in which you get consistent application. We have an absolute commitment to support this and to drive this forward as one of our key social goals, but at the same time we

do not have bottomless pockets. For us, it is just that broader point of making sure that everyone understands the responsibility across the industry and supports it equally.

Lord Empey: I presume, Chair, that if anything further occurs they could add that to any written comments?

The Chairman: Absolutely, yes. That would be very helpful. Thank you very much indeed. It has been a very important session. I am grateful to you for your time, and that bit of extra time that you have given us. You very kindly offered to send us notes on various issues, and the secretariat will be in contact with you. Indeed, if we jointly think of any further things that we would like to ask, I hope it would be in order for us to contact you again. It is so important that we really understand the banks' perspectives.