HOUSE OF LORDS

Financial Exclusion Committee

Corrected oral evidence: Financial Exclusion

Tuesday 13 September 2016

10.40 am

Listen to the meeting

Members present: Baroness Tyler of Enfield (The Chairman); the Bishop of Birmingham; Viscount Brookeborough; Lord Empey; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Kirkwood of Kirkhope; Lord Northbrook; Baroness Primarolo; Lord Shinkwin

Evidence Session No. 5 Heard in Public Questions 50 - 60

Witnesses

I: Sir Sherard Cowper-Coles KCMG LVO, Chairman, Financial Inclusion Commission, Sir Brian Pomeroy CBE, President, Financial Inclusion Commission, and Chris Pond, Vice-Chair, Financial Inclusion Commission.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Sir Sherard Cowper-Coles, Sir Brian Pomeroy and Chris Pond.

Q50 **The Chairman:** Thank you very much for coming in. We really appreciate you giving your time like this. By way of getting through the formalities, it is a very hot day and, if you would like to remove your jackets, please do so. There is water on the table. It does get rather hot in here sometimes, but I hope that will not be a problem today.

I formally welcome you 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, and a transcript of the meeting will be taken and published on the Committee website, but you will have the opportunity to make any corrections to the transcript if that is necessary.

Before we kick off, I would just like to explain that Lord Kirkwood, who is a member of the Financial Inclusion Commission, is here and, due to the relevant non-financial interest that he has registered, he will not be asking any questions of his colleagues from the commission, but he will of course be listening attentively to the answers.

Lord Kirkwood of Kirkhope: I know too much.

The Chairman: We have quite a lot to get through. You have seen the questions that we want to ask. There are three of you; please do not feel that you have to respond to every single question if you feel that others have covered it, but if there are things you are burning to say, we are keen to hear from you.

I will kick off. Could you make a few introductory remarks about your views on the nature of financial exclusion? From your experience, what are the actual causes of financial exclusion? Who do you feel are most affected by it?

Sir Sherard Cowper-Coles: Thank you, Chairman. I might start, and I will then ask Brian Pomeroy to continue answering the question. Brian chaired the Financial Inclusion Taskforce, which operated from 2005 to 2011. The work of the commission, which I am lucky enough to chair, has taken up from where Brian's task force left off.

We found a country where there are still very large numbers of people without bank accounts. About half the people in this country who do not have bank accounts have had them in the past and do not want to repeat the experience. Very large numbers of people are still suffering from overindebtedness, from financial anxieties of one kind or another or from lack of insurance; 50% of the bottom half of the income distribution in this country do not have household insurance.

There are a whole range of problems. The causes are almost as diverse as the symptoms of the problem, but, above all, it is to do with low income, low financial capability and a fear, really, of engaging with the conventional financial system. With that, I will hand over to Brian.

Sir Brian Pomeroy: Just expanding on what Sherard has said, you can put the causes into two broad categories. The first relates to the approaches of the financial services sector towards certain people on low incomes. The second relates to the perceptions of people on low incomes and their concerns about engaging with the financial services industry.

On the first, up until 10 or 12 years ago, the industry—in particular the banks—showed no interest whatever in serving people on low incomes, for the obvious reason that they were not very profitable customers.

That did change. They introduced the basic bank account, which was a big move forward, and committed to reduce requirements, and the banks played their part in that, but, even so, significant barriers still exist. For example, even with the basic bank account, they require photo ID, such as a passport, which many people on low incomes simply do not have. Information was not readily available about the product even though it had been put on the market.

At that time, although it has changed, there was also a cultural view in banks: a stereotype of "our" kind of bank customer. Many people simply did not fit that stereotype. That is the supply side of it. It is to the banks' credit that, over the next five or six years from 2005, they stepped up to the mark and fulfilled the commitment that they made to reduce the number of unbanked by rolling out the bank account. But still those barriers persisted, and still today some persist.

On the demand side, it is the inverse of that. People who do not have a family history of being engaged with financial services—their parents were not banked and their siblings were not banked—would be mistrustful of banks. I should say this mistrust of the banks predates the banking crisis. They would think banks were for richer people, not "for us".

There would be a lack of self-confidence. For example, we heard evidence at the task force from people who said, "I would like to save £1 or £2 a week, but I would be embarrassed to take £1 or £2 to a bank or building society". There were all sorts of barriers of that sort. There are demand-side as well as supply-side barriers, and the financial inclusion movement, if one can term it like that, has been trying to break that down on both sides.

Chris Pond: If I can add to that on the demand side, there is also the challenge of rather poor levels of financial capability, which reduces further the confidence that people have to engage with financial services—a fear that they will perhaps not be doing the right thing. That is an important aspect on the demand side, too.

Sir Sherard Cowper-Coles: There are wider costs to society in not having everybody or every adult as part of the conventional financial system. It is not only the additional costs of people having to pay by cash rather than by direct debit; it is about not having every consumer visible in terms of monetary and financial stability. Some interesting work has been done in Basel on the way financial stability is improved by having everyone banked as part of the conventional banking system. Also, on financial crime and tax compliance, having everybody digitally enabled makes for a more equal and transparent society.

The Chairman: I will follow up on one point, which you sort of touched on: your view on whether financial exclusion is an issue in its own right or part of a broader agenda of poverty, disadvantage and social exclusion. It often seems to me that it is discussed separately from the broader discussions that we have on poverty and disadvantage.

Sir Sherard Cowper-Coles: I might start on that and then hand over to my colleagues. We would say that it is very much a symptom of a wider problem of exclusion. That very much reflects the new Prime Minister's belief in a country that works for everyone. Our preliminary contacts with her advisers suggest that she and those around her want to tackle this as one symptom of a wider problem of a society in which not everyone feels they fully belong. Being excluded from the financial system, not having access to it and not using it in an appropriate way is a symptom of that.

Chris Pond: In a sense, it is part of a wider problem of exclusion, but financial exclusion can affect everybody at different stages of their lives. For instance, people entering the country for the first time, even if they are quite professionally qualified, may find it difficult to get a bank account. As Lord Shinkwin will know from his work at Macmillan, people who have suffered serious illness, even though they no longer do so, will find it very difficult to get insurance of various forms. Older people who may be relatively comfortable in terms of income may nevertheless be digitally excluded from access to financial services.

Having said that, it is a problem that strikes largely from underneath. It is those on low incomes and those who are excluded in other ways who are most likely to be affected—those whom the Prime Minister has described as "just managing" or who are right on the edge, who may be just one salary cheque or payment away from falling into serious personal debt—by exclusion from financial services and who need that cushion and that resilience.

In particular, as the newly formed Money and Mental Health Policy Institute has pointed out, there is a very real issue about people who are suffering mental distress. It has focused on the issue of crisis spending, but we know that there are very clear links between debt and mental distress running in both directions. We need to tailor both the services and the policy to address the needs of that group in particular.

Q51 **Baroness Primarolo:** Chris, you started a line of argument that I wanted to focus on. In understanding and addressing financial exclusion, you use a broad category of "low income". I am interested in the question of whether you see that there are vulnerable members of our society within that broader low-income category where we should be prioritising or targeting our concerns to a greater measure than we are now.

You gave examples concerning mental health and asylum seekers, but one size will not fit all. Can you give us some pointers of particular things that could be done now to help particular sections within that low-income group?

Chris Pond: You are absolutely right, Baroness Primarolo, that we need to tailor the policies to the particular needs of particular groups. There is an overall problem that personal household debt has started to increase significantly since the crisis of 2008. That is because real incomes have been falling, and that gap between incomes and expenditure has been widening all the time. There is a general issue, which we can address in terms of overall leadership by government and by the regulator so as to deal with that, but we need to recognise that there are particular challenges facing particular groups.

I mentioned older age groups and others around the country who may be digitally excluded. There is a considerable overlap between digital exclusion and financial exclusion. People in those parts of the country, including areas such as Northern Ireland, where access to the internet is very restricted, or older people or some other groups who find that they either do not have access to the hardware that they need or the ability to use it, may need particular focus.

I have mentioned those who are suffering mental distress. We also need to look at people at different stages in their life cycle: when they are at school, when they start their first job, when they form a family at the early stages—which is perhaps of particular relevance to Baroness Tyler, given your background—when they are going through family breakdown or approaching retirement or facing redundancy or unemployment. At each of those stages, the measures that you need may be rather different, and we need to tailor policy to ensure that we address those different circumstances.

Baroness Primarolo: You are basically identifying, for want of a better word, vulnerabilities in different life experiences and at different times. Do you have a proposition of how we could be more alert to those vulnerabilities, rather than writing it into policy but not delivering it?

Chris Pond: Some of the work that we carried out at the Financial Services Authority and which was carried on by the Money Advice Service has identified those circumstances in which people will be particularly vulnerable, not necessarily just in terms of income but in making poor financial decisions, which could tip them over the edge into losing control and being in serious personal debt. If we can use that evidence base to identify those groups who, at particular stages, will be particularly in need of support, we can make much better use of the resources that are available, which are inevitably limited.

Lord Haskel: We know that, in the banks, many decisions are taken by algorithms and artificial intelligence. Have you any proof, or do you have any views, as to whether some of the vulnerable, excluded groups are excluded because that kind of intelligence does not take their concerns or needs into account?

Sir Brian Pomeroy: I think there is evidence. We have seen it particularly in credit scoring. People who go for a loan are put through an algorithmic process—that is an absolutely accurate term—but if you do not have certain sorts of information on file, if you do not have a certain sort of record and if you have never used a credit card before and have nothing to demonstrate that you have a good record, you are at a disadvantage.

The remedy to that is partly to try to find other measures that can validate the trustworthiness and solvency of an individual. For example, if you are a social housing tenant of a local authority or housing association, your rental payment record might be a very good surrogate for the sort of things that are used. There is some interest in developing alternative credit scoring systems, precisely for people who, as you rightly say, fail the algorithmic test simply because their lifestyle does not fit in with the parameters that it measures.

Sir Sherard Cowper-Coles: We looked a bit at experience elsewhere in the world. There is some very interesting data from other countries—China, for example—using non-traditional data to give people who do not have a credit file a credit file: mobile phone data or paying rental data, particularly for local authorities. One of the recommendations in our report was that government take a much more open approach to making that data available to the banking industry and lenders.

You are absolutely right: the mechanical, algorithmic approach is a driver of exclusion.

Q52 **Lord Haskel:** To me, your report in March 2015 said it all. How has your report been received, and to what extent have its recommendations been adopted?

Sir Sherard Cowper-Coles: Perhaps I could start on that, and the others can come in. We were obviously very pleased that all three main English political parties, as well as the Scottish National Party, adopted or mentioned financial inclusion in their manifestos in the run-up to the election last year. We were pleased that the new Mayor of London is committed in his manifesto to making London a financially inclusive city. We are pleased that, only two days ago, the Treasury announced that our recommendation of a pensions dashboard is being implemented. We are pleased that there is once again talk, under a new label, of reviving the old savings gateway. We are pleased that the Treasury found money for our recommendations on support for the illegal moneylending teams, although those had initially been taken offline.

Right across government, in the Bank of England and the Financial Conduct Authority, there is evidence of support for the direction of travel. What has been missing so far—you know what I am going to say—is an unambiguous lead from the top of government, in particular from the top of the Treasury. As we said in our report, we would like to see the designation of a Treasury Minister, perhaps the Economic Secretary, with the courtesy title of Minister for Financial Health or something similar, driving this across government, with a Minister in the DWP, and with many departments—the Home Office and even DfID—designated as part of a cross-government ministerial task force supported by a group of officials, with some sort of sounding board in the private sector outside government.

Sir Brian Pomeroy: I can add evidential support. On the last point that Sir Sherard makes, the period in which it was possible to get quite a lot done was 2005 to 2008 or 2009. The reason the task force was able to get things done was that we had strong political support. Everyone we dealt with—the banks, the voluntary sector, you name it—knew the Chancellor and the Economic Secretary were behind it, and there was a small team in the Treasury as well. Without that, it would not have been possible to do what was done. That disappeared in 2010 and 2011.

The evidence is absolutely that, if we had that sort of nerve centre in government and strong ministerial support, it would be possible to achieve some of the things we are talking about quite readily.

Lord Haskel: I welcome what you say about government support—political support—which is very important. What about the financial institutions themselves? Do you think there should be some sort of reward for carrying out some of your very excellent recommendations?

Sir Sherard Cowper-Coles: I suspect you will have seen our Greek temple, with the pediment being a lead from the Government, and underneath that is the regulator engaging. We have had a lot of private signals from officials in the Financial Conduct Authority, the Bank of England and the Treasury that, if there was this top-down lead from government, there would be a lot more that they could do.

In particular, in the FCA’s duty to protect the consumer, there could be something much more explicit about not just protecting consumers but bringing them all—the remaining 2 million or so—into the financial system in an inclusive way. The evidence is that the banks and the financial institutions would respond to that with a lead from the regulator. It is a partnership, not an adversarial relationship.

Viscount Brookeborough: You mentioned that 50% of the people who have no bank accounts were people who had had bank accounts previously. Where are the other 50%? Do you have them broken down into groups as to whether they are young or old?

Sir Sherard Cowper-Coles: We do not have detailed data—at least the commission does not—but there has been a lot of research. We can write to the Committee, if that would be helpful, with more details. As we have said, it is a variety of people from different backgrounds: new arrivals in this country; people with mental or physical health problems; people on low incomes; people who have had bank accounts and who have then suffered and gone into unauthorised overdrafts. As Treasury officials made clear in their evidence to your Committee, they then suffer huge penalties. They then decide, "We want nothing more to do with this. We will continue to keep our money and our budget in cash, to manage in cash". They end up paying more than they would have done if they had remained in the system.

Q53 **Viscount Brookeborough:** In the 18 months since the report was published, how have events affected this policy area, and where is the commission now focusing its attention? What do you think you missed out on in that initial report or did not get right?

Sir Sherard Cowper-Coles: Again, I think the focus must be at the top of government. Without going into detail—indeed, there is not much detail to give at the moment—there are encouraging signals from those around the new Prime Minister and from her own rhetoric in Birmingham and in Downing Street about a more inclusive approach to social policy.

We are very much focusing on providing them with the data that would enable the new Government, or the new Prime Minister, to give a policy lead. If I may say so, that is where the Committee can play a very important role. This inquiry is the first time, to my knowledge, that either House of Parliament has taken this sort of focused interest in financial inclusion. The will is there. It is just a question of the final mile, as it were—the last 2 million people in this country who are not properly banked—and then maintaining the momentum. It is not just about having them in the system.

Viscount Brookeborough: On your recommendations, No. 21 is to "Provide financial skills training from primary school" and further up.

Sir Sherard Cowper-Coles: Yes.

Viscount Brookeborough: I am slightly surprised that that is so far down the list, in that, if the future is important and if children leave school with some sort of knowledge, you have some chance of catching it.

I wish to quote one thing from Russell Winnard of Young Enterprise. When we asked a question about schools, he said, about teachers, "They are not confident enough to stand in front of children who ask questions, and they do not know where to get the resources". I simply do not understand how any teacher who is teaching is not confident enough either to talk or to play games around saving and where to keep money. It sounded to me, dare I say it, like a trade union answer—"We are not trained for it".

Sir Sherard Cowper-Coles: Perhaps I could comment, and Brian or Chris might like to add something. It was so far down our list of recommendations, simply because we believe that financial capability is the foundation of the temple. It is the base on which everything else rests. It may well be that the Lord Bishop of Birmingham will wish to comment on this. There is, in our view, a cultural problem in this country with talking about money. I remember, as a boy, people saving up to buy things. Some people may remember the Access card. I remember a bishop at the time attacking the slogan for Access: "It takes the waiting out of wanting".

The school system—again, there is evidence from around the world—shows that talking about money and about counting, encouraging a culture of thrift, starts from the bottom up and works the whole way through.

A lot of financial capability has to do with numeracy, an area where this country does not score as well as it should: being familiar with numbers, preparing to count, being able to look down a spreadsheet or a bank account. We would like to see the Department for Education with a Minister specifically designated as responsible in this area. Frankly, we thought that just putting a few hours in the national curriculum at secondary level, not covering academy schools, free schools or independent schools, really was not good enough.

Sir Brian Pomeroy: I will take the specific point that you made about the confidence that teachers have in imparting financial provision. I am not surprised, actually. Over the course of the years, I have sat in groups of teachers to talk about this. They have said that the fact that they have a bank account and so on does not put them in a position to answer children's questions about X, Y and Z. I am not surprised. A number of them said, "Frankly, it is not something we feel confident in dealing with", just as a fact.

Chris Pond: Young Enterprise has done some very good work, and pfeg before it, in providing support for teachers in schools, but there is a fundamental problem that many teachers do not feel confident in this area, and other organisations such as the Money Charity, which I chair, send trainers directly into schools to do the job.

The fact is that it is not enough just to do that at secondary school. We have the requirement that it should be in the curriculum. There are no resources to back it up. There is not really any support for teachers to do it. It certainly needs to be in primary schools as well, as the commission has said. It also has to be there throughout life. Education does not stop when you leave school, and you have a very large number of people who, even if we provide adequate financial education in schools, will have missed out. We have a large adult population who really need support in different ways to improve their financial capability.

Baroness Primarolo: I want to follow something up. When he was giving evidence to the APPG on Financial Education for Young People, Martin Lewis said, "Since we got financial education on the national curriculum a lot of the funding from banks has been reduced, which has been a real hurt". No evidence has been presented for that. Have you seen any trends, or is that his opinion?

Chris Pond: I think he is absolutely right in that respect. There was a period when financial education in schools was something towards which a lot of financial institutions—the banks and others—wanted to contribute. The Financial Services Authority was spending £4 million a year, mainly via a personal financial education group, to provide that sort of support.

Then, once it got into the curriculum, there was a sense in which it was, job done, and many of those who had previously wished to support that work decided that they could walk away and do other things.

It has become somewhat counterproductive: we have got it in the curriculum, but with no support from government to deliver. The support that came from elsewhere, outside government, has also evaporated.

Sir Sherard Cowper-Coles: There has been very good work done, for example, by the Archbishop of Canterbury's task group and the Lifesavers programme, but that is only at Church of England primary schools. There is a feeling that there are pockets of good activity but there is not a comprehensive national approach; the banks need to play their part—everyone needs to play their part—but it needs an unambiguous lead from government and from the Department for Education in particular.

The Chairman: At the beginning of this question you kindly offered to send us some further research, if the Committee would find it helpful, when we were talking about the nature and the causes, and the types of people suffering here. It would be very helpful if you were able to do that.

Sir Sherard Cowper-Coles: We certainly will.

The Chairman: We would certainly welcome that.

Lord Fellowes: You gave Lord Haskel an encouraging answer about the attitude of the banks. When the crunch comes, there must be some tension, I would imagine, between prudence, shareholders' interests and a duty to society. I think one banker called it an investment in society. Do you think the banks are really convinced of the merits of their putting their shoulders to the wheel and giving this a push, or do you think they are going to do the minimum?

Sir Sherard Cowper-Coles: No—I cannot speak for all banks, but the evidence that we have had from bankers and the contacts that we have had with them suggest that, if it were made clear by the regulator that this was part of the duty of protecting the consumer and bringing everybody into the banking system, in which everyone played their part, that would be accepted.

There are questions about de-risking. It is not just retail banks; it is global banks and countries taking a zero-tolerance approach to any sort of risk at all. In the end, banking is about risk. If the risk is shared in an intelligent, co-ordinated and co-operative way, I think the banks would be only too happy to play their part, because they realise that society as a whole, for various reasons, has a sceptical attitude towards banks, and they want to help address that. It is a question of restoring trust.

Again, they will do work, as they have done over the basic bank accounts, thanks again to leadership by the Treasury—an entirely voluntary arrangement but driven through a government lead. It is that sort of model, replicated on a wider scale, whereby I think we would see all banks willingly taking part.

Q54 **Bishop of Birmingham:** Can I follow that up on the banking side? Thank you very much for starting the debate on schools and culture, which we will take up at another time. I am very much under the Chairman's discipline not to respond to your very kind invitation, but just to point out that, in some of our primary schools in Birmingham, some of the young Asian boys and girls are more keen than ever to join our young enterprise schemes and learn how money works to advantage, rather than as either a burden or a curse.

To follow up on Lord Fellowes's question, the Financial Services Consumer Panel has emphasised more and more the duty of care for customers. I notice that, over in the Netherlands, say, this has become enshrined in statute. We have heard the good news about basic bank accounts and so on. Yet the material that comes to the ordinary customer to explain what is on offer still seems quite dense, with many pages of words in small print and so on.

With regard to this duty of care, how can we push it, commercially and in institutions but also statutorily, so that it becomes something that is part of the DNA of the business rather than just a requirement?

Sir Brian Pomeroy: If we first stick with the proposition that there should be a statutory duty of care, which as you rightly say the Financial Services Consumer Panel is very keen on, personally I am not yet convinced that it would add much to regulation by the regulator properly carried out. By the way, I am not saying that it is not properly carried out, but it seems to me that, if the regulator is doing its duty properly and treating customers fairly, which is the rubric under which much is done, much of the outcome that the consumer panel would like to see from the statutory duty of care should come out in regulation. The panel does not feel it always does, but I think that the first question is: would it add anything to regulation? I am not a lawyer, but, as I understand it, it would give the consumer a right of access directly to the courts. You would perhaps have parallel actions: you would have the regulator regulating and, in parallel, you might have cases going to the courts. I am not sure that is necessarily a good thing.

The first question I ask is: is it demonstrated? To me, it is not yet, but it would add something to what is going through the regulator's hands.

I note—I think I am right in saying this—that the Law Commission, in establishing a list of things it might look at, has put this on its list. I think it has put out a call for input as to whether or not it should be on the list.

Frankly, if there is sufficient demand for it to go on the list and it looks at it, that would probably be quite a useful thing.

As I say, however, I am personally not yet convinced that it really adds to it. It might even muddy the waters slightly if you have a case going to the courts in parallel with regulatory action.

Chris Pond: I will add something on the role of the regulator, which, as Sir Brian has said, already has the responsibility to ensure that customers are treated fairly. We welcome the fact that the regulator recently started to be more proactive on the debate about financial inclusion, particularly access. We saw back in May the publication of an occasional paper by the Financial Conduct Authority, which was a very good analysis of the issue of lack of access and explored ways in which it could be improved.

The difficulty that the regulator faces, which I think is part of the answer to your question, is that, at the moment, it is very constrained in what it can do under statute. Under its competition responsibilities, it may have regard to these issues, but it is not required to promote access or financial inclusion. It comes back to Sir Sherard's point throughout: that we need that leadership from government. We need the air cover for the regulator to say, "Yes, it is an important part of our responsibility to ensure that people have access to these services as well as being treated fairly in the process".

Sir Sherard Cowper-Coles: I might mention, following up on Chris's point, that, interestingly, the Chinese authorities took our report and had it translated into Chinese and, in the space of two years, went from being way behind where Britain was to way ahead. I spoke at the end of August at the second national Chinese financial inclusion conference. They now have a financial inclusion department in the China Banking Regulatory Commission, with the explicit duty of bringing the remaining 200 million Chinese without bank accounts into the banking system, delivered through digital. There is an exact example of how a regulatory lead can help deliver this.

Lord Empey: We need a Communist Party.

Bishop of Birmingham: I think, Chairman, on our next visit to China with the Archbishop of Canterbury, we will make this fairly high up our agenda.

Q55 **The Chairman:** Could I probe one point briefly? It is related to the statutory duty of care. It is very interesting how you have talked about the relationship between that and what is actually happening and what the banks are actually doing. Some of the evidence that we received in our earlier sessions suggested that banks are not exactly going out of their way to promote the basic bank account. Indeed, if customers come in, they might direct them to other banks and so on. If there is not a statutory duty of care, and taking account of what you have said about the need for leadership, what is it that might encourage banks to be a little bit more proactive in this area?

Sir Brian Pomeroy: In relation specifically to the bank account, we now have legislation, which has come out of European law, which I think takes effect very soon.

The Chairman: On 16 September.

Sir Brian Pomeroy: Yes—pretty soon—under which nine banks are required to offer what you might call the new basic bank account, which has been redesigned in a sort of homogeneous way across the banks to anyone who asks for it, unless they meet certain restrictive criteria. That is to be supervised, I understand, by the FCA. So, first, there is now a legal responsibility to give the bank account, other than in a few exceptional cases; and, secondly, there is a regulator whose task is to ensure that happens. One of the things we shall be interested in is the way the FCA goes about ensuring that the new legislation is complied with.

The Chairman: It seems to me there is a distinction to be drawn between being obliged by law to offer it when asked and actively promoting. That is one of the issues that we are going to be looking at.

Sir Brian Pomeroy: I accept that, but I think the requirement is on them to make sure that information is available. I accept that there is a kind of dynamic difference between the two.

Sir Sherard Cowper-Coles: The other driver in this is the rollout of universal credit.

Q56 **Lord Northbrook:** How effective is the current regulatory regime in tackling financial exclusion? Are further regulatory powers or interventions required, and, if so, what form might these take? In the answer, could you focus on the Money Advice Service and on the new freedoms with the law changing under pensions, which gives opportunities that can trap the unwary?

Sir Brian Pomeroy: I shall start with the first part of your question; Chris may want to say something about the Money Advice Service.

First, the relevant regulator, the Financial Conduct Authority, does not have a financial inclusion duty in those terms. As has already been mentioned, within one of its three objectives—its competition objective—it "may have" regard to access. There is specific reference to deprived communities and so forth in that context—but it "may have". That is pretty narrow. You could easily argue that even the "may have" should form part of its consumer protection objective as well as its competition objective. It seems to me that it would fit there. That is something that one could readily argue.

As Chris has said, in the work that it has done on access, it is clearly moving. By the way, I should declare an interest as having been a member of its board until March this year—so I have been part of some of these discussions. Clearly, it has moved as far as it feels it can within its current remit towards promoting access, but it does not have an overall financial inclusion objective.

It is right, appropriate and essential for a regulator to promote access within the set of products that already exist. In other words, if a bank or an insurance company has decided to put products into the market at certain prices, they should be available to all, and I think it is the regulator's responsibility to help ensure that.

The difficult part comes when you want the industry to do something that it would not otherwise do on commercial grounds. In other words, you are asking it to do something that is overtly not commercial. That is the part where, in my view, government has to step in. I think it is asking too much of a regulator to take what is effectively a political decision and get one part of society to cross-subsidise another, which is what it would amount to. I am not saying that those decisions should not be taken; I am saying that that is a political decision for the Government. That is where I would draw the line.

Within the framework, and possibly with the addition of the access objective in the consumer protection work of the FCA, it should do all it can to promote access. Based on a paper it produced earlier this year, which has already been referred to, there is evidence that it is pushing as hard as it can in that direction, within the statutory confines.

Chris Pond: I will pick up the point about the Money Advice Service. While we are declaring interests and asking for previous offences to be taken into consideration, I should say that I also worked at the Financial Services Authority, where I had a role in helping to set up the Money Advice Service. It has to be said—I think all of us would agree—that MAS perhaps did not fulfil all our hopes and aspirations, and reform was absolutely necessary. I am not sure—in fact, I am absolutely sure that it is not the case—that the proposals that have now come forward to replace it with two different organisations, one focused on pensioners and the other focused on money guidance and advice overall, really fit the bill.

In a world with the pension freedoms that you mentioned, Lord Northbrook, where people are asked to take greater responsibility in making some quite difficult decisions not only at the point of, or during, retirement but in the run-up to that, during their working lives, and with a situation where, during their working lives, people are having to take extra responsibility, particularly, as Sir Sherard said, with the rollout of universal credit and the requirements of that to make decisions on budgeting, I am not sure that two organisations will do anything other than send consumers from pillar to post, causing greater confusion.

Our view is that it would have been very much better to have a single organisation and a single point of contact for consumers, which could give them guidance throughout their lives, whether or not they are still at work, unemployed or in retirement. I feel that there is a missed opportunity there, and we would very much like the Government to revisit that decision.

Q57 **Lord Shinkwin:** You have pre-empted my question, as I was going to ask about your view on the significant changes that you have just mentioned. I would be interested to know if you have communicated that view to the Government. In the light of the positive remarks that were made earlier about the Government's commitment to social reform—I think you said, Sir Sherard, that the Prime Minister wants to tackle financial exclusion as part of a wider problem—do you think, given that the new model is not likely to take effect until April 2018, that there is any scope for change, and that your views about the need for a single organisation might be taken on board?

Sir Sherard Cowper-Coles: I think there is. We have a new Chancellor of the Exchequer and a new Economic Secretary. The explanations that we have been given by Treasury officials perhaps merit examination. One was that pensions was the responsibility of one department and everything else was the responsibility of another department, and it was difficult to devise a single body that reported to two departments. It was easier in terms of wiring diagrams and pipework to have two separate bodies. That may be something that the Committee could explore.

Treasury officials very properly and dutifully explained the policy, which is to have two bodies, but this is out for consultation. This is an area that deserves further exploration. As Chris has said, there are views across the sort of sector in which we operate where questions have been asked about whether this is not the wrong thing but whether it is a missed opportunity to create a very powerful single body that looks at how people manage money throughout their lives. The liberalisation of pensions means that fencing off pensions as a particular part, entirely separate from saving, starting from the time when one enters the workplace, is not necessarily the right approach.

Chris Pond: All the welfare reforms, including universal credit and the pension freedoms, can be made to work successfully only if we have greater financial capability, greater guidance, greater education and greater financial inclusion. Without those things, there is a real danger that changes that all of us would agree have considerable merit in principle could result in far greater hardship being meted on some of the most vulnerable groups.

Lord Shinkwin: As well as creating hardship, would you say that the reforms might also be affected in terms of their viability?

Chris Pond: There is a very real danger that, in terms of the rollout of universal credit in particular, unless there are changes to help more people to be included, to have access to financial services and to improve their financial capability, this cannot work. When you move from a welfare system that has traditionally been paying benefits on a weekly basis to a situation where they are paid monthly, that requires considerable budgeting skills. That therefore means that you have to have not only the budgeting skills but the products and services that are available to help people to budget in that way.

Sir Sherard Cowper-Coles: And, if I may say so, the confidence to manage the money in the banking system, rather than going to the ATM at midnight on the day the benefits are paid in, drawing it all out in cash and then trying to manage in cash. The consumer gets no benefit from that. The intention behind universal credit must be laudable, but helping people to deal with the consequences is also vital.

As the Chinese have discovered, and as our fintech sector has pointed out, there are many ways of using modern technology to help people budget, to create virtual jam jars, to remind people, as they borrow, that they should also be saving. I have seen apps in China that enable people to save just 2p or 3p a day if they want to and have access to affordable credit. It can be done very easily. I know that the DWP is interested in this sort of area, but a political push from a powerful Committee like this could make all the difference.

The Chairman: We said at the beginning of the inquiry that we were keen to draw on international best practice and comparisons, so it is very helpful to hear about China.

Q58 **Lord Harrison:** Gentlemen, this is a question about the utility of national strategies. The Money Advice Service published its *Financial Capability Strategy for the UK* in October 2015. What is the value of such a strategy? Should it continue? If it does, in what form might it change? If there are not the resources or, as you have said so forcefully this morning, if there is not a lead given from the top, they fall into dust.

Sir Sherard Cowper-Coles: Yes. Lord Harrison, you have put your finger on a serious problem. I must declare an interest, as I sit on the financial capability board, which advises the Money Advice Service on the financial capability strategy. As you imply, a strategy is just words on the page without execution. It sounds as though, whatever happens to the Money Advice Service, there is a commitment to a financial capability strategy for this country, which must be right, but it must be a strategy that focuses on outcomes, perhaps, going back to what the Bishop of Birmingham was saying, starting with cultural attitudes in this country towards money, saving and thrift, starting at school, going right through life and measuring outcomes. Are people saving more? Are people putting aside money as they borrow? For the generations who come after us with the challenges that they face for retirement, this is going to be vitally important. It is perhaps one of the greatest challenges for the Government. The answer has to be yes to a financial capability strategy—absolutely essential—but a strategy is only as good as its execution.

Lord Harrison: How might we measure the outcomes that Sir Sherard talks about?

Chris Pond: This is not the first time that we have had a financial capability strategy or national strategy. We had one under the Financial

Services Authority, which was described by the National Audit Office as world-leading. It brought together, and acted as a focus for, not only the regulators and the Government but the industry and many voluntary organisations, including some that people around this table have been involved with in the past. It gave a real momentum to that notion that we could all work together on this. I hope that the new strategy will achieve that, too.

As for measuring the outcomes, that is very difficult. Academics and researchers have been struggling with how we measure what is a successful outcome of some of these activities. Some have suggested that financial education itself has no clear measurable outcome. Frankly, I am not convinced about that. It seems to me that it is worth doing in its own right.

Under the Money Advice Service at the moment, we have a programme, "What Works", to try to measure whether or not particular initiatives will have a real impact on people's financial capability. I am slightly worried that the focus is always on new, untried initiatives, rather than measuring the success of things that have been going for some years. There is always a tendency to go for the bright, shiny, new ideas and then to leave organisations that are delivering very effectively without any visible means of support. Some of that will give us new learnings about the best way to improve people's financial capability.

Lord Harrison: I like dull ideas that work.

Q59 **Lord Empey:** Could we move on to credit unions and related institutions? It was said in earlier evidence that somebody trying to save £2 or £3 would feel embarrassed. You know the situation: somebody comes into one of these marble palaces, with a security guard with a peak at the end of their nose and somebody in a fancy suit looking over the counter. Clearly, that is not an atmosphere that is going to help. Credit unions, on the other hand, might operate out of the front room of a house or in small offices, perhaps upstairs. They do not have the same sort of social barriers.

The Archbishop of Canterbury's task force comes up again here. What do you believe on whether there should be legislation for this? Do you feel that the promotion of the credit union movement and related institutions is part of the answer?

Sir Brian Pomeroy: The first thing to say is that third sector financial institutions, of which credit unions are only part, because there is another part as well, the CDFIs—community development financial institutions, which we should also think of—have a vital role to play, and credit unions particularly. Therefore, anything we can do to promote them and scale them up, we should do. Indeed, government policy since 2005 has actually done something. Quite a lot of money was put into something called the growth fund, which was money put into credit unions they could on-lend. One of the problems that credit unions have is getting capital to lend. Some work on that has been done.

Indeed, there is a project I know. When you took evidence from the DWP and the Treasury, they mentioned the credit union expansion project, which is able to improve efficiency by sharing back-office and other sorts of management.

Quite a lot of work is being done on that, but we can always do more, because, as you rightly say, they are trusted institutions, credit unions and CDFIs. They are not the only ones. You might also think of the Post Office, for example, as being in the trusted bracket. They are trusted. They do not yet have as much geographical coverage as one would like them to have, so anything that you could do to increase their geographical coverage would be useful. As I have already said, anything you could do to increase the availability of capital for them to on-lend, which might come from the commercial sector, would also be useful.

You mention legislation. Some legislation has been floated, and I think the position of the Government in December 2014 was that they would consider legislation. I do not think the current Government have yet taken a position on that. I am not absolutely sure. They have talked, for example, about broadening the common bond, which might enable larger credit unions or mergers of credit unions, which could be stifled at the moment by current rules. That has been mentioned. They have talked about broadening the objectives of credit unions, which enables them to do more things and issue more products. That sounds to me like a useful thing to look at. There has been some discussion—I take my life in my hands here, because I have incurred the ire of credit unions a number of times by questioning whether the name "credit union" is the right name for the 21st century, particularly when you consider that, to be successful, they have to appeal to the middle market. Deposits from the middle market are an important source of capital—of funds—for on-lending. I know this is very controversial, but I personally have long thought that the name could be changed and it could become a more recognisable 21st century brand. I know a lot of people do not agree with that.

Anyway, there is a bundle of possible enhancements to legislation that have been put on the table. I personally think that they should be looked at, particularly, leaving aside my comments on the name, if they enable the credit unions to increase their scale. There are some credit unions that are really relatively large and act just like financial institutions, but if they became larger and better capitalised, they could make a bigger contribution.

We should do all that but recognise that the balances of credit unions are still a very small part of total credit lent. Obviously they have a savings function as well, but they are still a very small part of the total credit sector. They can make a contribution, but they will not change the sector. That would be my evaluation.

Lord Empey: Perhaps, though, the one bit of genius in the whole thing is that they can get down into the centre of a housing estate.

Sir Brian Pomeroy: Yes, they can.

Lord Empey: Sometimes, being bigger is the problem, in so far as it is about having somewhere where people do not feel a barrier, do not feel out of place and do not feel like a fish out of water—going into Mr Bloggs's house at No. 36 once a month or something. There is that aspect of it. Yes, I understand the point about capitalisation and all that but, in many respects, that is the barrier, is it not, or part of the barrier?

Sir Brian Pomeroy: It could be. It is worth saying that the credit unions—and this word is used in the consultation—are polarised between a small number of large ones and a large number of smaller ones that are much more locally based, as you say. That does exist.

I think the evidence is that people, whereas they may be intimidated by the bank and the building society, are not so intimidated by credit unions. They do not have that image and they do not have some of the historical connections of the financial services industry that are perhaps unhelpful for some people. I think they are trusted. Of course, it is entirely possible for a large, quite corporate, credit union to have a presence on a housing estate if it wants to.

Chris Pond: We have to think about the distinction between community-based credit unions and employer-based credit unions. You will know, Lord Empey, that, in Northern Ireland, community-based credit unions are a very important aspect of the provision of credit.

The largest credit union in the world is an employer-based credit union—the US Navy Federal Credit Union. Employers are still quite trusted by the people who work for them. Therefore, employer-based credit unions or other forms of employer-based lending seem to be much more acceptable to people, especially if the payments or withdrawals are made through the pay cheque. There is a question whether or not one could see an extension of this form of lending via employers, whether it be through a credit union or a commercial operation, but we have to recognise that there is a huge gap in access to affordable credit generally.

When we were taking evidence around the country in advance of our first report, we were told about one community lender who had had a very large number of lone parents who had come to them asking for help just before Christmas, whom they had had to turn away because of the cap on payday lending—which I think all of us will say was necessary. However, that has very considerably reduced the availability of credit to people, and the community sector has not been able to step up to the plate to fill that gap, which we estimate is something around £5 billion. Even if you were to double the size of credit union lending, you would still get to only about 10% of filling that gap.

We need mainstream financial services to make provision of affordable credit, whether it be through the credit unions or the high street banks. Otherwise, we have seen increasingly that people turn to illegal lenders, to the real loan sharks. As Sir Sherard said, we therefore had a small campaign to try to ensure that the illegal lending teams around the country were given the support that they needed, and I am delighted that the Government stepped in and provided the finances available. There is a real danger that, if the community sector or the mainstream sector cannot fill that gap in affordable credit, the loan sharks will happily do so.

Sir Sherard Cowper-Coles: As a footnote to what Chris has just said, it is worth noting that a method is under way to establish what should be the largest credit union in this country, based on the retail industry, for shop workers. We must hope very much that that succeeds, but that is now well on its way to success, from what I have heard.

Q60 **The Chairman:** As we draw this session to a close, can I ask you, by way of making any final comment, to tell us where you think the Committee should be focusing its attention? I am conscious that you have done that as you have gone through your comments, but if you want to leave us with one thought of one area where you think it is crucial that we make a recommendation, could you say where it is?

Sir Sherard Cowper-Coles: Could I start and then invite Brian and Chris to add any supplementary points?

Britain is one of the most advanced societies in the world in terms of financial services. I would hope that, in 10 or 20 years' time, it would seem bizarre that a very significant proportion of our adult population were not connected to the financial services system just as, in the past, we connected people to mains electricity or to the landline telephone system. I would hope that, in a financially civilised society, everyone in that society, whether they were on a low income or new arrivals, had access to the system to move their money around, to save and to borrow in affordable and intelligent ways.

In terms of the focus of the Committee's report, our hope would be that, with a Prime Minister who is sending out signals about a society that works for everyone and a country that works for everyone, whose staff we know are interested in this area, the first and most important signal that the Committee could give would be to welcome what has been said, to welcome all the achievements that were set out by the previous Economic Secretary, Harriett Baldwin, in her speech at the launch of the FCA paper, and repeated by Gwyneth Nurse in her evidence to the Committee, some of which I mentioned earlier, but to say that the sum should be much greater than all those parts. That means a lead from government, a lead from the regulator and an effort across government—the Department for Education, the DWP, DfID and the Home Office—everyone part of such an effort, in which the third sector and the banks work alongside the Government. It is not a sort of "gotcha" culture, in which we are trying to catch each other out, but with a regulator who has that duty laid on him to promote financial inclusion, as we have seen happen in another country I referred to in double-quick time. That is the headline message.

Sir Brian Pomeroy: I do not think we are all required to have different headline messages. My headline message would be the same: it is really the lead from the Government. It is responsibility and a palpable lead at ministerial level, backed almost certainly by some official support, which certainly proved important the last time there was such a lead. That is the first priority. From that, other things, as Sir Sherard has said, will flow.

Chris Pond: I think I have the same hymn sheet. It would be to say that, while we recognise that there has been a loss in momentum on this agenda for the past five or six years, we now have an opportunity for a new beginning, with a new Chancellor and a Prime Minister who has said that she wants to help people take control. We know that taking control of one's finances is very important in terms of emotional and psychological well-being. Therefore, it will be doing a service to the country as a whole in terms of productivity if we are able to address these issues.

For me, it would be to say that we should take the Greek temple and we should focus both on the foundations of that, which is financial capability and the financial capability strategy that we talked about, and the roof of the temple, which is giving the leadership that Sir Sherard mentioned coming from the Government and from the regulator.

The Chairman: Thank you very much. I thank all three of you. This has been an excellent session, and you have got us off to a very good start to the new parliamentary term. If we would like to come back to you with any points or questions as we progress through our inquiries, I hope that that would be possible.

Sir Sherard Cowper-Coles: And we will write to you with the data we promised.

The Chairman: Thank you very much.