HOUSE OF LORDS

Select Committee on Financial Exclusion

Corrected oral evidence: Financial Exclusion

Tuesday 8 November 2016

11.40 am

Watch the meeting

Members present: Baroness Tyler of Enfield (Chairman); Viscount Brookeborough; Lord Empey; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Holmes of Richmond; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Northbrook; Baroness Primarolo; Lord Shinkwin.

Evidence Session No. 15 Heard in Public Questions 150 - 158

Witnesses

I: Eric Leenders, Managing Director, Retail and Commercial Banking, BBA; Mark Lyonette, Chief Executive, Association of British Credit Unions Limited; Faisel Rahman OBE, Chief Executive, Fair Finance.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Eric Leenders, Mark Lyonette and Faisel Rahman OBE.

Q150 **The Chairman:** Thank you for coming. Welcome to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcasts live via the parliamentary website. A transcript of the meeting will be taken and published on the parliamentary website and you will have the opportunity to make any necessary amendments. First, for the record, I will ask you to say who you are and who you represent.

Eric Leenders: Thank you, Lord Chairman. My name is Eric Leenders and I am the managing director responsible for retail and commercial banking at the British Bankers' Association. I gave your secretariat my CV with a couple of interests, which I think will have been shared with you.

Mark Lyonette: I am Mark Lyonette, the chief executive of the Association of British Credit Unions.

Faisel Rahman: I am Faisel Rahman, founder and managing director of Fair Finance, which is a community finance organisation in London.

Q151 **The Chairman:** Thank you. I will kick off with the first question. The Committee in its deliberation so far has heard quite a bit of evidence about the Money Advice Service and its successor. What, in your view, should be the role of the successor to the Money Advice Service in tackling financial exclusion? In particular, what good practice would you like to see continue, and what changes in approach or practice would you like it to take on board? Eric, I address that question to you, to begin with.

Eric Leenders: There are three issues for me. As a preface to that, I rather supported what Martin said in the previous evidence session. I certainly subscribe to the view that the current CEO has done a very good job in developing a strategy that serves the Money Advice Service well. Therefore, first, in the forthcoming consultation, I am keen to see the best of the Money Advice Service preserved. I do not think we need to throw the baby out with the bathwater.

That brings me to my second point: holistic money guidance and advice throughout an individual's life. This takes it from financial education in schools, through student life and into a first job, through building a family and into accumulation for pension and retirement and so on. I see that as the second priority.

The third issue is to build on that Money Advice Service strategy. Martin was right on point by suggesting that focusing the financing on the priorities would be a key role for the new body.

Mark Lyonette: I would agree with all that. In recent years, the Money Advice Service has focused clearly on what needs to happen. I would like to see that focus still on a financial capability strategy and the co-ordination of financial education, particularly in the financial exclusion space. It is important that focus is retained on encouraging low-income savings and micro-savings. It has not always been easy to get that across as part of the credit agenda. Small savings is a big part of how we manage the balance of funds that we have in our lives.

In recent times, there has been a big focus on evidence collection of what works. That should continue. To go back to what Martin Lewis and Polly Mackenzie said, I do not think we understand as well as we should the points at which we are ready and willing to seek and take on advice; Martin called them points of vulnerability.

Faisel Rahman: I agree with most of the points that have been made so far. The strength of the Money Advice Service was in co-ordinating lots of activities and work around financial capability and, for the first time, continuing the funding of debt advice to some of the most vulnerable through face-to-face models. I did not think it was particularly involved in the world of financial inclusion. I thought it was much more involved in the world of financial advice, guidance and helping people understand how they could manage their products, as opposed to building new products. So if there was any consideration about what it might do in the future, it should be more engagement to support product development and innovation to bring more services to people who are currently outside the system.

The Chairman: Just to clarify that point, do you think the new body should and could have a greater focus on tackling financial exclusion?

Faisel Rahman: I do not think that the previous body tackled financial exclusion and I do not think there has been a body focused on financial exclusion since the demise of the task force or the Financial Inclusion Commission. The new body should—or a body should, whether that is this new body or through widening the remit of an existing body such as the regulator—have a specific focus on inclusion, because currently there is none.

Q152 **Lord Haskel:** This is a question about credit unions. We have heard evidence that credit unions in Britain have a somewhat lower market share than elsewhere in Europe and significantly lower than the United States. Can you explain this discrepancy, and could you comment on the efforts of the Government on the expansion project, because they are trying to do something about it?

Mark Lyonette: I will try to be as brief as possible, but as you can imagine this is my subject. As I look around the world, I see credit unions that are serving anything between 15% and 50% of the population. You have to ask yourself: why are we so different? What are the key factors? After more than 15 years of working for the association, I have boiled it

down to five key things. I think we need to focus on those five things to continue to see the sector flourish and grow.

First, credit unions globally never exclusively focus on serving those on serving those on the lowest incomes. That does not mean that they do not serve people on the lowest incomes, but it is not the entire membership. We got diverted on that in the 1980s and it was a red herring. Alongside that, and often going with it, credit unions globally have not grown through revenue subsidy grants from the local or central state. Grant funding has not been part of the growth of credit unions globally. Obviously those first two points go together.

Thirdly, the development model is quite different in most parts of the world. Credit unions fundamentally grew out of a focus on working with employers, large and small, and then expanded into the community when they had scale and size. It is no surprise that our largest credit unions in Britain are those that work with a range of employers.

Fourthly, and we are at the cusp now with 1.2 million members, we need to look at what we offer. On the lending side, the vast majority of credit unions—99.9%—offer only unsecured personal loans. Globally, for credit unions to be successful, they will not get past the scale that we have without having a broader lending offering, broader savings and a broader transactional product offering.

The fourth thing links to the fifth thing: successful credit union sectors globally do not try to solve it all on their own. We have 330 credit unions in Britain. Mostly we do every single part of every single process in each credit union. Globally credit unions work together. They create entities and co-operatives. That can be as small as having a joint HR function between several institutions and goes all the way up to having common branding and marketing and so on. We need to do more of that, too.

Where does the credit union expansion programme come in? That was our attempt to encourage the Government to address at least four of those five things. There was a recognition that we needed to change from ongoing revenue support from the Government; the growth fund was hugely successful between 2006 and 2010, but it did not help the economic stability and sustainability of the credit unions. It was successful because it gave several hundred thousand people small-sum credit at an affordable rate. We needed to change that. The Government have capitalised the credit union expansion programme, which is allowing us to reach a little broader market. But one of the key deliverables is a core banking platform with digital, mobile, tablet access; and straight-through processing. That means that if I apply for a loan online on my phone at 10 o'clock at night, and if it says "Yes, yes, yes" all the way, the money will be in my account 20 minutes later.

You might think that credit unions would not necessarily want to do that, or that they should not do that, but I had a conversation with one of our members a month ago who said, "Twelve months ago, members would apply for a loan at night"—in effect, that means that an email arrives in

the inbox for staff to pick up the next morning, as there was no automation—"and we would get back to them, and everything was fine. By lunchtime, we would have sorted out those we could lend to. Twelve months later, now when we get back to those people the following morning, more than half of them are saying, 'Oh, don't worry, we have already sorted it with somebody else', and they are almost apologising to the credit union that they have gone somewhere else". People's expectations of convenience and speed are now huge.

One of the deliverables of the expansion programme is being able to deliver on that. We have two credit unions live, with another 35 credit unions to go through the rollout over the next 12 months. It has been a long journey getting there—it is a very big undertaking for a sector as small as ours—but we are on the home run now. We have the thing, and we now need to roll it out to the next 35.

Does that help? Is that a good start?

Lord Haskel: Yes, that is helpful, but our briefing tells us that only 20% of credit unions participate in that programme. Is that because they have different objectives?

Mark Lyonette: No, it is slightly more than 20%. One of the first deliverables of the expansion programme was a common approach to how we make loans and to automating lending decisions. Actually, 76 or 77 credit unions out of 330 already use that, and now that the project is coming to an end, many more are ready to adopt it. I think that is a huge adoption rate for something so new that at the time was potentially controversial in the sector.

The 35 perhaps refers to the number that have committed so far to the transformation to this new way of working or new operating model. It is more than digital banking and digital lending, but that is at the core of it. I would say that getting 10% of the sector to commit to something for 10 years that was not proven or available to touch is near miraculous. I do not think it is a small achievement at all. When we talk to other countries, they cannot believe that we got 10% of the sector to commit to something before it was even there.

Lord Empey: I have a supplementary question. Are there any lessons to be learned from the success of credit unions in Northern Ireland? I declare an interest as having a responsibility there. Is their success due to the community aspect, because a lot of them were built around churches and other religious organisations? Are there any lessons that could be extrapolated to the rest of the country?

Mark Lyonette: This might not be known to all your colleagues here, but in both the north and the south of Ireland about 50% of the population use credit unions. On top of the nearly 1.2 million members in Britain—England, Scotland and Wales—there are another 0.5 million credit union members in the north of Ireland.

The origins and history there are very different. When credit unions were starting all over Ireland, the banks were not serving the vast majority of people—only 3% is the figure that I have often heard quoted—so the credit unions were in a space where the banks were not already saturated. When we got started with our legislation in the late 1970s, banking was already much more evolved and saturated among the majority of the population. So there is a difference there.

One thing that we are learning from our colleagues in the north, and in the south, is that if you do not expand your range of lending and just get older with your membership, you very quickly come to a point where you are not lending enough funds and cannot make the whole thing stack up. Ireland, north and south, is the only exception to the rule globally where the credit unions achieved scale with just unsecured personal loans. Everywhere else in the world they have expanded into pretty much the full range of lending.

Q153 **Lord McKenzie of Luton:** My question is on community development financial institutions—otherwise known as responsible finance providers—which provide loans both to business and to individuals. My question is principally to Faisel. In seeking to address financial exclusion, what specific role is there for community development finance institutions such as Fair Finance, as distinct from credit unions and other providers of credit? How could national and local policies better promote your offer?

Faisel Rahman: I will take that question in two or three parts. Forgive me, I lost my voice early last week, but I will try to speak up a bit.

First, as you have said, community development finance institutions—also known as responsible finance providers, which is a new name that they have started to use since last year—are a range of organisations that provide loans both to individuals and to small businesses to tackle financial exclusion. They allow entrepreneurs and individuals to access affordable credit.

Unlike credit unions, community development finance institutions often do not require savings in advance of lending—that is a key differentiator between them—and they have no price caps on the loans that they offer to individuals. That means that they are able to lend to riskier, and often more excluded, people who are unable to access finance from other sources. Their staff are generally paid and they have few volunteers. The impact of all that is that they are often much more expensive than credit unions, which have a price cap. Typically, community finance organisations working with individuals for consumer finance would offer an interest rate of between 70% and 120% APR, which is significantly more expensive than a credit union, but they would lend to different people so they are targeted in a different area.

They generally work with a range of different types of organisation, including banks, to finance their loan books, and social investors, to expand their operating footprint. They occasionally engage with local and national government and with philanthropic organisations to provide

ancillary services, such as debt advice, money advice or complementary services to support individuals. There are examples of working with housing associations—I seem to remember that a previous witness talked about working with housing associations specifically on My Home Finance.

By and large, most CDFIs are independent. They are quite small, and there are not very many of them. Last year, they lent £22 million to about 45,000 people across the country. The interesting thing about their model is their flexibility to raise capital and their potential to cover their costs by having the freedom to charge what it costs to lend to the people that they wish to work with. That means that in some cases they can offer a viable alternative to high-cost, short-term credit. Often, that makes them very different from other organisations.

I launched my organisation Fair Finance in east London in 2005, after I had worked for the previous 20 years in financial exclusion around the world. We offer access to banking services—we partner with both RBS and Barclays to give people access to bank accounts in our branches. We give them access to personal finance to tackle high-cost lenders and to business finance to support entrepreneurs looking to grow. Alongside that, we give free money and debt advice to anyone that we would not lend to.

We finance the entire business by raising investment from high-net-worth individuals, from the occasional foundation as an investment and from some institutional partners. That support has allowed me to grow the business from literally three people serving 500 clients to 45 staff across London serving 20,000 people. Over the past five years, we have lent about £20 million to some of the most excluded in London. We have seen the business grow quite quickly. We are completely financed by banks—we have no government subsidy in the organisation—and our client base is generally low-paid people, who work part-time, move in and out of employment and are predominantly female, usually with dependent children and living in social rented property.

Viscount Brookeborough: Very quickly, you mentioned that you worked in many other places in the world. Do you have a country which you think would be a better example of financial exclusion than us? Which offers the best example?

Faisel Rahman: I have worked previously at the World Bank and the Grameen Bank in Bangladesh, working on small-scale microfinance. My inspiration was to come back to the UK and provide some type of microfinance service, because I believed that the problems were still there. If you look around the world, you can see lots and lots of innovations in different aspects, such as the fantastic use of technology in some countries, fantastic government policy in other areas such as in India or in America, but also really innovative organisations working outside the system.

Viscount Brookeborough: Do you have somewhere that we could ask the embassy or whatever for information on a particular country?

Faisel Rahman: It depends on what you are trying to fix. If you are looking for legislative changes, you can see some interesting policies in India, where banks have been mandated to invest in microfinance organisations as part of their corporate social responsibility and as part of their business. You could look to America, where there is legislation such as the Community Reinvestment Act. You could look to China, which has mandated large amounts of investment into increasing financial inclusion for much bigger groups of people. The main challenge when you look at other countries is that, in countries such as Bangladesh, the issue of exclusion is obvious—it is in front of you—as most people in the country do not have access to banking services. In the UK, it is slightly more complex, and I think that the solutions, therefore, need to be much more nuanced to fit the problem.

Lord McKenzie of Luton: Faisel Rahman, you said that these institutions are generally quite small. Is there any reason why they cannot be scaled up? Is there anything that is endemic to their structure that prevents that?

Also, if those institutions reach the parts that other financial institutions seemingly do not, or do not want to, is that principally because of their freedom in setting charging levels? Does that have implications on a longer-term basis?

Faisel Rahman: Personally, I think the potential of these organisations is limitless. However, the challenge for any organisation looking to lend to low-income communities is to prove that it can do so sustainably. That applies not simply to the community development finance movement but across the board for organisations in the non-profit world. They need to try to provide services in a sustainable way that is different.

For example, it is very easy to lend to people on low incomes if you are willing to charge 1,000%, and many banks and institutions will fund you to do so. It is much harder to convince those institutions that you will be charging a 10th of that in offering to the same group of people. People have a preconceived notion of the risk. Because of that, a challenging judgment is given to organisations that try to do these things differently, which makes it hard to raise capital.

Anyone in the community development finance world will tell you that trying to get to sustainability has been the biggest challenge in the sector—not just for CDFIs but for many community finance organisations. Fair Finance broke even last year, and one of the benefits of breaking even is that the banks that we have engaged with are now much more willing to invest more and to lend more on commercial terms. The biggest challenge for them has been that they found lots of organisations doing very worthy things for a small group of people that they could never scale up, because the more they did, the more money they would lose. What they see with us, and with some of other organisations around the country, is that they can actually fund us to grow bigger. So I think the potential is limitless.

Your question on charging links very closely into that. Previously, many organisations would have liked to focus on serving low-income communities but were unwilling to cover the costs of doing so. To give a very simple explanation of that, many of the costs in dealing with lending in general do not scale very well as you get to smaller and smaller amounts. For simple things such as running a credit score, it is the same cost whether the loan is for £300 or £300,000. For the manual process of underwriting or the data-capture process, it does not really matter whether it is a small loan or a big loan, so the economies do not scale very well as you go down, and as a proportion of each loan those costs are quite high.

On top of that, many people on low incomes who use high-cost credit do so because they offer a degree of flexibility and a connection in their community where financial exclusion may exist. That has a high cost, either in terms of opening branches or adjusting your products to reflect the variable nature of people's income. The costs of providing services to low-income people is higher, relative to the mainstream market, and very few organisations are willing to do that.

The Chairman: Thank you very much. I think that Eric also wanted to come in.

Eric Leenders: I just want to offer a case study and a forward view—

The Chairman: Could I ask all witnesses to speak up a little bit, because it is slightly difficult to hear?

Eric Leenders: By all means. I will enunciate.

As you know, I was involved with the inaugural regional growth fund, which involved £30 million of government money with finance of £15 million from the Co-operative Bank and £15 million from Unity Trust Bank. To give you an example of how successful that scheme has been, we had certain requirements in terms of job creation, wealth creation et cetera, which I thought it would be useful to share with you. To date, we think the scheme has created 1,600 jobs and preserved 6,000 jobs. In the context of value for money, the average cost of those jobs is about £3,800, as opposed to the national average of about £38,000. So we were exceptionally efficient as well. We think that that £60 million-odd that was invested has gone on to create something of the order of about £400 million in the respective local economies. Since October 2012, we have helped about 2,000 small businesses. So as a case study, the CDFI model, where it is appropriately funded, can be proven to work very well indeed.

The forward view that I would offer is that, working with the Treasury, we have established a platform whereby loans—or applications for credit, I should say—that are declined by banks will be put on one of three platforms, where some 75 providers currently will have the opportunity to consider whether they want to underwrite the credit. In effect, that is a

declined loan referral scheme, and we see opportunities there for organisations such as CDFIs.

Q154 **Lord Haskel:** Are there any lessons to be learned from the United States, where they have been active in supporting the development of credit unions and community development finance institutions? We are aware that individual states in America have laws that local businesses must try to deal with local businesses—they try to keep business within the state. Given the obligations under the Community Reinvestment Act to support CDFIs and other organisations, do you think that there is a place for a similar statutory requirement here in the UK?

Mark Lyonette: That is not a position that the association has ever taken. We are not in favour of a community reinvestment Act. I should say that we currently have the highest level of support from a number of banks in the UK that we have ever had in our sector, all of which are now doing really useful things to help the sector grow.

For example, Lloyds Banking Group has put £4 million into the sector but in a very different way from the way in which local and central government have invested. You may remember me saying that revenue subsidy—paying for part of the operating costs—does not help credit unions to grow. When Lloyds said that it wanted to be involved, we said that what would be really useful, instead of repeating the mistakes of the past, would be to put that money in as capital, which would allow the credit unions to grow more quickly. Because credit unions are regulated deposit takers, we must maintain minimum capital levels. For the larger credit unions, for every £1 million they grow they need to put £80,000 aside. Because we are mutuals, that can only come from the profits that we make, not from a third party. Lloyds is doing exactly that. That has completely transformed the process of investing in the sector, and I would say it is a really good example. Similarly, Citi has invested in training in the sector and in leadership development, all of which is having quite a large effect.

So we do not think there is a need to have quite a complex, involved and burdensome Act to help the banks to encourage the growth of our sector.

The Chairman: Faisel Rahman, if you want to add anything, could you do it very briefly please?

Faisel Rahman: One of the things that the Community Reinvestment Act looked to do in the States was to help capital move into underinvested communities. One of the challenges that financial exclusion has pointed out in the UK is that there is still a lack of capital in underinvested communities. I agree with Mark's point that the CRA is quite complex, but the underlying principle of trying to get money into areas where it does not exist is a good one.

To give a very small example, it is currently very difficult for banks to lend to credit unions and CDFIs. That is partly due to their view about the risk attached to these very small organisations, but some of that risk

profile that they look at is a regulatory requirement. Rather than thinking simply about a CRA, if we thought more about leverage and ways in which we could allow banks to be involved in that type of investing, we might get a similar type of activity.

Q155 **Lord Northbrook:** I want to move on to bank account fees and charges. The Committee has been told that overdraft fees and charges represent a major source of problem debt for people with low or unpredictable incomes. Do you think that the proposal by the Competition and Markets Authority to require banks to set a maximum monthly charge for such fees gives adequate protection for customers and for banks? Is there a case for introducing a statutory cap on these charges? Should the FCA as the regulator play a role in setting such a cap, and what should the cap be? I think that is a question for Eric.

Eric Leenders: I think it probably is.

On the first point, it is important that we are clear on the manner in which an unarranged overdraft is incurred. There is something of an urban myth that profligacy can trigger an overdraft, but that is just not the case. The overwhelming majority of debit card transactions, for example, would be declined if there were not available funds in the account. The triggers for an unarranged overdraft are regular payments such as standing orders and direct debts. Typically, those would cover utility bills, council tax, rent, mortgage et cetera, which would be the priority or essential spend in an individual household budget. One of the considerations needs to be the cost of that unarranged overdraft relative to the cost of that regular payment not being met, which would be the consequence of the unpaid rent or the unpaid council tax bill.

Another consideration—and this is where we support the work that the Financial Conduct Authority is just about to commence—is making sure that, as has been done in the credit card market study, where there are persistent users of unarranged overdraft facilities, the internal policies and processes of the providers of that credit proactively look to support those customers rather than, perhaps more passively, allow the overdraft to happen. That has been tried on a number of occasions and, I have to say, to mixed reviews. Some consumers find it quite intrusive when a programme of outreach from the bank contacts them to discuss their finances. They do not necessarily see that as the positive that was intended.

But there are increasingly more discreet ways to nudge customers to think about their unarranged overdraft. A good example is text alerts. We introduced those across most personal current account providers in 2010 or 2011. One of the larger banks is on record as saying that it is saving its customers about £100 million a year in fees. It prompts people to take action when they could be going overdrawn. So I think there is a proactive dimension to this. There is plenty of scope within the statement of lending practice, formerly the lending code, and the FCA's credit regulation to ensure that careful consideration is given to managing those situations proactively.

On the specific point about a price cap, there are really just two levers in credit: one is risk appetite, and the other is price. It is a combination of those two levers that allows a credit provider to distribute into a particular market. We would need to give a lot of thought, therefore, before introducing a cap or restriction on one of those levers, to what the consequence of that might be. I think that the solution, on which we are happy to work with both the CMA and the FCA, is a combination of both the preventive and an element of the curative or restorative.

I could expand a little further, but I think I have given a good synopsis.

The Chairman: That is fine. If there is more that you want to add, please feel free to send a further written note.

Lord Northbrook: Sending a text alert seems a simple way. Could that be made obligatory on all the banks?

Eric Leenders: Back in 2011, we instigated a programme under which all the larger personal current account providers—the largest nine or 11, I think—included text alerts to their personal account customers. We are now seeing a number of different firms experimenting to find the best type of alert. What is the best catalyst for action, as opposed to simply the balance alert that comes through in an SMS message? We are seeing quite a lot of developments in that area, and I expect that the FCA will look at how good practice might be standardised as it picks up from where the Competition and Markets Authority left off.

Q156 **Baroness Primarolo:** I want to ask a series of questions about basic bank accounts. How successful has the implementation of basic bank accounts in recent years proved to be? Are the banks taking sufficient steps to promote basic bank accounts, particularly to the type of customer to which the basic bank account is supposed to be directed?

Eric Leenders: The provenance of the basic bank account was from one of the then Government's policy action teams. The first incarnation was the development of the Post Office card account, which was funded by the industry and is still with us today. Shortly thereafter, we had the first generation of the basic bank account. That account provided, by and large, the functionality of an ordinary current account, save for an overdraft facility. On the point you make, I think there have been some controversies around the extent to which it was—to use the vernacular—a below-the-counter product or whether it was part of a marketing suite.

Picking up recommendations in one of the final pieces of work by Consumer Focus, and working with the Treasury, at the start of this year we introduced a second generation of the basic bank account. It is entirely fee free but it gives all the benefits, including text alerts and online functionality, of a full current account. However, it prohibits an overdraft, will not allow you to go overdrawn and does not provide cheque-book functionality. We are very pleased with that, and we think it is a very good deal. It is designed for customers in financial difficulty who might otherwise be unable to get a full current account. On the run rate,

across the industry at the moment we are opening around 50,000 of these accounts per month, so we think that they are quite successful. That is a similar pattern to the previous basic bank account.

However, I have to caveat that, I am afraid, by saying that we are still working on management information, which we will provide via the Treasury and then be put into the public domain. So I cannot give you the absolute figures as we sit here today.

Baroness Primarolo: Can I press you on that? It may be a good deal, but we need to be sure that it is getting to those who would most benefit from it. The Committee has received evidence that suggests that the banks are, as you alluded to, less than keen to put it on the table at the beginning. When customers go through assessments for a current account, the basic account is not offered. Are you suggesting that that behaviour is in the process of changing and that the banks will ensure that they are making basic bank accounts available to a wider customer base than was the case before?

Eric Leenders: As there is a substantive cost to these accounts—the estimates provided to the Parliamentary Commission on Banking Standards suggested that it was about £300 million to £350 million per year—we have agreed that the process should work such that, when someone is looking to open a personal current account, the application will be scored and the process would continue as for the standard account. There are benefits to that, as it opens access to credit and starts to create a credit history. If one is unable to get a standard personal current account, a basic account is offered. There are some exceptions to that. We recognise, for example, that if an individual is in financial difficulty and already has an overdraft with another provider, they might need to start with a clean slate and then they would be eligible for this basic account.

In terms of making sure that customers are aware of the basic account and that it is visible, all the brochureware and marketing materials were vetted by the Treasury to ensure that it was comfortable that there was a suitable level of profile for this particular type of account.

Baroness Primarolo: It has been suggested to us that the process itself is a systemic problem in getting people to the basic bank accounts. When you credit score them first and they fail to qualify for a current account, that is obviously bad because that is recorded. It is not unusual for that not to be followed through, so the person leaves without a bank account rather than following through to the basic bank account. Because it is a good deal and such a good product, I want to press you on this. Can you be absolutely clear with the Committee that the banks will be doing that, or should we be looking at further ways of encouraging the banks to be more proactive?

Eric Leenders: To come back to the point, the Treasury will be scrutinising the figures to ensure that distribution is even across the various different personal current account providers and will address

some of these anecdotal criticism that you mention. We would like to be a little ahead of that, so we have been talking to Citizens Advice, which has shared with us some research that it has undertaken, which we will share in turn with the banks. We want to make sure that where there is what has been couched previously in terms of a "policy-practice gap", it gets addressed. The intention is very much to provide these accounts in the spirit in which they were designed. To industrialise that is always going to be a challenge. Where there are issues, we are looking to address them; where we see the evidence, such as from Citizens Advice, we will make sure that it is fed back to the providers. Hopefully, that goes some way to alleviating your concern.

The Chairman: If I may, I would like to clarify your point about the Treasury scrutinising the take-up figures. Do you know when those figures are likely to be in the public domain?

Eric Leenders: To my embarrassment, I can say only that it will be in the course of the next month or so. I will be able to give you the precise details when I am back at the office.

The Chairman: That would be extremely helpful. Thank you very much indeed.

Q157 **Lord Kirkwood of Kirkhope:** You helped us enormously on some of the difficulties of getting access to a basic bank account, but ID and address verification is a continuing problem—like a vein of gold, it is shot through all the evidence that we have received. One piece of evidence that we received mentioned there may be a prospect of working more closely with DWP on the rollout of universal credit. I think the Committee would want to make a positive recommendation on this. What would your collective, brief advice be about trying to get this bottomed out a little bit more comfortably?

Eric Leenders: Very briefly, we want to play our part in financial inclusion—hence the basic bank account—but at the same time we have responsibilities to prevent financial crime. In dealing with money laundering, one of the best, if not the best, opportunities to keep financial crime out of the system is by mitigating or reducing the prospects of distributing the proceeds of financial crime. The best point in time to do that is to prevent the accounts that would be used to disburse the funds from being opened. Therein lies the tension. I am sure you will have seen in recent evidence issues around a lack of government standard ID, such as a passport or driving licence.

We recognise that, in the distribution of universal credit by the DWP, this could be an escalating issue. What we are currently working on with the DWP—I think that this is the point that you raise—is how the eligibility letter confirming the universal credit could be used as a form of identification. However, we have identified that there is also a challenge in that—this gives an example of the depth of commitment to making this work—because a significant number of those in receipt of that letter do not retain it. It somehow gets lost. So we are looking for a way for the

DWP to replicate that letter with the unique bar code that is generated with each letter, so that we have an opportunity to identify the individual and then provide them with, in all likelihood, the basic bank account that will enable them to receive their universal credit benefits.

Lord Kirkwood of Kirkhope: Have you been working with the Government Digital Service to try to get digital IDs?

Eric Leenders: Yes, we have.

Lord Kirkwood of Kirkhope: Will people need an expensive smartphone to get a digital ID?

Eric Leenders: At the moment we are finding that the picture is very mixed. Some providers have a customer base in which perhaps as many as eight in 10 customers can be identified electronically. However, the cohort that we are discussing in terms of financial exclusion will find the same challenges in getting themselves registered on an electronic ID programme as they might do currently in trying to open a bank account. They simply do not necessarily have the sorts of typically accepted identification. We are working with government on, for example, the Verify scheme to see whether that would work, and one or two banks are also working bilaterally with government. We recognise that this is an issue. It is inefficient to rely on paper just now; as an industry, we would like to see the identification process move electronically, as we think it is more secure and more efficient. However, there are gaps, and those gaps, regrettably, are around those who are currently more financially excluded.

Lord Kirkwood of Kirkhope: It would be quite complicated to make that into a succinct recommendation. From a self-interested point of view for us as a Committee, when we are trying to pin government Ministers to the floor to give a commitment, do you have any shorthand way of pinning that down into a crisp recommendation that we could then take to the Government?

Eric Leenders: More crisply, it is about encouraging government to find ways to create third-level electronic identification for as many of the population as possible. At some point, presumably within the DWP, an identification and verification process must have taken place to confirm that an individual is eligible for the appropriate benefits, so it is developing and building on the good work that it must already have done.

The Chairman: Very briefly, what work are the banks doing to meet the needs of older people, who may not have passports or driving licences and may live in residential homes and therefore not have utility statements and the like?

Eric Leenders: Ideally, we would find through DWP that, as the different benefit types migrate to universal credit, we would hopefully pick up those who do not currently have accounts. A number of retired individuals benefit from the Post Office card account, through which they

receive their pension payments, and that will run until at least until 2021, as I understand. I guess that there are the same inherent tensions in that, for financial crime purposes, we have to be very careful about who we open accounts for, but equally we have to find a balance.

Q158 **The Chairman:** I shall ask our final question to draw this session to a close. If there was one thing that you would be particularly keen for this Committee to focus on in its recommendations, what would it be? You might want to consider something that is outside your immediate area of interest or the things that you have particularly focused on today. Who would like to begin?

Mark Lyonette: We would be a little more self-interested, I think. I have heard some of the excellent ideas that people have given you in evidence, but I would talk a little about what credit unions need in order to move to the next level.

We need the law changing so that credit unions can provide a fuller range of financial services. That is something that we thought we largely had, but it appears now that the FCA has a slightly different view of that. For example, credit unions cannot be involved in the whole BrightHouse marketplace because we cannot do conditional sale or hire purchase. That would be very useful. That expansion has happened all over the world for credit unions. Similarly, at some point credit unions tend to be able to provide credit cards as well. So we need a little bit of law change. That would be our recommendation.

Faisel Rahman: I will make three quick points. First, as we touched on earlier when we talked about the future of MAS, the reality is that there is no single body with oversight of progress towards financial inclusion. I think that would be a positive recommendation.

Secondly—this is a slightly conceptual change—the words "financial exclusion" and "financial inclusion" are often presented in a binary way, as if it was one or the other, whereas I do not think that many people whom we would define as financially excluded would define themselves as such. The reality is that they are underserved, and they are underserved because they currently receive poor products, with poor product design. So my second recommendation would be to deal with the lack of product innovation in the design of new products. There is a very good example in the US, where the Center for the Study of Financial Innovation partnered with banks and philanthropic institutions to design and sandbox interesting innovations for serving low-income communities.

My third recommendation relates to the regulatory aspect, which we touched on briefly. It is currently very difficult and expensive for banks to lend to alternative finance providers that are non-profit. Either by virtue of their legal structure or by virtue of their size, they are treated as financially excluded as much as their clients. Much of that is blamed on regulation and the provisioning and allocation requirements. Simply changing that and allowing some space with the regulator to let banks

partner with these organisations in a proactive and positive way would probably bring more finance to that market.

Eric Leenders: If I may, I would say three things. First, my internal colleagues have produced a graphical schematic of the various different interests and issues around financial inclusion and financial exclusion and, through our vulnerability task force work with consumer advocates, regulators, government et cetera, the recommendations that we have made. From this, the lesson learned is that we need a single holistic view and we need clear leadership around that.

My second point would be that we need to be very thoughtful around price capping and consideration of unarranged overdrafts and the potential for those unintended consequences that we discussed.

My third and final point is that the Criminal Finances Bill—noting its passage through Parliament as we speak—has the potential to allow for more intelligent sharing of information on financial criminals and perhaps provides an opportunity to address some of these tensions between maintaining systemic integrity and allowing access. If careful consideration could be given to that as the law is made, that would be very helpful indeed.

The Chairman: Thank you. I have one final request, if I may. You spoke earlier about work that you are doing with the Treasury on how, where loans are declined by banks, they might be referred to other platforms.

Eric Leenders: Absolutely, that is for business loans.

The Chairman: I think that the Committee would welcome any further information that you are able to submit by way of a note on that.

Eric Leenders: We would be happy to provide that.

The Chairman: Thank you. And thank you very much all three of you for your evidence. It has been very helpful.