



Select Committee on Financial Exclusion

Corrected oral evidence: Financial Exclusion

Tuesday 15 November 2016

11.40 am

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Members present: Baroness Tyler of Enfield (Chairman); Bishop of Birmingham; Lord Harrison; Lord Haskel; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Northbrook; Baroness Primarolo; Lord Shinkwin.

Evidence Session No. 17

Heard in Public

Questions 168 - 174

Witnesses

I: Adam Micklethwaite, Director of Business and Innovation, Tinder Foundation; Peter Wells, Policy Associate, Open Data Institute; Nick Williams, Director of Consumer Digital, Lloyds Banking Group.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Adam Micklethwaite, Peter Wells and Nick Williams.

Q168 **The Chairman:** Do take a seat and make yourselves comfortable. Let me deal with one or two formalities. Welcome to this Financial Exclusion Committee evidence session. You have in front of you a list of interests declared by members of the Committee. The meeting is being broadcast live via the parliamentary website and a transcript will be taken and published on the Committee website, but you will have an opportunity to make any corrections or amendments to it, where necessary.

Would you please say who you are and whom you represent?

Nick Williams: Good morning everybody. My name is Nick Williams and I am the consumer digital director at Lloyds Banking Group, so I look after the online banking and mobile service across the group.

Peter Wells: I am Peter Wells and I represent the Open Data Institute.

Adam Micklethwaite: Good morning everybody, I am Adam Micklethwaite and I am the director of business and innovation at Tinder Foundation, which is a UK digital inclusion charity.

Q169 **The Chairman:** Thank you very much. I will put the first question to all three of you, and as we move on, questions may be targeted at specific witnesses. To what extent do you feel that digital and financial exclusion overlap, are those who are digitally excluded also more likely to be financially excluded, and what can be done to mitigate those issues?

Adam Micklethwaite: There are 12.6 million adults in the UK who do not have the five basic digital skills: managing information, communicating, transacting, problem-solving, and creating. Some 5.3 million adults in the UK—just over 10% of the population—say that they have never been online, and 13% of UK adults do not use the internet currently. There is a big overlap between digital and financial exclusion, which is borne out by the Lloyds consumer digital index. I will not steal any of Nick's thunder, as he will be talking about that, but it is clear that digital and financial exclusion correlate and interrelate. One does not cause the other, but they coexist and reinforce each other. For example, 28% of unemployed people do not have the five basic digital skills, and nor do 31% of those who earn less than £9,500 a year. By way of comparison, the figure for those earning over £75,000 is 4%. So you can see that there is a correlation between, in that case, unemployment and income, and digital exclusion.

Age is also a big issue, because the likelihood of digital exclusion increases with age. We know, for example, that only 38.7% of adults aged 75 and over have used the internet in the past three months, so there is a very big age dimension. The Money Advice Service produced a market segmentation back in July that also showed this correlation, which

you can see by looking at the internet usage and smartphone ownership of people in different segments of that financial capability segmentation. For example, 58% of the most financially excluded people—the group that the Money Advice Service calls “struggling”—use the internet for less than six hours a week. That compares to between 20% and 30% for younger adults who are at the “more comfortable” end of the segmentation.

Motivation is clearly the biggest issue when it comes to addressing digital exclusion among the adult population. One in 10 adults do not intend to get online in 2016, and 50% of those say that that is because they do not need it and it is not relevant to them—they are not motivated to be online. In comparison, 18% say it is about not having the skills to get online, and 15% say it is the cost. Interestingly, that is down from 21% last year, so cost is becoming less of an issue, while motivation and core levels of interest remain the most—

The Chairman: The one thing you have not raised is people living in rural areas. In your view, are there particular issues there?

Adam Micklethwaite: There are indeed. To go along with the figures that I quoted on unemployment and income, we also know that 26% of those in rural areas do not have the five basic digital skills, which is still disproportionate compared to the UK population. Clearly, there is also an issue with connectivity in many rural areas, despite the intention to get as much of the country connected as possible.

The Chairman: Thank you. I am sure we will pick some of those other issues up as we go along.

Peter Wells: Digital and financial exclusion are very complex problems. As we heard in the stats, there are different correlations between different groups, and I am sure we will hear more from Nick from the Lloyds Bank report. Complex problems do not often lend themselves to easy solutions. Sometimes it gets missed that, actually, a lot of financially excluded people are very digitally included. For example, homeless people actually have quite a high smartphone penetration, as it is a way of getting to services, because services are inbuilt to help those people in those situations. It is important to understand that the different segments might need different solutions to help people become digitally included, financially included, or both.

There are occasionally problems with confusing correlation with causality; the two things do not necessarily lead to each other, but they can do in some cases. According to a 2015 Lloyds Bank report on small businesses that are digitally excluded, 1.85 million small and medium-sized enterprises in the UK lack basic digital and online skills. If financial services are pushed online and some of the offline services are not necessarily there and being supported, that might push some of those businesses into financial exclusion and its associated challenges. I think we will find some other interesting challenges as we look through the evidence and the questions.

Nick Williams: I will complement the things that have already been said. For me, thinking about financial and digital inclusion or exclusion, we draw out the difference between having capabilities and being completely excluded. On the financial side, 1.5 million UK adults do not have access to financial services, but we know from the research that 30 million adults in the UK lack financial well-being: that is, financial knowledge to understand how to use the financial services they can access. Similarly to what Adam quoted, the circa 6 million adults who have never used the internet is much smaller than the 12 million adults who do not have the right digital skills to be able to take advantages of the benefits it brings. Therefore it is important to draw a distinction between those who are completely excluded and those who have the access but do not have the right skills or motivation to take advantage.

The three things we would call out are motivation, which Adam mentioned, access and skills. Access has significantly improved; technology advancements in broadband and wi-fi, and mobile access have improved significantly over the last few years, albeit that it is still problematic, as you already said. It is incredibly important not to forget physical access. By definition, these customers are not online, so you access and engage with these adults through the physical channels. In my world that is the branches, but it could be libraries or youth centres. Therefore the physical access to get online is important as well as the virtual one.

On skills, it is important to understand what skills are available and how you educate and motivate. We talk about how we can get customers to think about how to earn money rather than how to learn money. How to earn money is far more motivating than how to learn about it. Then, just thinking about financial inclusion and mitigation, and access—to the banking platforms and the basic banks account—is incredibly important; identification is one of the critical barriers to getting access to that bank account in the first place.

On skills and motivation, again, there are programmes that we run in Lloyds such as the Money for Life programme, which is about educating 16 to 24 year-old vulnerable people who will not necessarily have the right educational support to be able to access financial and digital capabilities.

Lord Haskel: Nick, Lloyds Bank does excellent work on financial exclusion with things like the Lloyds consumer digital index. You should be congratulated on that. Can you tell us how these initiatives to address financial exclusion should be targeted so that we all know exactly what has to be done? Is there a role for the Money Advice Service, or its successor—it is being reorganised at the moment?

Nick Williams: I will answer your question by pulling out four or five components of what the index has told us. First, we mentioned motivation in the previous question. It is important to think about the outcomes and what you can achieve rather than the inputs into the

process. As an example, the research shows us that if you are digitally and financially able—that is, you can use the internet to buy and procure services and products—you can save on average £744 per annum, and £516 when you have a wholesale income of £15,000. So there is a significant financial benefit to being online way beyond just banking online. I am talking about being able to access things in everyday life.

There is also a much broader well-being agenda with digital inclusion. People are connected. I know from personal experience of a role in the NHS with a mental health trust that our patients who have access to digital services can connect with people 24/7. It allows you to worry less. My customers worry less about their banking because they can access the information there and then. They can check whether they can afford something before they go ahead and buy it. Partnerships are also important—that comes out of the research. No one organisation can solve this problem, so partnering needs to happen with those who have expertise and specialisms to do this. Adam and I have worked very closely together over the last three or four years, leveraging the Tinder Foundation with the ability to provide training material and access to the physical outlets such as libraries, where the UK online centres typically are, where we can help to support that.

Finally, one-to-one support is important. Again, by definition, these customers are not online. We found from the research that whether you are an individual or a small business, trusted faces in local places are the best way to engage with people to get them to build the confidence to use the service. Confidence is incredibly important; people fear the security of the internet because they do not necessarily understand some of the dangers of using it. But the benefits significantly outweigh the risk, so we need to build confidence and capability with those customers.

I would encourage the Money Advice Service to bring those two things together and to have a single dialogue, because they correlate with each other. As I said, if you think about the segment of customers who are digitally and financially excluded, around 3 million adults in the UK are in both categories, and they are the neediest. As Adam described, they are typically in rural communities, unemployed and live in housing associations. Therefore the Money Advice Service plays an incredibly important role in being able to target those who are in the most need.

The Chairman: Thank you very much. Would either of the others like to add anything to that?

Adam Micklethwaite: Briefly, I very much reinforce what Nick said. We believe that you should focus on the people for whom the barriers are greatest—the most vulnerable, who, as Nick said, are more likely to have low digital and financial capability. Their need is greatest. They put the greatest pressure on services, and by interfacing with those people you can drive other benefits too. So the focus should be on the most vulnerable. Each year, we help some 300,000 people through the UK online centres network, 86% of whom are socially excluded, so they fall

into one or more categories of being disabled, unemployed, educated below level 2, resident in social or sheltered housing or homeless. We know that community-based interventions, which work through face-to-face support and are focused on understanding the person and what makes them tick—and finding the hook that can encourage them to engage with digital—are the most effective model. We therefore urge Governments, the Money Advice Service and excellent corporate partners such as Lloyds to think about this model.

On the role of MAS, I would add to what Nick said only that the digital skills entitlement that the Government recently announced, which we hope will go through as part of the current Bill, provides a golden opportunity to do something big in this space. Opening that funding up to community-based organisations, which have the deep reach into communities and the ability to engage the most vulnerable, would be a good move. MAS may be able to help with that.

Peter Wells: I reinforce the comment about existing community groups. A lot of these things have to happen locally and in the right context, which people recognise, and they have to be built with existing community groups and work with them. That is an important lesson for us all to learn.

Q170 **Lord Shinkwin:** We have heard from a range of organisations about the problems encountered by disabled and older people: Mencap, Age UK and Citizens Advice. What specific policies or practices do your organisations have in place to try to reduce digital, and therefore financial, exclusion for particularly vulnerable groups of people, such as disabled or older people? What role would you like government to play in this area?

Nick Williams: From a policy governance perspective in the bank, we think about these things hand in hand. They are both two high-priority agendas for the group to address, and they both come with a group executive committee sponsorship, so a group executive member sponsors one of those two strands. We have a non-exec director who ultimately chairs the responsible business committee, where these two important agenda items are discussed.

On practices, we now have 22,000 digital champions. These are colleagues who have made pledges to help individuals, small business and charities get online where they are not, and we provide signposting for customers to know where to go to get help and support, whether that is online—a lot of it with Adam's organisation—on the phone or in physical outlets where they can access it. We also work closely with organisations such as AbilityNet and DAT to make sure that our own digital services are inclusive.

Our research showed that you need to think about inclusiveness from both ends of the spectrum. We have a population of young people who are very digitally savvy but not necessarily educated in financial well-being. They have not had the life experiences to understand what a credit card is, what a loan is for, what a mortgage and a pension will be needed

for. Then we have an older demographic who have life experiences and have had time to create wealth for themselves but who are not necessarily digitally included. Actually, it is the 40 to 49 year-olds who benefit most, because they typically have both skills. So we think about this at both ends of the spectrum.

Reading age is important, and understanding the reading age of your site when thinking about the literacy skills of the general population. Typically, 1 in 7 has a reading age of around 11. Some online sites need a reading age of 21, so you need further education to understand the content. We work closely with the Royal National Institute of Blind People, and with the deaf society for sign videos. Typically, 40% of our customers could be in a vulnerable state. A physical or mental disability, a bereavement, giving birth, getting married, getting divorced—all these things make people feel slightly anxious or uncomfortable, so we have to think about all those different states. Some are traits and some are states.

I would like the Government to focus on how we can bring these two agendas together. Coming back to the previous question—they overlap—it is about using the existing complementary physical outlets to engage. We need a digital strategy that complements the Government's underlying objectives, not a competing strategy against existing priorities.

Peter Wells: A lot of our work is on infrastructure. We are about getting data and content to people, so that they can build services targeted at particular groups and needs. Obviously that infrastructure is necessary, but it is not sufficient; we need that work to be stimulated. A lot of the work is on making sure that the infrastructure is easy to use and is as impactful and open as possible. We do that by making sure that all the content and the data that we and our partners produce is openly licensed, so that people can rebadge it and re-form it into different shapes, suited to people with a higher education or to people with a much lower reading age. We can reshape that content into many forms. For example, the main open banking report is 200 pages long, but we also produced a 10-page report. By shaping it into different forms we get more people to engage with it and make them aware of what is going on.

We also want to build trust by being open about how data is being used. That way, we can create trust and allow people to challenge where data is being misused. But they can do that only if they can see how the data they might pass over is being used. One example would be an authorised adult who is looking after somebody and handling their data on their behalf.

We often call for government to lead by example. Under the last Government, the Government Digital Service did some very strong work on accessibility that needs to be built on and brought to many more services.

Adam Micklethwaite: We are a digital inclusion charity, and we work with the UK online centres network, which comprises around 5,000 hyper-local organisations across the country. All of them have a deep reach into their communities, and many of them specialise in helping specific target groups such as older people and people with disabilities. We help them to build digital inclusion into that offer, so that they can ensure that these socially excluded groups are gaining digital skills.

We estimate that across our network, around 100 organisations are already providing dedicated financial and digital support programmes, and we want to build on that. We are doing three specific things. One is our work with Lloyds, and Nick. Last year, Lloyds sponsored the creation of two courses in digital money management, which are now live on our Learn My Way open learning platform. That means that in this community-based context, people are learning how to manage their money day to day and how to use and get the most from online mobile banking. We have also been working with Lloyds to help train their digital champions, which we might cover later. The courses I mentioned have been used by 19,000 people since they were launched in February 2016.

The safety point, which was mentioned, is really important. The 2016 Ofcom adults' media use and attitudes survey shows that newer users of the internet are more likely to say that they would never enter personal details online because they have security concerns, so the safety issue is particularly important. For example, 38% of newer internet users—people who have been online for less than five years—said that they would never enter their credit or debit card details, compared to a figure of 18% for people who are established users. That shows that there is a safety issue that we still need to address, and which both other witnesses have covered.

We have just launched a course on safety and protecting yourself online in partnership with TalkTalk, so we are partnering with organisations that can help to spread that message. We also have a programme in the field called Money My Way, which is funded by Comic Relief and has helped 10,000 people in its first year to gain digital skills and apply them to managing their money better. That was developed with the Money Advice Service and Citizens Advice.

Finally, we have a new research project, funding for which is being finalised. Assuming it goes ahead, it will test the introduction of assisted digital support to financial capability interventions, increasing the likelihood that those interventions will drive sustainable change in how people use digital to manage their money. That means actually helping people to complete a financial transaction as part of the intervention, which is not often done. If that goes ahead, it should enable us to generate more evidence.

Government should be maintaining funding for programmes that reach vulnerable people and engage them with digital. I have mentioned the digital skills entitlement, which is a great opportunity to do that. I echo

Nick's point about working with the private sector to leverage investment in digital, and about financial inclusion; government has a role to play there. Government can also do even more to prioritise being digitally inclusive by default, rather than just digital by default: in other words, they should think about how they can build digital inclusion into all their services and their touchpoints with citizens, as well as just designing brilliant digital services, which the Government Digital Service does well.

The Chairman: Can I just come back on that point? You talk about being digital by default. In the evidence we have received, I have always been very struck by the following quote from the Finance Foundation, which said: "If you are suffering from macular degeneration, are semi-paralysed by a stroke or suffering the side effects of chemotherapy, using self-operated technology—whether ATM, phone or computer—may prove too much of a challenge". I did not feel that I heard in your responses what you think needs to happen for those very vulnerable groups.

Nick Williams: We should have laid out that digital has to be taken in a multi-channel context. There is a danger that we focus purely on the online services, be it the internet or a mobile app. We think about it very much as a complementary service to our physical channels. There are also new channels, where you bring them together. We have video conferencing now, through which our customers can talk to our colleagues. That is a win-win, because customers whose ability to visit a branch is restricted but who still want to talk to a colleague face to face can now do that through video. One customer who is wheelchair-bound comes in every month to pay her credit card bill, but it really worries that in the winter months, when it is much harder to get to the branch, she will struggle and miss her payment. She now uses her mobile phone to pay the bill during the winter months, so she does not need to worry. Her preference is still to come into the branch if she can, but if she cannot she knows she can fall back on that.

Likewise, another Halifax customer in the north-east used to visit her branch frequently. She became her husband's primary carer when he was ill, which restricted her ability to come into the town centre. Because she is now digitally enabled through visiting one of the UK online centres, she not only does her banking with us online but explores the world with her husband. Their passion was to travel the world, and now they travel the world on Google. So there is that broader well-being. It is important that customers who are in a vulnerable state have access to multiple channels that can help their needs, whether in a physical or a digital environment.

Peter Wells: Digital by default should not mean digital only. That is not how it works. Digital is there as a tool to support human beings. That may be the human being using the service themselves, or it may be an agent acting on behalf of somebody else. Both those routes always need to be present, available and accessible.

Adam Micklethwaite: That is absolutely true. The only thing I would add is that other intermediaries can also be part of that picture. For

example, we are working with one of the NHS testbed innovation pilots in Lancashire and Cumbria. The aim is to work with people who have a variety of long-term conditions and to help them interface with more advanced forms of digital technology such as wearable tech, apps—that end of things. The partnership between the patient, the digital inclusion support worker and the clinician or doctor can also be very powerful in helping to address the additional barriers you were talking about.

Q171 Lord Harrison: Nick, you referred in your press release to physical branch presence and some locations not allowing for disabled access for various reasons, and you elaborated on that. On the digital champions initiative, are you on track to convert the 7,000 champions you created by 2015 into 20,000 by 2017? What is the advantage to your business? Is it to do with those champions' enthusiasm in communicating with the outside world? Are there any lessons that could appropriately rolled out to the industry as a whole? Are other banks biting at your ankles in trying to follow up this idea?

Nick Williams: Absolutely. First, on the numbers, I am delighted to say that we have 22,000 digital champions as I sit here today. We have seen an enormous growth in the number of colleagues stepping forward to drive this agenda forward in the last 12 months. That is predominantly because it helps colleagues to increase their own skills, and allows them to have better conversations with their customers and to help them more. We have also seen that colleagues can affiliate with it as a personal contribution: they can see the benefit in front of them when they help somebody get online there and then. The benefit for the customer is also much broader than just banking; it allows them to do many other things.

Customers do not come into the branch to learn how to use digital but because they want to have a conversation about their money. That is one reason why we put our digital champions into libraries. We created a partnership with the chief librarians. Our Halifax customers spend a day in the libraries when we run the IT taster sessions with the UK online centres. This is the "trusted faces in local places" scheme. We find that adults who go into the libraries recognise colleagues from the local branch and put that into the context of how they can help with their day-to-day skills.

It has worked by keeping it really simple. It is a simple pledge: "I am going to help two people, two organisations, every year, by giving access to great content", supported by Adam and his team, "and by having everything in one place". Through signposting, working with the Tinder Foundation and Doteveryone, we know where the charities, businesses and individuals are who are in need, so colleagues can find someone locally in the community to support. It is also about partnerships: do not try to do everything yourself. We have to remember what we are good at. We have some incredibly skilled individuals in our branches, but we are not a digital technology company, we are a bank, and we have to

remember our role in society, but also think about how we can help beyond the course of our day-to-day business.

Finally, communication is really important. You referenced competitors. Clearly, there are a number of competitors that quite visibly communicate what they are doing with their own digital champions-type programmes. However, for us, communicating locally and being able to connect is really important. This year was the 10th anniversary of Get Online Week, which we were proud to help support. We had 100 charities in our London head office helping out, and the next day we and Age UK were helping 20 adults get online. So we are trying to bring this into the local community, so we can put it into context.

Lord Harrison: You have corrupted me, because I now go round saying "trusted faces in local places".

I was concerned, Peter, when you said that 1.8 million small business may be made vulnerable because they lack the skills or are not online. Could you elaborate on that?

Peter Wells: Those businesses are spread across the country. If I were to dive into those stats, I think I would find a preponderance in rural areas, so there is a connectivity issue. A lot of those people are also sole traders. One of the things we are foreseeing is that, as more and more services move online, that is where the bigger market is. That is where services are being driven and where the greater profit is to be made, so there is a risk that some offline services start to become less available, whether that be through closing branches or just removing services. We are conscious of that and it merits further investigation. The open banking standard will allow the investigation of problems such as the availability and location of bank branches and their disabled access - understand them and people can remedy them as necessary.

Lord Harrison: A lot of small businesses where I live are up in arms at the loss of banks, for the simple reason of trying to run a small business. Adam, do you want contribute?

Adam Micklethwaite: Yes, if I may, if only to point out that digitally excluded businesses are also digitally excluded people, so you are also helping the person. Although the benefits of helping businesses to improve their digital skills are clearly first and foremost about productivity, growth and competitiveness, there is also a very strong well-being benefit. We find that a lot of the businesses we help might have multiple reasons for wanting to become more digitally capable, such as digitising their accounts so they can have their Sunday mornings back to spend with their family. So there are a whole range of different benefits.

Partly for that reason, and because there is a preponderance of digitally excluded businesses in rural areas, this year we are partnering with Google, which has an online learning platform called the digital garage that is designed to help small businesses brush up on digital skills and

learn how they can apply those in a growth context. We are partnering to take that platform out to the small businesses that would not otherwise be reached, and working in that person-centred, community-based context to understand them as people—what makes them tick—and then introduce them to the idea of digital skills for their business.

Baroness Primarolo: I just want to make sure that I understand what you are saying, Adam, when you talk about excluded small businesses in rural areas—the micro-business and the sole trader. Is it possible to divide this between those who just cannot rely on being able to do their business on the internet, so they have to have a branch, and those who have capability issues, which is what you are talking about? I am thinking of capability being the person's ability to do it, as opposed to the situation where I live. I live in a rural area and you could not do your business on the internet—it is just not reliable or fast enough to give you the constant access that even a sole trader business needs.

Adam Micklethwaite: I have lots of figures to share today, but I am afraid I do not have any to hand that deal with that problem. I would be very pleased to provide some afterwards. However, I expect that motivation is a key factor for these businesses, just as it is for the general population. You do see quite a few small business people who use social media a lot in their personal lives but who do not want to make the leap to using digital in a work context, which might ensure that they get seen more on Google searches, for example. You also get a lot of businesses saying, "I am quite happy at the moment. I don't need to boost my sales by 500% over the next five years. By word of mouth, I get by perfectly well at the moment". Then you are into this discussion about how digital could help you in other ways, not just growing your business but potentially your personal well-being.

Baroness Primarolo: I am just interested in that figure: how many are excluded because they do not have a reliable supply of the technology in the first place— and how many are excluded for the complex and interesting reasons you have given?

The Chairman: Adam, would you be able to let the Committee have a brief note on that? You said you had some facts and figures, but not at your fingertips.

Adam Micklethwaite: I am happy to look into that and to send a supplementary note.

Q172 **Lord McKenzie of Luton:** My question is about the open banking standard and is therefore addressed first to Peter. As we know, this is to be introduced fully in 2019. How will it help to address financial exclusion, and is the right support in place from all parts of the industry to ensure that the open banking standard actually works effectively?

Peter Wells: First, we need to be clear that the open banking standard is a mandatory compliance issue for the nine major UK banks, focused on retail banking. That was mandated by the Competition and Markets

Authority in the summer. The remedies that they have to undertake are that they have to publish some open data about their products, their branch locations and the location of cash machines, then they have to publish some open APIs, which will allow people to grant to other individuals access to their bank account or to their statement data from their bank account.

Lord McKenzie of Luton: Open APIs?

Peter Wells: An open API will allow people to give somebody access to their bank statement data. It is called an open API because anyone can use it, but the data is still kept secure and shared under control and consent. Therefore the remedies do not specifically include financial exclusion. Remember, these were targeted at the retail banking market and the competition. It falls back into that "necessary but not sufficient" category.

Opening up the data on branch locations, cash machines and products should increase competition in the market; it allows people to see what is happening and to build new products on top of those big banks or for the banks themselves to build products on top of their competitors. Again, opening up the statement data allows people to combine that and do interesting things with it, whether that is a better service for a sole trader or exposing my bank statement data to an agent, who might help me to manage my finances on my behalf, because I would struggle to handle it because of some issue. However, unless support is given to those supporters who are there, to stimulate that demand-side, we might find that a lot of the activity happens around people like me, who will be a far more profitable customer for many of those things. Therefore it is necessary but not sufficient; it creates an environment.

We are not involved in the current work in the UK at the moment; we were involved in the previous phases. We choose where to place our time, so we are not involved in the current work that happens with those nine big banks and Payments UK. We are doing a lot of work with organisations in France, New Zealand and Australia to see whether the organisations are there or to pick up a similar standard. Again, we might find exclusion activities happening there to tackle that challenge, which will be shared openly and could be replicated in the UK.

Nick Williams: I will build on what Peter said. There are three pieces of regulation happening at the same time that are all in the same space. You referenced open banking as one of them. The European payments service directive is the first that prescribes banks to open up the transactional data in the current account to third parties. The CMA inquiry into banking has also, as part of the remedies, asked banks to open up further information on what they hold about the customer at service level. Therefore, all three of these things will happen over the next three to four years.

Specifically, if you think about what it means for customers, it is about sharing greater information on what we call reference data. Peter referred

to branch locations and ATM locations, but there is also product information: the types of products that we offer, the rates, and so on. All that information is opened up so that anybody can consume it. The technology—API means application protocol interface—is just the way in which two systems talk to each other. They are very prevalent today; we have open banking APIs in systems today. The banks share information with the credit rating agencies in an API that allows us to credit check and credit score. That is one example of where it works today. Therefore it is an extension of that.

The second phase is then to say that, with the customer's permission, a third party will be able to access the banking information on behalf of that customer and potentially provide enhanced services such as comparing one banking provider's service to another. Therefore you will get greater and more transparent comparisons than we have today.

The third aspect of what open banking brings is the ability to make and initiate payments. Again, with a customer's permission, you may be able to send and make payments from a third-party application rather than just your bank account.

Therefore it is progressive; it will drive competition in the market, as it will require the existing banks to up their game to be able to compete with new entrants, who can come into the market and provide new services, and it will hopefully bring greater competition in transparency, so you will get greater transparency in comparisons between what the incumbent banks and the new entrants to the market can provide, and ultimately it breaks down the barriers for new entrants into the market.

Lord McKenzie of Luton: I can see how it helps competition in the market, but what will it do specifically for the most financially excluded—the poorest?

Nick Williams: I will give you two examples, one of which is fundamental. Our ability to identify customers today electronically wholly relies on the accuracy of the credit rating agencies—Experian and Equifax. Open APIs allow us to access different sources of data and share information between different banks to be able to identify people. I may be able to identify a customer who does not bank with us today, but he has a relationship with somebody else, because there is open data sharing. That will break down one of the main issues of financial exclusion, which is being able to identify customers digitally and not force them to try to find physical evidence of identification when we know that they do not have a passport or a driving licence, but they have a digital footprint. Income verification—applying for a mortgage—will become a lot easier if we can share financial information, with the customer's permission, to be able to understand. This is not just in the digital channel. Think about a customer who is in financial difficulty and who walks into a branch. The colleague in that branch can see all their financial affairs, because you can account-aggregate. I can see the loan you have with that provider, the credit card you have with this one, and

what you have with us. Now I can help you, because I can see everything that you have going on. In the past I could see only what you have with us. This will help, not only in the front-end process of opening accounts but with customers who may be in financial difficulty.

Adam Micklethwaite: I have nothing to add.

- Q173 **Lord Kirkwood of Kirkhope:** Can I take you to the universal credit environment and the work set out by the DWP, which I am sure you will all have different experiences and involvement with? The application process is digital by default. I strongly take Peter's point earlier that digital by default does not mean digital only. There is a potential saving in the DWP using digital by default, and some of that saving can be redeployed to try to help the digitally excluded. How should we be doing that? The DWP is doing lots of little pilot projects and bits and pieces, but I hope that the information we have illustrates the importance of universal credit in the whole environment that we are talking about and that we might be able to get one or two recommendations agreed by the Committee at the end of the inquiry. What direction would you push us in with regard to trying to do something with this opportunity: that is, if you think of universal credit not as the threat that everybody thinks it is but as an opportunity to try to deal with some of the important issues you have been talking to us about? What two or three things would you want us to concentrate on?

Adam Micklethwaite: I talked at the start about the overlap between digital exclusion and people on low incomes, and those such as the unemployed. The UK online centres network supports around 65,000 jobseekers each year. They are signposted directly from Jobcentre Plus, and 56% of them do not have the skills required to complete an online form. Since 2010, we estimate that we have probably helped over 100,000 people to gain digital skills and move into employment, and we have 180 centres in our network at the moment which specialise in work support. That is all by way of background; the two observations are that we hear a lot of stories—we have a lot of evidence—to show that digital by default can be a barrier for that group, both with universal credit and universal jobmatch. The critical thing is that the vast majority of this activity is unfunded by the DWP.

Lord Kirkwood of Kirkhope: Unfunded?

Adam Micklethwaite: Unfunded. This work goes on in the community sector. It is referred from Jobcentre Plus because it cannot deal with these people in the right way, and our network essentially picks up those pieces. In that context, we would certainly like to see three things happen if possible. The first would be to ensure that the operational staff in jobcentres understand the potential for digital to help their claimants as much as the claimants do. We talked earlier about digital champions. Having a digital champion programme across jobcentres would be a very good idea, so that there are more digital champions with better training so that they understand this and can build it into their touchpoints with claimants in the right way.

The second would be to introduce a digital skills assessment for all benefit claimants, again administered in jobcentres or perhaps also in community locations, and to link that to digital skills training for people without basic digital skills so that you lock in that assessment of digital skills to the claimant journey.

Finally, as I mentioned, this is not funded by the DWP at the moment, so investment in this activity would be very helpful, particularly when you see so many community organisations performing valuable functions on social exclusion and struggling from month to month.

Lord Kirkwood of Kirkhope: That is all very useful, and we will want to reflect carefully on what you have just said. I understood that universal credit, locally delivered, had a budget. From memory, it is delivered by the local authority, and there may be a block somewhere. I am certainly surprised that all this important work that you are describing is unfunded.

Adam Micklethwaite: Indeed. Most of the funding that supports that activity comes from a contract that we had with BIS and which has now moved to the Department for Education after the recent machinery of government changes. That is what supports the activity to happen. Future Digital Inclusion, which is one of our largest programmes, is designed to help 1 million people get basic digital skills over five years. We find that a lot of that money goes to helping the jobseekers who are referred. Therefore you are right that there is money there, but you referenced a set of smaller pilots and bits and pieces that are happening; there seems to be no concerted or coherent investment in this at a more strategic level.

Lord Kirkwood of Kirkhope: That is important for us to know. Thank you for that.

Peter Wells: There are two areas. A lot of the work that might be missing is in the space of skills and innovation. Adam has touched on many of the points relating to the skills space, but it is also about data literacy. We are pushing people with no digital skills at all, getting them online and giving them new tools on smartphones. We are now rolling out the open banking standard, and PSD2 and various other initiatives are coming down the road, so we are showing them that there are tools that they can use to get access to their bank accounts. How do we teach people to trust those tools, and how do we create institutions that ensure that those tools can be trusted? That area probably needs more focus, support and effort, and we hope that the banking industry, through the open banking standard, will start to look at a lot of that area.

Also, on the innovation side, there are lots of pilots around the country, which is brilliant, and lots of people trying out new things. We need to scale and support the things that work, so that when we find something that works we replicate it and scale it where we can, as that is vital. But we need to experiment in order to work out what those things are. These are hard problems.

Nick Williams: I will add a couple of things. Very few people who bank with us use one channel. Even our youngest customers will revert to a phone or a face-to-face conversation when they have a moment of truth with us. Therefore I encourage those who are designing universal credit to listen to their customers and their needs and to think about provisioning a multichannel proposition that allows those who are comfortable doing it digitally to do that. We have created digizones in our branches where customers can talk to us about their digital needs, and there are new channels; I mentioned videoconferencing and webchats. There are means of connecting to your customers through an online channel while keeping the human element in the digital channel. That is a big focus for us: how do you keep the human aspect in a digital service?

Lord Kirkwood of Kirkhope: So if you owned Jobcentre Plus you would have a digicorner in every JSA branch.

Nick Williams: Yes I would. I worked with digital champions who can support adults who are not digitally skilled so that they can learn how to do it and build their confidence over a period of time so that ultimately they will feel comfortable doing it digitally themselves. However, we also need to educate, because it is not just about accessing the money but about spending it wisely, so financial education and how to budget is important alongside the digital skills to do it.

Q174 **Lord Northbrook:** We have had an interesting session, examining the causes of digital exclusion, the relationship between digital and financial exclusion, and possible ways to mitigate the effects of that relationship.

I have one final question, which I will put to each of you. What is the one thing you would like the Committee to consider recommending when it draws up its final report?

Adam Micklethwaite: There are so many things, but I need to pick one. Investing in digital skills is the single most important thing. Digital can so often be a bolt-on rather than built in, and although there is a lot of fantastic work across government on digital inclusion and digital services, digital inclusion could speak even louder as part of that. Investment in digital skills would be great, obviously, and I know that budgets are tight but the digital skills entitlement is a great step forward.

Championing that and working out how you can get most leverage from that entitlement through community-based organisations as well as colleges and adult education providers is the one thing I would recommend. Clearly, to go back to our earlier discussions, investing in and building digital skills drives a whole range of other benefits, whether it is those that relate to the work of this Committee on financial inclusion or health and well-being, employment, earnings, savings to the NHS, and a whole range of other things. If you invest in digital, you drive big impacts elsewhere in the system.

Peter Wells: For us it would be to encourage this area to be as open as possible, whether that is through additional skills training or through the

content being open so that it can be reused by anybody across the country. It could be repackaged for different audiences, whether in multiple languages, with different accessibility and for different reading ages, or making the banking APIs and standards as open as possible so that as many people as possible can build services on top of them and target them at the groups that need help and that we want to get help to.

Nick Williams: I encourage the Committee to think about how this is one narrative and one agenda. Financial and digital inclusion have so many overlaps that there are economies of scale in having the conversation in one dialogue. It is important to think about how many of the answers to the problem lie in a non-digital channel where you can engage with adults who do not have the right financial and digital knowledge.

Finally, what pre-emptive things can we do to avoid the issue growing? How do we build financial and digital skills into education for young people so that they are there when we get to the point where they need access to these services? We are really talking about life skills. It is important that we build those life skills as early as possible in our children as they grow.

The Chairman: Thank you very much. That is the end of this session. Thank you very much indeed for coming and for answering our questions. It has been a very helpful session.