HOUSE OF LORDS

Select Committee on Financial Exclusion

Corrected oral evidence: Financial Exclusion

Tuesday 6 December 2016

10.40 am

Listen to the meeting

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

Evidence Session No. 21 Heard in Public Questions 203 - 218

Witnesses

I: Andrew Bailey, Chief Executive, Financial Conduct Authority; Christopher Woolard, Executive Director of Strategy and Competition, Financial Conduct Authority.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Andrew Bailey and Christopher Woolard.

Q203 **The Chairman:** Thank you very much indeed for coming to the Committee. Please make yourself comfortable; have a glass of water. I must apologise; I have a bit of a sore throat this morning. If we just deal with the formalities first, welcome to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live, via the parliamentary website, and a transcript of the meeting will be taken and published on the Committee website. You will have the opportunity to make any necessary corrections to that transcript. Could I ask you for the record to introduce yourself: who you are and where you are from?

Andrew Bailey: Yes. I am Andrew Bailey; I am the Chief Executive of the Financial Conduct Authority.

Christopher Woolard: I am Chris Woolard. I am Director of Strategy and Competition at the Financial Conduct Authority.

The Chairman: Thank you very much. As we go through the session and ask our questions, if you both want to respond, that is absolutely fine, but if it is an area where, when one of you has responded, the other does not have anything they particularly want to add, that is also fine.

Andrew Bailey: We got the message that you wanted to be quite disciplined about the time, so we have done an informal divvying-up and we will try to keep that to a minimum.

The Chairman: That is very helpful indeed, thank you very much.

Lord Empey: We will soon put a stop to that—it will not last long.

The Chairman: I will kick off, if I may, with the first question. The FCA currently has the power to "have regard to" the ease with which consumers in areas affected by economic or social deprivation can access financial services. If this was made into an obligation, as has been suggested by the Financial Inclusion Commission, how would that change the work you do? In answering, could you give some examples of occasions where you have used your power to have regard to those issues, and what the effect has been?

Andrew Bailey: Perhaps I could start with that and then draw out the conclusion. I want to start by saying that, in my organisation, it was apparent to me coming in as chief executive at the beginning of July that the FCA takes the whole issue of exclusion very seriously. As you may be aware, just over a month ago we published what we called *Our Future Mission* document for consultation. In there we have sought to tackle some of what I call the big questions that we face.

Because the FCA is on such a big playing field and makes a lot of choices as to the things it focuses on, it is incumbent upon us, not least of course for parliamentary accountability, to explain ourselves. One of the questions we came to that is obviously germane to this was the question of our objective in statute in respect of consumers and how we interpret that. Very broadly, you could think about that in one of two ways. You could think about it as saying, "We, in a sense, interpret that as having a responsibility to all consumers all the time, broadly equally". However, bear in mind that alongside that consumer objective there is also a duty on consumers—that is important.

To avoid, as I might say from an economist's point of view, getting lost in endless arguments about moral hazard—and I would observe that this is in the DNA of the FCA—we tend to use the term "vulnerability matters". It matters in terms of interpreting the objective and the duty. One way to, in a sense, put those together is to say that the duty operates differentially, and for the excluded and the more vulnerable, clearly the duty does not operate, and we should not assume it does, and the objective does. Therefore, we should have more emphasis on vulnerability, and we have set that out explicitly for consultation in the mission document.

I do not think that goes against the grain of what the FCA has been seeking to do. I can point, as you asked me to do, to particular things that we have done or are doing. An example of that would be the cap on payday lending. A second example would be that last week we announced that we would review the whole shooting match, if you like, of high-cost credit, because we recognise that you can get what we tend internally to call the "waterbed effect"—you push down on payday lending, but of course the risk is that it comes up somewhere else. We will be looking carefully at that. By the way, the evidence we have and get from the debt advisory services and from the numbers is that payday lending has declined. I give you those two examples of areas where the FCA has been very focused, and it has not required an obligation to do that. The "have regard to" is operable there. It is not that we ignore it.

The final point I would make is a bit of a scene-setting point, if you do not mind. We are trying, in an overarching sense, to encourage competition, because that is in our objectives. As Chris will come on to in some of the later questions, we are very keen to enable innovation, and particularly enable innovation that can help more vulnerable and excluded communities and people, because that is something we are doing, and we can give some examples.

However, we recognise that in terms of that overarching objective of competition, there are areas where we need to act to provide protection to the vulnerable, and do so, and work with the Government. As we will probably come on to later, the duty of a number of banks to provide basic bank accounts is another example where to us it makes sense to supplement competition and the market solution with an obligation sitting under it. So I hope that is useful scene-setting in the context of the first question.

The Chairman: That is very helpful, thank you. In terms of your own internal governance arrangements, do you, for example, once a year review how you have made use of that power?

Andrew Bailey: We review all our powers, in the sense of what we have done, once a year. We form a business plan, and part of that comes out of reviewing what we have done. Obviously, in terms of forming that business plan, this would form part of the thinking behind the business plan. There is a reason for doing the mission both internally and externally. Externally, as I mentioned earlier, the reason is in terms of transparency and accountability and people understanding the choices we are making. The same point, on the latter point, applies internally. The reason for doing the mission is to ensure that our staff understand why we are doing it.

There I do hope and expect that we will strengthen that, if you like. If you take the vulnerability point for a moment, whereas I would observe that, as you come into the FCA, it is in the DNA of the place, it is much better if we formalise that. That will give us a stronger approach to the question that you ask.

The Chairman: Just finally, I want to make sure I entirely understand where you are coming from. Please correct me if I have this wrong. Would I be right in saying that you do not feel at the moment that there is a particular need to strengthen it to a duty, inasmuch as you would not need to act any differently from the way you do at the moment?

Andrew Bailey: No, I do not think so. We have had some debates in the past, and Parliament has acted in the past, on the payday cap, for example, and again we might come on to this later in answer to one of the later questions. If you take the payday cap as a case in point, Parliament did quite helpfully create an obligation in that context. I would say on this—and it is before my time, so Chris is better placed to talk about it—that it is not that it changed the mindset of the FCA but that it did make it easier to do it.

Christopher Woolard: Just to reinforce that point, when we approach the question of particularly caps and restrictions of that nature, we have two tests, broadly, that we have to think about. One is whether it is appropriate to place a cap in the first place or whether there are alternative options, and then, secondly, what is the appropriate level of the cap. In that particular instance, the first question and the work around it, and indeed the legal defence that we would have had to have, was basically taken off the table because we had a very clear instruction from Parliament saying, "There will be a cap". Then it was just up to us to determine the level.

Q204 **Lord Harrison:** Good morning to you both. In that same *Our Future Mission* document you talked about, you disagreed with the Consumer

Panel's idea that the FCA should be required to impose a duty of care on banks in their dealings with customers. Andrew, you have already invoked the idea of vulnerability as a dividing line between those who might be so covered. Why did you do that? You also mentioned competition. Finally, are there any unforeseen consequences that you have divined that led you to that conclusion?

Andrew Bailey: The reason, which we did set out in short order in the document, is not that we disagree on the principle of the duty of care. It is that we took the view, and take the view, that the principles we have already set out, and to which we hold firms, in essence encapsulate what the duty of care would provide. The precise point was one of "Do we think it will add significantly to the regulatory toolkit?" and we are quite doubtful on that.

However, I was very keen that we open this up to public debate. One reason for that, on which I had quite a few discussions with the Consumer Panel, is this—and it is a bit of an imponderable. They may or may not agree precisely with what I have just said, but some of them, at least, I think, would take the view that, if you had the more explicit duty of care, it would be much more, as I said, explicit. That might enable in a sense a reduction in the amount of detailed regulation you need to do in order to get firms to do what you want them to do. Essentially, an overarching duty would substitute.

Honestly, that is a matter you can debate. We are somewhat sceptical about that, based on the history of supervising firms. When you have supervised these firms for the last 10 years—actually, more than 10 years—you become, I have to say, a little sceptical about the history of that sort of thing, and the need to be more precise in terms of what you do to get the results you want. That is a debate, but the reason for opening it up in the mission is that it is a debate I am very happy to have in the broader public consultation process. I have said this to the Consumer Panel. However, I would just re-emphasise that there is no difference in terms of our underlying philosophy.

Lord Harrison: Could you or Christopher give us an example of where invoking the idea of vulnerability makes that difference in approach?

Andrew Bailey: Do you mean between the Consumer Panel and us?

Lord Harrison: I mean how you distinguish where you go in with full guns blazing and where you do not.

Andrew Bailey: Obviously—going back to the point I made about the fact that the FCA operates on a very big landscape—we have to make a lot of choices about where we go, frankly. We cannot expect to be everywhere. That is fine, because in a sense we are making those judgments according to the harm we see to the objectives that have been given to us by Parliament. I discussed this a number of times with the Panel. The Panel was keen that we did the work across the board on high-cost credit and I think was somewhat critical that it had not happened up to now.

Personally, coming in, I was keen that we did it. There was an example where I said, "Look, this is a high priority, and we agree on it". An example, I think, where we have had a difference with the Panel is one of the other competition and market studies we did earlier this year, which was on credit cards. I should reserve my position; we have not produced all the remedies yet, so there is a way to go on this, but I think the Panel was of the view that we should have taken a stronger view on persistent high credit card indebtedness. I would only say it is not over yet as a story. Indeed, in terms of the high-cost credit story, it will feature in there as well.

Christopher, you were involved in that as well, so you may want to use that as an illustration.

Christopher Woolard: Yes. In terms of trying to think about a rule of thumb, one of the questions we look at is: what is the amount of harm? What is the amount of consumer detriment? As a matter of common sense, for someone who is on a very low income, a detriment of £30 or £40 to that individual will be proportionately much more significant and much higher than it would be for someone who is a far more sophisticated investor with lots of money to invest. So that is one of the things that guides us towards particular targets and particular issues.

The other piece, just on Andrew's example, is that when we came to look at the credit card market, we can divide the more problematic end of that market up into a number of different camps that have significant numbers of people in them. Some of those questions we look at and say, "This is about making sure that there are the right nudges, for example, in the market to try to get to the right outcome"—for example encouraging consumers towards making slightly higher repayments, which will clear up the debts more quickly. Those are the kinds of ideas that we are testing and trying at the moment.

However, there will potentially always be in such a market a group of people who do need much stronger intervention in terms of trying to deal with the detriment they are experiencing.

Lord Harrison: Thank you very much. We will watch that space with credit cards.

Q205 **Lord Northbrook:** Do you think that a well-functioning, competitive market could provide solutions to all aspects of financial exclusion? Or will there always be a need for other social policy measures? I note that one of the recommendations of the Financial Inclusion Commission's 2015 report was to place a statutory duty on the Financial Conduct Authority to promote financial inclusion as one of its core objectives. In your *Our Future Mission* statement you seem to consider this quite carefully but come down more in favour of competition than inclusion.

Andrew Bailey: It goes back to what I said in response to the Chairman's question. We start from wanting to encourage a market in which there is competition and innovation. However, we recognise that, frankly, for the market to work there do need to be some underpinnings that impose duties and obligations. A case in point—this is an interesting one in the sense that the Treasury have created the obligation but we will essentially enforce it—is the duty on banks to provide basic bank accounts.

We think that makes sense: there is a basic model of competition, but there is an underpinning, which is that we do not want that competition to work in ways that could be counter to inclusion. We think that is a sensible way to do it, with the emphasis on competition and then an emphasis on identifying areas where it is not necessarily going to function to provide the outcomes that we want.

Christopher Woolard: Perhaps I can just build on that for a second. While the theoretical answer is, "Yes, a well-functioning, competitive market should meet all these needs", we know in practice that there are areas where the market will not get there. In the discussion document on access that we published earlier this year, we identify three broad groups. One is around simply what is termed "the void": in other words, there is just an absence of a particular product or a particular service in the market that meets a particular need.

There is a question around how consumers navigate the space, and if there is a lot of complexity that stops people getting to the right solutions for them. Then there is a question around particularly eligibility: even if you need a particular product, do you have a mixture of the right identity and the right credit score—whatever it might be—to access that particular product? So there will be those gaps that are there.

On the competition piece, one of the things it is worth stressing in the context of the work we have done around encouraging innovation and in particular the regulatory sandbox is that people tend to think of this as a very high-end, high-tech series of initiatives—and of course they are, but there are services in there that are focused on how to encourage things like micro-savings and how to meet the needs of groups of people who might not access the banking system in a mainstream way. That is one of the things we are very keen to encourage. It is that blend of formal interventions and trying to get people to come in to fill some of these gaps on a more commercial basis as well.

Lord Northbrook: Is there any more you can do to explain the cost of products to consumers so that people with less knowledge and ability do not go for the higher-cost product?

Andrew Bailey: Yes. That is an important area, and one where we are doing a lot of work. This really comes, as you rightly say, to the question of what information is useful information in the context of the judgments that consumers make. One of the challenges that the FCA has made to the industry in recent years, and continues to make, is to challenge the assumption that more information is always for the best. We have done a lot of work in what tends to be called "behavioural economics" to start to understand what particular pieces of information consumers respond to in the ways we would like them to.

I will give you an example of something that is coming in next April, although it is not particularly at all related to exclusion; it is a general point. This is in the context of premiums in insurance policies. We are introducing a requirement for the industry to quite simply tell somebody, "This is what the proposed premium is for next year, and this is what you paid last year"—not huge masses of information around it. The FCA did quite a bit of testing on consumers to say, "What is it that people will respond to?" and that conclusion came through. You raise a very important point there about countering the assumption that more information is always for the best in terms of understanding.

The Chairman: Thank you very much. We will be coming back to basic bank accounts and ID and one or two of those issues later on, but thank you for that.

Q206 **Lord Haskel:** You published an occasional paper on access to financial services earlier this year. Have you taken any further action since the paper, or was that it? Do you have a strategy for embedding access into the work of the relevant staff at the FCA?

Andrew Bailey: I will ask Chris to start on that.

Christopher Woolard: The first thing that is probably worth saying is that we published it as a discussion paper. This is an area where we are acting in a slightly different way as a regulator. We are not acting in isolation. We are trying to work with a range of different partners to try to work out what some of the solutions might be in this space. That said, there are some very specific things that we have done. To give you one example, we have a piece of work ongoing on the needs of the ageing population in general, which we hope to bring to a conclusion this side of the summer. In it, we will publish a strategy on what we intend to do as a regulator and how that work should work with the wider industry.

We are also looking at how we think about and build access questions and vulnerability questions into the work that we do day-to-day as supervisors. When we are talking to firms, what are the kinds of things that we are looking for? Again, one of the things that was highlighted in that particular document was that there is often what we call a policy and practice gap. We often find firms really thinking very carefully and hard about some of these issues at headquarters, but then the experience that people might have in a branch, particularly around questions such as power of attorney, is far more mixed. The question is how we encourage them to begin to close some of those gaps.

Lord Haskel: You have told us about the work you are doing. How many people do you have working on this—how many equivalent full-time staff?

Christopher Woolard: Within my division we have a team that looks just at consumer issues and the issues thrown up by these kinds of papers. Just over a dozen people do that on a full-time basis. We then have specific project teams. For example, at the moment we have around five staff working on a full-time basis on the ageing population work and the strategy around that. Other pieces of work, again, are similarly resourced.

Andrew Bailey: I should say that all our supervisors have to take this forward with firms where we are seeking particular outcomes.

Lord Haskel: In your mission statement, then, what is the priority of providing access? Is it near the top of the priority list?

Andrew Bailey: It is near the top of the priority list in terms of access to what I call "core financial services". We put a strong emphasis on this. We will seek to do that in a number of ways, and we can come on to discuss some of those. Some of them will involve other authorities, but it is very high on our list of priorities, because obviously if we have a population that does not have access to financial services, frankly we are not really achieving our outcomes.

Q207 **The Chairman:** Could I just come back on that? I am very interested indeed to hear that you are working on a paper about the needs of an ageing population. I have a particular interest, both in social policy terms and in personal terms: I have an awful lot of experience of going into banks with power of attorney documents. As you say, it has been a very mixed experience. Could you say how you are getting views fed in, particularly from the sector that represents older people, and how you are getting a full range of perspectives for that work?

Christopher Woolard: We have been taking this work in a series of stages. Perhaps unusually for us as a regulator, one of the first things we did was to put together a document effectively as a consultation document. Rather than us writing it, however, we got all sorts of different stakeholders to write their particular perspectives, including a number of the groups you referred to. So we have tried to make this as broad a conversation as we can from the start.

The second thing is that we are trying to ground this very much in practical experience and consumer research around what people encounter and find, rather than, "What is the theory here?" We want to try to get to a series of practical solutions. Finally, as I said in my opening comments, this is less about us acting as a regulator with a big stick. It is more about using some of the softer convening powers that we have, and bringing to the table a variety of people who, for the most part, do want to try to do the right thing here, but there is a very complex landscape to negotiate.

Andrew Bailey: You interestingly raise the question of power of attorney, and I have had the same experience as you in the last few years as well. We are not alone, clearly. However, that is an example of a public policy issue that is outside our remit. In the mission document we did explicitly raise this question about being clear on the boundaries where our responsibilities come up to the responsibilities of other parts of public policy.

That is an area where what we can helpfully do, with you and with Parliament, is highlight the issue. It will require addressing by another part of Government, effectively, because it is more into the legal domain than we would naturally operate in. It clearly is relevant to us, however, for the reason you give, which is that it can have a direct effect on people's ability to access financial services when they are in a condition of vulnerability.

The Chairman: Thank you very much. It is very interesting to hear about your wider remit and how you discharge that.

Q208 **Lord Empey:** Good morning. What impact, if any, has the Access to Banking protocol had on the way bank closures are carried out, and how do you see this in the future? I obviously would refer you to the FSB's report, *Locked Out*, where it said, "Awareness of consultation or engagement exercises on behalf of banks is effectively zero". Do you recognise that sort of response as what is happening on the ground?

Andrew Bailey: I had some sympathy—and this was the point made, if I remember rightly, in the Griggs report. The word "consultation" is possibly somewhat misused in that context. I do not think we can pretend it is something that it is not. There is a missing piece here that I will come on to. What is important is that our general approach to branch closures is that we do not think it is appropriate to stand in the way of an approach that has to recognise the big shift in the way the population is accessing financial services generally. This is the shift from face-to-face in a building to online, digital and what have you.

However, clearly the vulnerability question comes back into play. It is very important that when closures do take place, there is a proper assessment of the alternatives. The missing piece, I think, is this: it is not sufficiently understood how most of the population can access their bank account through a post office. Insofar as this is a utility function, not a pure commercial function, the post office is the more natural utility. In my personal view, I do not think that is well enough understood. I would speculate that if we went out and surveyed the population and said, "How well do you understand this?" we would not get a result that was particularly encouraging.

Lord Empey: If I may add, first of all, banks are not social services; they are there to make money for their shareholders. Once they have decided, after an internal review, they consult and so on; but have you any evidence that these consultations result in a change to the original decisions? There is a conflict between the commercial driver behind a bank and a situation where you are in a rural area with small businesses that need to go and get change for their tills for the weekend or whatever. Surely we have a fundamentally conflicted position here.

Andrew Bailey: We could do. I would say it comes back to this point about banks operating, as you have said, as commercial organisations and us not wanting to stand in the way of innovation in the provision of financial services. Can we point to banks reversing closure programmes as a result? I think that would be quite hard to do, and I think that was the implication you were drawing. We have seen a bit of a movement, particularly in the larger building societies, to move into areas where banks are pulling out.

That is not illogical at all, because in one sense the role of a mutual is to service its members, and they operate on a very different basis. You made the point about shareholders, and it is a different basis. There is quite a bit of sense in that, in the sense of where the mutual side of the sector fits in, in that they can fit in. They are not charities, but they can operate on a different basis. They can, frankly, operate on a lower return on capital in that sense, in terms of what they are returning, because they can choose to service their members in different ways.

The second point I would go back to is that it would be better if there was a more thoroughgoing assessment of what post offices in areas do and a much better understanding among the population of how they can use that as a substitute facility.

Q209 **Lord Shinkwin:** Andrew, you stressed that vulnerability matters to the FCA and, Chris, you talked about the proportionality of detriment. I am just thinking that, from an older person's or a disabled person's perspective in terms of detriment, the stress of having a bank close is pretty huge. I am just interested to know what the FCA is doing to ease that stress for vulnerable people.

Christopher Woolard: Clearly that is part of what is wrapped up in a bank closure and the question that was talked about a moment ago. One of the questions from our perspective is: are there things we can do as a regulator to encourage people to think about some of the solutions that might not be completely obvious but are possible, when we are talking about access to bank branches?

One of the things we have in our innovation piece of work is something we call "reg tech": regulatory technology. In other words, how do you apply technology to try to solve regulatory problems or issues? The first session we ever had, where we brought together a mixture of technology firms and some of the larger banks in the market, a few months back, was: "What happens in the event of a branch closure?" and "Is there a part"—and I will stress "a part", because clearly some people do not have access to technology or, indeed, that is part of the problem—"that technology can play in solving some of those issues?"

For example, you may as a bank have decided that you simply do not have enough customers to justify keeping a branch open, but is there a much easier way of giving them access electronically to basic banking services, or to be able to talk to a human being, albeit through an internet connection, to do some of their basic banking? Out of that initiative we now have three commercial propositions that are being worked on in the market by those firms. They will not be the whole answer; they absolutely will not be the whole answer.

However, anything we can do there that begins to say, "How do we make this slightly easier, particularly for people who have problems travelling to the branch in the first place, and would obviously have a much longer journey to the next nearest branch?" is the sort of thing we are trying to foster.

Andrew Bailey: I have another slightly unfortunate example that is, sadly, relevant, and we have a big case on this at the moment, where customers have been mis-sold by banks, and that obviously causes great stress. The example I am about to give is payment protection insurance—the biggest of all. One of the things we are actively engaged with at the moment is the question of whether we draw the payment protection insurance saga to a close. We are and have been consulting on that.

Working with groups representing both the disabled and the elderly, one of the concerns is that, if we were to do that, we would have to be quite clear that the arrangements are in place by which the elderly and the disabled, and those with other vulnerabilities, feel they can get access. They need to feel that they can get equal access to provision for redress. Frankly, that does not mean leaving them in the hands of claims management companies, which, I am afraid, will not on the whole be very sympathetic to that one. That is something we are working on very actively at the moment, because we are very cognisant of the need to do that.

The Chairman: Christopher, could I just ask you something? You referred to the work you are doing about the needs of an ageing population. I think you said that you had already done one early paper, or something like that. Is that in the public domain, or is that an internal document?

Christopher Woolard: No, that is published and in the public domain, and there is also a short update in the public domain as well.

Andrew Bailey: It is published on our website.

Q210 **Lord Fellowes:** I have a couple of follow-ups on that last conversation. I had better just reiterate my declared interest that I retired from Barclays after 10 years working for them in 2009. You talk about protecting vulnerable customers. Does that protection extend to ensuring that vulnerable consumers have access to appropriate products and services?

Christopher Woolard: In terms of the work we do around products and services, it varies to some degree. As Andrew said earlier, there are certain initiatives, for example the Government's initiatives on basic bank accounts, where we are asked to essentially oversee how that process may be going. We certainly look to try to encourage what I would describe as simplification, where that is in the interests of consumers. One of the things we looked at when we looked at the cash savings market is to say, "There is a high degree of confusion around this market, simply because there are so many products out there. But the actual provision of a particular service at a particular time does not sit within our remit".

A good example of that is if we think about insurance for people who live on flood plains. The provision of Flood Re as a means of ensuring that householders can still get insurance there is very much a matter for Government and a matter of social policy.

Lord Fellowes: Inevitably, it is for the person on the spot to try to help individuals in different ways. I understood you to say, from what you said previously, that the Post Office does have a role in filling a gap for customers.

Andrew Bailey: Yes, although, as I said, it is a role that is not well enough understood or publicised. As I said at the beginning, we are trying to balance having competition and a market economy with an underpinning of utility protection, and the Post Office does play a role there. It is an important role, and is an important role for the future of post offices, frankly, as well.

Q211 **Viscount Brookeborough:** Just before I ask my question, can I just ask something more about the Post Office? What authority do you have over the Post Office? Everybody, not just yourselves just now but when we have talked to banks, says "Oh, the Post Office can do it; the Post Office has a role to play". Nobody has really said where there role is dictated from.

Andrew Bailey: We are not the regulator.

Viscount Brookeborough: And nobody has said what they must do, and what they can really do, especially as you are talking about, as Lord Empey was mentioning, shops taking in their cash for the week, or requiring more change. That cannot be done electronically, as far as I am aware: cash will not just arrive on the table. So could you define more what you expect the Post Office to do? We should bear in mind that many of the post offices are now not being run as sole post offices but are in shops, and that the staff are very good—we have one at home—but they are not always as capable as the person used to be.

Andrew Bailey: It is interesting. I was not making a point that said we wanted the Post Office to do more than it offers to do now.

Viscount Brookeborough: But we do not know what it is really capable of doing.

Andrew Bailey: That is the point, yes. In many ways I was making a point in a similar vein to the point you just made. Post offices offer more services today than probably many of the population would realise they offer, it seems to me. By the way, we do not regulate the Post Office, to answer your question.

Viscount Brookeborough: That was the point. Who does?

Andrew Bailey: For the Post Office itself, it is now the Government, I think.

Viscount Brookeborough: But if they are going to provide the sort of services that you already regulate in other areas—

Andrew Bailey: Yes; it would be very sensible after this to have an engagement with them about how they see their role on this side. I would assume, but it is an assumption, that they would be in a sense quite prepared to be publicised more, because after all it helps to embed the Post Office function, which is a good thing. I would suggest that it is sensible and a good point to have more engagement with them as an outcome of this as to what their role is.

Viscount Brookeborough: I just want a yes or no answer. Would you like to have more influence on them?

Andrew Bailey: I would not say influence, because I am very clear about what our role is and is not. This is part of the thing we drew out in the mission document. However, where a public policy issue—and this obviously is a public policy issue—comes up to the boundary of what we do and what they do, I would be very happy to be part of the engagement. I would be happy to say, as part of the work we do on engagement, as Chris was saying, "What scope is there to work together?" There is also a role for government there, I suspect.

Christopher Woolard: If I might just add to that for a second, there are a couple of things, I suppose. It is worth saying that where the Post Office offers financial instruments in its own name, it has a partnership with the Bank of Ireland, and we do obviously regulate the Bank of Ireland, so there is a flow-through on those things. The formal regulation of parts of the Post Office piece sits with Ofcom. It took on postal services some years back, and clearly there is, as you say, a limitation as to what can be done at a local post office, simply in terms of the complexity or the referral on. However, physical cash is clearly one of the things in which post offices lead the market.

The other observation I would just make, which is a historical one, is that I used to be a civil servant and I was responsible for the Royal Mail. I spent quite a bit of time going out, a couple of times a year, being in a post office branch. In terms of having contact with the most vulnerable consumers, I suspect that the Post Office has far more experience of that than most banks probably do.

Lord Empey: Could I just ask a supplementary? The Post Office is a business as well. Is there not a danger that they see themselves as becoming the provider of banking services of last resort? Therefore, everybody could say, "Oh, well, they will take care of it", and dump on them all the stuff that is not really of any money-making value. I could see a shared conflict there developing very rapidly.

Christopher Woolard: As you say, though, the Post Office and the Royal Mail are run as a commercial business. If they are the last provider in town of access to a particular service, I cannot speak for them but I suspect that they would expect to be properly remunerated for doing that service. That has certainly been their strategy for some years.

Andrew Bailey: I would just say that you do not have to bank with the Bank of Ireland to use the Post Office for an agency service. They have a tied relationship with the Bank of Ireland, but you do not have to bank with the Bank of Ireland to use the Post Office.

Q212 **Viscount Brookeborough:** My question is on basic bank accounts. From what we have heard, from when they first came in they reduced the number of people without bank accounts by 50%, so they must be doing a very good job in principle. However, we have also heard that banks could quite frankly do more to promote them to those whom they might help. How would you rate the success of the agreement on basic bank accounts between the Treasury and the major banks?

Andrew Bailey: It has changed, because in September the Treasury moved to a situation where they are designating banks with a legal duty to provide the accounts. There is a duty on us to supervise that that legal duty is put into effect. I agree with you: the evidence was that the previous arrangement did make a difference, but the review that the Treasury did indicated that it was important that they wanted a firmer underpinning of it with a duty. That is quite sensible.

Viscount Brookeborough: Do you think that banks do enough to promote it, first of all perhaps to people who have current accounts that are dormant, because they are unable to use them properly? Secondly, do they advertise them widely enough outside the bank to people who quite simply do not come in—in other words, people who do not have a bank account anywhere? I do not think I have ever seen, apart from in a bank, anything about a basic bank account.

Christopher Woolard: It is fair to say that inside a branch, once you are through the door, certainly I have noticed that there is a reasonable amount of literature there promoting basic bank accounts. In fairness, that does exist. Clearly there are a number of players in this particular space—a number of interested bodies—including the Money Advice Service, which try to draw attention to what is available to others. There is a question of how far the industry collectively seeks to promote these things. That is a fair question, which in part is behind where the Treasury has come from, as Andrew has already mentioned.

Lord Empey: Is it not the case, Chair, that we are asking a commercial organisation to promote something that will lose it money?

The Chairman: That contradiction or tension is certainly what other people who have given us evidence have pointed out.

Andrew Bailey: I understand that, but it goes back to the point I made at the start: in a sense, that is part of the understanding. It makes sense not to regard the banks as utilities in a non-commercial sense. We think it makes sense to promote competition and innovation. However, the deal is that there is a certain amount of, frankly, duty and requirement upon them to underpin that. That, I think, is the system that we have and are developing at the moment.

Viscount Brookeborough: Surely this is like a supermarket with a loss leader, in that it is simply a stage or a step, perhaps, into getting them to have a profitable bank account.

Andrew Bailey: It is, but you have to be a little careful that you do not encourage them to move people too quickly. One of the criticisms of that world is that that leads to an enthusiasm to move people from the basic bank account and into trouble. So there is a risk in that, if it becomes too enthusiastic.

Q213 **Lord Northbrook:** Moving on to the area of opening bank accounts and identity documentation, the Committee has heard that people are sometimes unable to open bank accounts due to inconsistencies within or between banks on issues such as ID requirements. Clearly we know that banks have to verify the identity and domicile of potential customers under anti-money laundering and know-your-customer regulations. However, from evidence we have received, the Travelling communities, homeless people, victims of domestic violence and ex-offenders were among those cited as finding the requirements particularly difficult.

The BBA has outlined to us how the banking system is attempting to address the issue, and it is working with the industry to try to bring a bit more consistency and clarity across the banks as to what sort of ID documents are acceptable. There are particular problems with photo IDs at the moment. Do you think this is an area that should just be left to the BBA to sort out, or do you think the FCA should step in and try to help clarify the issue?

Andrew Bailey: The sensible approach is to let the BBA and the advisory panel to the Financial Inclusion Commission work up a set of procedures on what is acceptable documentation. If that were to not bear fruit, we and all the Government would have to play a role. You are correct in identifying that there is no point setting up the facilities to have basic bank accounts and then finding people cannot get them because of ID.

You are also right to say, of course, that there is an underlying tension here that goes well beyond the financially excluded, in terms of where it is right to draw the line between what is acceptable and robust financial crime prevention, and what is restricting access to having bank accounts. That is quite a big issue, frankly. In this area, the sensible thing to do is to let the work on acceptable documentation take place, and then judge what they come up with. If they do not solve it, we will have to think of another approach.

Q214 **Lord Haskel:** You introduced major reforms to payday lending in 2014 and 2015, and as a result some of it has gone away. Has it gone away, or has it gone underground, and have your aims been achieved?

Andrew Bailey: That is a very interesting question, and that is why we announced formally last week that we are going to do the two-year review of the measures that we brought in. This is the whole area around the price cap. Alongside that, as I said earlier, we are going to review the rest of high-cost credit. It is an interesting question. Since I became chief executive, I have spent time visiting a number of the centres that deal with debt advice around the country. I was in Birmingham, Manchester and the East End of London recently.

It is an absolutely fascinating thing to do, and I have also talked to the people who do the phone advisory. They have given me their views, and indeed their evidence, because they collect the evidence, on what has been going on. I also met what is called the national Illegal Money Lending Team in Birmingham, which is attached to Birmingham City Council, and got their views on it. To draw it all together, their evidence is that there has been quite a sharp reduction in payday lending, which we obviously see in the statistics we gather as well. The Illegal Money Lending Team said to me that, while they still have quite a big issue with illegal lending, they do not see that it has particularly increased as a consequence of that.

It is interesting. When you talk to the people in the centres, their view is that a number of things have happened. The average scale of debt problems that they get brought to them has gone down, in the sense that people are tending to go into debt problems rather earlier, at rather lower levels of debt. In addition, the mix of the debt has changed quite a bit, so that more of the debt now, where people have debt problems, is now direct debt to utility companies and local councils or local authorities. You could draw a number of conclusions from that. One is that there is just less payday lending, so the mix is changing, or secondly that people are not refinancing or avoiding council tax problems by refinancing with payday lenders. I do not think it is quite clear what the answer is to that at the moment.

However, it has signalled a shift in the mix of debt for problem debtors. You then have the other aspects of high-cost credit, which are still there, and that includes the so-called "rent to own" sector, which has obviously got quite a lot of attention recently as well. This is the case of how much the cost of credit is to buy a washing machine if you are in the rent-to-own sector, and how it is up to three times as much to buy a washing machine in that than if you go into a shop and buy one. We are going to be reviewing that, and indeed we already are reviewing rent to own.

Payday lending is quite interesting. There is a definite reduction in it. There is some evidence, I think they would say, of spillover into other areas of lending, but not probably complete. None the less, it spills over into other areas that still cause issues in their own right, and there is a greater tendency, as I say, for people to be defaulting directly on utilities, council tax and what have you.

Q215 **Viscount Brookeborough:** My question really follows on from that, but I think you have answered some of it. It was whether there are similar measures to ensure fairness in other high-cost parts of the credit market, and you are looking at that at the moment.

Andrew Bailey: The one thing I have been careful to say, because a number of journalists have assumed that we will introduce a price cap across the board, is that we have not taken any decision on that. I will just say two things on that. The price cap is a last resort, because obviously it is replacing a market solution, essentially. The second thing is that, were we to do that across the board, we would be particularly concerned about reducing the supply of credit that is needed. Some degree of credit is necessary for this sector, because they have to smooth income, for instance. If that were to force it out into the illegal lending sector, it would be a bad outcome. We do not want that outcome. Therefore it makes sense, I think, as we look at this sector, to also go back to the question, "What is a sustainable provision of credit on appropriate terms to this sector?" As well as saying what should not happen, we should also be in the business of looking at how this can be made sustainable.

Viscount Brookeborough: Does the illegal lending you are talking about come out of unofficial payday loans? Where is this?

Andrew Bailey: It is a number of things, when you talk to the teams. Some of it is the downright criminal. Some of it is just downright criminal activity. Some of it is, frankly, friends and family, which sometimes gets out of control.

Viscount Brookeborough: But you say it is illegal.

Andrew Bailey: It is illegal in the sense that it is outside the scope of regulated landing. As I say, some of it is done absolutely, I suspect, with that knowledge, and frankly the people who are doing it are clearly at the criminal end. If you talk to the teams, there are some terrible cases of what they have had to deal with, and people are now in prison for it. Some of it is done with the best of intentions, and sometimes it is done within communities. It is not done with bad intentions, but sometimes, because it is outside the regulated net, it can get out of hand.

Viscount Brookeborough: I think some of us were surprised, or at least I was, when we first learned anything about payday lending at all. I definitely thought that it was a terrible thing and should not be there. Then we learned that some of the other credits, including credit cards, can be even more expensive than payday loans. So in a way it is an indictment of the banking system not working properly that payday loans have come about, is it not?

Andrew Bailey: That is why it makes sense to review the whole thing, because, as you say, it is by no means the only piece of high-cost credit. Some of it, as you say, comes straight out of the banking system and some of it comes from alternative sources.

Viscount Brookeborough: The other thing is that we were told last week or the week before that the type of people who are getting payday loans are not necessarily the down-and-outs, who simply cannot afford it, in every case. There is a spectrum of people who are quite well off. That is what we were told.

Andrew Bailey: Yes, because in some ways, as the name suggests, it was also an access to short-term credit to smooth an income flow, which was not necessarily a particularly low income flow. It was people who were not quite managing the income they had, and wanted the benefit of that form of credit. Some of it, yes, undoubtedly was in that class.

Lord Haskel: We were also told it was easy.

Andrew Bailey: Exactly. You could be in a pub on a Friday evening and get a loan.

Q216 **Lord Harrison:** Chair, before you pose your last question, Andrew and Christopher, have any of our partners on the continent addressed the question of financial exclusion of their people that we might look at and learn from in a helpful way?

Andrew Bailey: Chris has had more experience of this. I would say, from my experience so far of the last five or six months, that the closest discussions I have had of a similar nature to what we do are with the Consumer Financial Protection Bureau in the US. They are a little under threat at the moment, of course, but in terms of the role they play, they are probably nearest to this area we have been talking about. You have more experience in this field.

Christopher Woolard: It does vary. If you look across Europe, you can see replicated most of the questions we are dealing with, which is unsurprising. If you go slightly further afield, such as the US, as Andrew said, or Australia, there is a different approach perhaps to thinking about some of the fundamental underpinnings such as pension provision, for example. Those tend to steer those particular markets into some slightly different solutions—and some slightly different problems. But it is fair to say that, when we look across the piece, most people are looking at similar issues.

The one big difference is around some of the access issues caused by identity, where most other European countries have some sort of national ID system or something like that, which cuts through a number of those.

Andrew Bailey: The other thing that distinguishes us in terms of what Parliament has set up for us is that we have on access "have regard to", which sits under the competition objective. Our competition objective is rather wider than that of a lot of other authorities. We rather like it; we think it is a good thing. The combination of competition and access probably makes us a bit different.

Lord Harrison: The EBA, ESMA, EIOPA and others have an interest in some of these issues, do they not?

Andrew Bailey: I can speak for the EBA a bit, because I used to be on the management board in my former job as a prudential regulator. They would be quite open about this. They started life as a prudential regulator. They have gradually begun to move more into conduct regulation, so they are getting more into this area, but their early years were very dominated by prudential regulation.

Q217 **Lord Northbrook:** I have noticed, Andrew, that credit card companies are luring people in with teaser rates, and then suddenly, after two or three years, ratcheting them up enormously. Has there been enough awareness that the FCA could warn people about this?

Andrew Bailey: I might get Chris to talk about this. We did do a credit card market study earlier this year, but he might want to say something about that.

Christopher Woolard: Yes. For part of that study we looked specifically at this issue and reached two conclusions, one of which is perhaps slightly surprising and the other of which is pretty obvious. On the whole, those very low-rate introductory offers do benefit consumers. There are a significant number of consumers who manage themselves within that period and use the 0% interest, or the very low interest, to pay their card down in time. So as a practice, it is not something we would want to take out of the market, because there are an awful lot of people who benefit from it.

On the other hand, one of the things we are now requiring is that there is much greater clarity about what is happening when you are approaching the end of that period and that there is plenty of notice. That gives time for a consumer to be able to take action and say, "Right, I will now switch to another 0% deal or do something about it"—as opposed to suddenly hitting a wall.

Lord Northbrook: They are not tied into it.

Christopher Woolard: Yes.

Q218 **The Chairman:** I will just draw things to an end, first of all with a point of clarification. The review that you have just announced is going to include things such as unauthorised overdrafts and things like that.

Andrew Bailey: Yes, it is.

The Chairman: I was quite surprised to read how much that was pushing people into indebtedness in quite a major way.

Andrew Bailey: That is one of the origins of it, because the Competition and Markets Authority did their work on retail banking, but they stopped a bit short, in the view of quite a few people, of covering that fully. That is why we have picked it up.

The Chairman: Finally, just to round things off, what additional powers or directions from Ministers, if any, would be helpful in allowing you to do the best possible job at the FCA in trying to tackle financial exclusion?

Andrew Bailey: To be honest with you, I do not think we are looking for any big extra powers. We have a pretty broad-ranging set of powers. As we said earlier, the payday lending cap was quite interesting. It was before my time; I was on the board but I was not on the executive. The FCA did benefit from a particular provision Parliament gave it, which Chris described earlier. It was probably earlier, was it not?

Christopher Woolard: Yes.

Andrew Bailey: That allowed it to be done more rapidly than would have been the case otherwise.

Christopher Woolard: In that particular instance, essentially we probably would have faced a legal challenge on the decision to have a cap, whereas in practice we had to take a call and be able to defend ourselves legally on just the level of the cap. That obviously makes the process a lot quicker.

Andrew Bailey: That is absolutely right. The lawyers at the FCA probably think they would have won that case eventually—but it would have been pretty prolonged.

The Chairman: If there is just one area that you are most keen that this Committee addresses itself to when putting together its recommendations, what would that area be?

Andrew Bailey: I should say this is a very important piece of work you are doing. Obviously, I hope you can see that it chimes with a lot of things that we are interested in and are doing. Highlighting areas such as the question of branch closures and alternative provision is an important one. For us the area of ageing is also important, as we were saying earlier. We will be coming out with our ageing strategy probably in the middle of next year. That is another important area. The question of account opening, documentation and identity is also important. We very much welcome what you are doing, and from our point of view it is very much in the spirit of what we are trying to do in the FCA.

The Chairman: Thank you very much. That has been very helpful, so thank you very much to both of you for your time.