



Financial Exclusion Committee

Corrected oral evidence: Financial Exclusion

Tuesday 6 December 2016

11.45 am

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

Evidence Session No 22

Heard in Public

Questions 219 – 230

Witnesses

I: Sue Fox, Chief Executive, M&S Bank; and Stephen Uden, Head of Social Investment, Nationwide Building Society.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Sue Fox and Stephen Uden.

Q219 The Chairman: Welcome. Thank you very much indeed to both of you for coming. I hope you have water and everything and are comfortable. Let me just run through a couple of 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. A transcript of the meeting will be taken and published on the Committee website and you will have an opportunity to have a look at the transcript and make any corrections where necessary. Just before we kick off with the questions, could you just, for the record, introduce yourselves, saying who you are and what organisation you represent?

Stephen Uden: Thank you for giving us the opportunity to give evidence. I am Stephen Uden and I am Head of Social Investment for the Nationwide Building Society.

Sue Fox: I am Sue Fox and I am the Chief Executive of M&S Bank.

Q220 Lord Fellowes: What sectors of the market are your products aimed at, which financial inclusion difficulties are most common among your customer base, and do you try to include any customer cohorts who might otherwise be excluded?

Stephen Uden: Who first?

The Chairman: Let us have Stephen first this time, and then Sue. We will do it the other way around next time.

Stephen Uden: I am very happy to. Nationwide, as you are probably aware, is a mutual, so we are owned by our 14.8 million members, who represent all sectors of society. We tend not to focus on the ultra-high-net-worth people, but we represent all sectors of society. Because we were set up to enable people to come together to save in order to then spend on things, notions around credit and lending are core to us. Maybe we will come to it later, but we have some quite well-developed practices around how to help avoid problem debt and help people who have financial issues deal with them. That is probably the biggest issue we have.

In terms of the vulnerable, probably illustrative of our approach was the issue around helping people who have had a cancer diagnosis to get access. I took our executive committee along to the Macmillan Cancer Centre at University College Hospital, and they met with the Macmillan team. It was quite shocking to realise that people were very afraid to go to their financial services provider—it was 2% of people—and yet

Macmillan get more calls around finances than they do around the health implications of cancer.

Off the back of that, we created a specialist support centre, which started off focused on people with cancer issues, but we have grown and used it as a vehicle to provide good-quality support around other areas. We are now extending it to motor neurone disease, Parkinson's and other specialist conditions. Where our members are coming across issues that will affect them and cause them risk of detriment, we will always as a building society try to do our best, within the constraints we have, to support them.

Lord Fellowes: But the financially excluded are pretty rare in your customer base. It depends what you call excluded, of course.

Stephen Uden: Yes. The definition is as broad as you want it. We will probably come to basic bank accounts later, but we certainly make sure we represent people who have relatively small amounts of money. You can open a savings account for £1, and indeed we have lots of people with very small balances. We want this to be very much a membership organisation. In some ways our solution to problem debt is to make sure that people have at least enough savings to be able to see them through those peaks and troughs in their income. Because we have quite a lot of people who have relatively limited means—and that is where the building societies came from—we are well represented among basic bank accounts in terms of our offering.

Sue Fox: From the perspective of M&S Bank, we launched in 2012, building on the foundations of M&S Money, and the aim was to bring M&S brand value, those values of trust and service and value, to banking. We have developed a range of very simple and easy to understand products and services, and very much view ourselves as a credible alternative to the high street banks. We are inclusive to all. We now believe that we include all sectors of society and all customer groups, in having something that is appealing to everyone.

Because of that, and similar to what Stephen was saying, we see customers with a broad range of vulnerabilities. Financial exclusion covers many more areas than just people who are in financial detriment or financially challenged—low incomes. We look at people with permanent vulnerabilities such as physical or mental health issues, physical disabilities and situational vulnerabilities. People will maybe enter the organisation without being financially vulnerable, and something might happen in their lives that creates that situation. Bereavement would be an example.

We work hard to ensure that we invest in systems and technologies that address those issues, particularly around accessibility. For the hearing impaired, we have just recently launched video-sign relay, so that people can communicate with our contact centres, which is really important to us. We have revised all our bereavement policies and our training around

bereavement to ensure that that process is as painless as possible for customers through that very challenging time. Our business is working towards being a dementia-friendly business, and we have commenced Dementia Friends training for all our employees, including me and other executives in the business, from earlier this year.

Lord Fellowes: It is not necessarily anything to do with being an M&S customer.

Sue Fox: Absolutely not, no.

The Chairman: As a quick follow-up on that point, is it the case broadly that the services and products you are offering through M&S Bank would be aimed at the same sort of customer base who use Marks & Spencer more generally?

Sue Fox: We are uniquely positioned as a challenger bank but we have significant heritage. Historically, when the business was established in 1985, there was a proportion of customers who took what was the original store card product. It was very much a customer shopping who had a financial product that supported that shopping experience. However, products have been added over the years, and when we launched M&S Bank in 2012 and created our current account, it was very much intended to be broader than someone who would be an everyday shopper at M&S. It is worth noting that there are many millions of shoppers, because there are 21 million visits to M&S stores per week. That in itself is a broad range of people who are using M&S for a shopping experience and have an affinity to the brand, but the brand has a broader appeal than just to the shoppers.

Q221 **Lord Haskell:** Nationwide has been an enthusiastic and early adopter of fintech. How do you think fintech can be used to help address exclusion issues for your customers, and how do you address the potential for decreasing digital exclusion with the increasing reliance on digital channels?

Stephen Uden: That is a very good point. We regard ourselves as the original crowdfunders, because a bunch of savers coming together to provide a mortgage for somebody is effectively crowdfunding. I should probably declare a bit of an interest, because four years ago I joined Nationwide having spent 25 years in the technology industry, so I have seen technology in all its forms. We are very passionate about its potential to transform and improve services, but our philosophy is not that technology should replace services but that it should enable people to deliver great service. I will give you an example in a second.

Essentially, technology is a great servant but a poor master. We are building services into our branches, and continuing to invest in our branch network, to equip the people in there to provide great service. For example, in smaller branches it may not be very economical to provide a mortgage adviser, so we have created a service called Nationwide NOW. This is a high-speed broadband video link that enables one of our

mortgage advisers in Bournemouth—we have several hundred—to speak to a client in Oban or somewhere else and offer them a mortgage. They can order them local tea and coffee; they can print out documents and receive documents. They can do the whole service, to the degree that we have seen people who have gone up and tried to shake the hand of the person on the screen, so immersed have they been in the experience.

That is using technology to support the branch staff to deliver the service. If you are interested, we are running this in 400 branches, and if you would like to see one local to where you are based, or indeed the branch in Victoria Street, we would be happy to demonstrate it. That is using technology to enable people to deliver great service, to keep branches open and to support them.

In fact, we have opened a branch recently in Glastonbury, which we have called a community contract branch. Glastonbury is one of those places where the last branch had closed, so there were no banking services there. We had not been there originally. We went to the local community and worked with the local stakeholders and said, "Look, if you would like, and enough of you will say that you will open and use an account with Nationwide, we will open a first branch back in town. We can do that more cost-effectively than others because we will use Nationwide NOW and some of our other services to provide some of the services there".

It has been really successful and over 1,000 people have signed up to do it. We are now in the process of opening that as a new branch, very much as a community branch. The community are aware that they need to deliver the level of volume of business to make it economical because, as somebody said in the previous session, we are not a charity, and it is our members' money that we are investing. However, we believe that we can show, with a relatively small number of people signing up, that you can create an economic branch. Again, that is using technology to deliver, and empower individuals to deliver, great service, rather than to replace the human interaction.

Lord Haskel: You are using technology within your own business. People who are less familiar with technology may prefer to have physical presence, and that is what M&S has, presumably, because the branches are in your shops. Many people have told us that there needs to be a continued physical presence in order to avoid creating digital barriers. Is this part of your policy?

Sue Fox: Yes, absolutely. Similar to what Stephen has said in terms of investment in digital and technology, it is very much customer-led as well. I want to make the point that customers are increasingly more demanding about speed and ease to access our services, because many customers are used to using that type of technology in other parts of their lives. However, it is about enhancing the customer experience for us. To your point around branches, branches are our newest channel, which is probably unique.

We have had online capability for a number of years. We have had telephony, so we have a 24/7 contact centre, and when we launched M&S Bank, it was really important to us that we gave customers another way of interacting with us. That was what customers told us at the time they wanted. That is a new strategy for us, and we continue to invest in that face-to-face presence. It is customer choice. It really is about customers. We have many customers who will start a process or a customer journey with us in one channel and see it through another, and then service through another. They are equally important, I would say, but definitely a core part of the strategy is to have somewhere for people to go.

Lord Haskel: A physical presence—yes.

Sue Fox: Yes, somewhere for people to go.

The Chairman: Stephen, just so I understand the point about how you are bringing together the digital advances with the physical presence, in the very interesting example you gave, I did not quite understand who was pouring the cup of tea at the other end. Can you just explain that to me—how you have brought those two bits together?

Stephen Uden: We are not de-manning our branches completely, and if you walk into our branches somebody will welcome and greet you and direct you to the right services. However, some of the services might be specialist and may not be economical. Therefore it is those people who can do it down the line. What happens is that the person who is speaking through the screen to the customer can order the local tea and coffee, and something pops up in the branch, so the local branch staff bring it in and deliver it for people. It creates a nice, cosy, people-friendly service, where people feel they are, and are, being serviced by individuals, but we are using technology to do it when it would not be economic to maintain in a small branch in a small village or small town otherwise. They can still access the full range of services. It is the empowering the person with technology that is the bit that makes the difference.

Lord Haskel: Do you find that the lack of public understanding of fintech is holding you back? Do you feel that part of what we have to do, to try to decrease exclusion, is to help the public understand fintech better?

Stephen Uden: I spent many years running digital inclusion programmes, trying to get people to adopt digital technology—with some success but, to be honest, that is quite a difficult way to approach it. The thing for me is to provide the services that enable people to deliver a personal service but make it easy for them to do it. An example of that would be our next-generation banking app, through which, if you are a young person minded that way—and many people want to access our services that way—you can do the whole thing on the phone. You can originate a whole mortgage through that route.

If you go into a branch, though, and you are maybe a little unsure, the branch staff will show you how to do it on the iPad in the branch. That might be somebody who is digitally nervous, shall we say. Then

somebody who does not really want to have any engagement with digital—some of our members, not all elderly, do not want to touch technology at all—would just interact with a member of staff. The member of staff would have the same app on the iPad and do it for them there and then. You are using the technology to support the person who is doing the customer service, and we very much believe in service through people, but doing it in different ways.

Some younger people do not want to go into a branch and see somebody. They want to do it on their sofa, watching TV. They can do that, all the way through to somebody who does not want any engagement with technology. But we can have a single underlying infrastructure—that is important from a cost-of-delivery perspective—that underpins the interaction, however you want to engage with it.

Q222 Lord Northbrook: I think to a certain extent you have answered this question. The Committee has heard that fintech could lower costs to the extent that many people who are currently financially excluded could one day become profitable customers. Do you agree with this, or do you think there will always be a proportion of potential customers who will be financially excluded because of age?

Sue Fox: I am happy to answer that one first. It is an interesting question. From the perspective of M&S Bank in particular, the principles on which we make the decision to provide financial products and services are based on the suitability of those products for those individuals. They are based very much on customer need; it is not a cost-based decision. If, for instance, we are unable to provide lending to a particular customer, because we feel that that would be particularly challenging from an affordability perspective for that customer, the ability to deliver it in a lower cost way would not change that decision.

It is good that, similar to what Stephen said in the last answer, customers are able to interact in many different ways, and it is their choice how they interact with us. We see that digital investment from our perspective as very much around customer experience and not about reducing costs. All our products and services are available on all our channels, so customers can interact with one or all them. They do not get a different type of product or a different pricing structure. We do not incentivise customers to use one channel over another. It is not something that would inform our decision-making in the future with regard to financial products and services.

Stephen Uden: I would completely agree with that. It can dramatically reduce the cost, but that is probably not the way in which to come at it. It should be from a customer perspective, exactly as you said.

The Chairman: Stephen, in your business model, is it also the case that whichever channel customers choose to use, it is the same pricing structure to them? Is there any sort of differential pricing structure?

Stephen Uden: Yes, the delivered cost to the member is the same regardless. There is no differential. Our cost of delivery through different channels obviously will vary.

The Chairman: Of course, yes. Thank you very much.

Lord Harrison: Stephen, when you were describing this human being leaping out at us to offer financial services, I was thrown back to Saturday night and watching *Match of the Day*. They manage to project a player out and meet up, so I am beginning to fathom this very curious world.

Lord Empey: I thought you were going to talk about Ed Balls there for a minute.

Q223 **Lord Harrison:** Sue, if I can concentrate on you, many people are concerned—I think of the community I live in—about the closure of bank branches, which is then a driver to financial exclusion for a lot of disabled people, older people and lower-income people. You in many ways have developed this model of placing the banks inside retail services. Again, I have to say, my mind was taken with the earlier conversations we had with Andrew Bailey about the role of post offices; I thought that was fascinating. What has been the element of success where you pursued this model of rolling out the M&S Bank within other retail services?

Sue Fox: In terms of success, I would just like to start by saying that when we measure customer satisfaction in our branches, which we do monthly, we achieve over 90% satisfaction continually, so clearly we are doing something right in our branches. To go back to why we did it, it is our newest channel. It is something we felt was very important and we wanted to invest in. That is what our customers, when we launched our first current account and became a more mainstream provider of financial services, said they wanted. They wanted somebody to talk to.

The idea of putting the bank branches in stores meets a lot of that customer feedback and demand. We talked to nearly 4,000 customers before we put pen to paper on what those branches would look and feel like. Having a bank branch in-store gives us convenience in extended opening hours, because the banks are open when the stores are open, and those stores could be open up to 89 hours per week. We have evenings and weekends, which are very popular times for our bank branches. Customers liked it; they told us they wanted to be able to bank while they shop.

In terms of the look and feel of the bank branches as well, it was a big learning for us regarding finding out what customers wanted. They wanted a much more relaxing environment. If you have visited an M&S Bank branch, it will not look potentially as you would expect a bank branch to look. There is a much more retail feel and a much more relaxed environment. We have customers who come and sit and have a drink and just have a chat, and that is the kind of environment we wanted to create. Customers told us they did not like queueing in other banks they

have been to, so we do not have it. We have a mechanism where we give them pagers. They can carry on and do shopping, go and have a coffee in a café, and we will call them when we are ready to have a conversation.

We include tiny details like having hooks under ATMs, because you would not know unless you asked a customer that they felt quite vulnerable when they were getting cash from an ATM and putting their bag on the floor. They want to be able to have that in close proximity to them. Building on that feedback, we designed those bank branches exactly as the customers said they wanted them.

I visited a store and a bank branch about three weeks ago, and when I do that I do customer focus groups as well. I talked to a number of customers, and they continued to reinforce the fact that they like the fact that they know all the staff in the branch, they know them by name, and no problem is too small. That is the thing: they can go in for anything, and even if it is just a minor issue, they do not feel embarrassed that they are going in to ask the bank for help or just for some advice. That is the principle on which we developed our bank branches.

Q224 Viscount Brookeborough: You talk about your customers and your customers now banking with you. Do you think there are many people who were not customers before whom you have attracted from outside your customer frame? Okay, they are bound to have bought something from you afterwards, because your food is so good.

Sue Fox: Absolutely. We very much see that our banking service is quite independent and should be attractive to all customers.

Viscount Brookeborough: How do you quantify that? Is it quite a large proportion of them?

Sue Fox: We have a legacy customer base who would have been those original customers, who have stayed with us for a long time and would have had the original store cards. In terms of customers we acquire today, they look very different. They have banked elsewhere. Many customers who apply for current accounts with us now are already banked somewhere else, or they do not have any other M&S Bank financial products. We very much see that we are bringing people in. Everyone knows the brand. There is a trust and an element of: "If M&S are offering something, their products are very simple, straightforward, easy to understand, no charges, no hidden fees, everything else", then it is definitely a draw to people who potentially would not have been the traditional M&S shopper.

Q225 Lord Shinkwin: Sue, I was very interested to hear earlier about your work relating to dementia awareness and, Stephen, about the work you have done with Macmillan and people affected by cancer. I used to work at the charity and have some fond memories. My question is in three parts, and what you are saying about people with cancer and dementia relates to the first, which is identification. How do you identify customers who are in or at risk of financial exclusion? The second part relates to

support. What support would you offer to such customers? The third is about referral. How active are you in referring customers to organisations that might offer assistance?

Stephen Uden: Those are really good points, because sometimes people at risk of financial exclusion do not necessarily present as such. On vulnerable customers, as well as the specialist support centre that I referred to earlier, we have trained all 17,000 of our staff, even those who are not customer-facing, on the identification of vulnerable customers, at least to make sure they can make a referral, if relevant, to that central service. That central service, as well, refers on to organisations we partner with: obviously there is Macmillan, and we help fund their financial advice service as well, but others that we work with too.

When it comes to debt, which is one of the big areas, one thing that helps us quite a bit is having a reputation of being an organisation that is quite understanding about people who are potentially facing debt. We have what we call a money worries team, a triage team effectively, who get about 5,000 calls per month from people who have not missed a payment but are concerned that they might need to do so, which as I am sure you will know is a much better time to engage. We can do far more about it then than when the debts become highly problematic.

We have also introduced, and I would be happy to send you details on this, what we call a money advice liaison manager, who works across the business units and works with debt management charities. We work with StepChange, the Money Advice Trust and a number of others. The money advice liaison manager helps to make sure that the people who are in the business dealing with customers are aware of the issues, that we are taking on board best practice and that we are working with charities and third parties to embed that in our debt management practice.

I venture that that is one of the reasons why we have a good reputation for managing it. It is not just because of our own expertise but because we call on the expertise of those people who are working in the field every day and really understand it. Your question is spot on in the sense that it is not just identification; it is how you deal with people, but you will never have the expertise in-house to deal with very specialist circumstances. Therefore, it is also having that broader set of connections to be able to refer people on.

The Chairman: Would it be possible, as you offered, to send the Committee a short note about how that works—the way you are interacting and referring with the third sector and charities and the like?

Stephen Uden: I would be delighted to.

Sue Fox: There are three ways that we approach the identification and then the support that we provide to those who find themselves in difficulty. We can do that through systems, so we have some technology that helps us identify particular cases of vulnerability, which I will expand

on in a second. We do it through policies and procedures, and how we develop those policies and procedures to make sure the support is enhanced wherever possible, particularly around situational aspects of vulnerability, and knowledge and education, similar to what Stephen has talked about. It is important that our employees know how to spot something that has changed with a customer.

In terms of the Dementia Friends in particular, we are robustly going through that training. It is aligned to the fact that we also chose the Alzheimer's Society as our charity partner. Our employees chose that, and we have a large community focus and CSR focus in our business, so we are using the Alzheimer's Society to help us in terms of the ongoing education and support we can provide to those individuals.

In terms of an example of some of the systems, the technology identifies people who were perhaps not vulnerable when they joined but are becoming vulnerable, similar to Stephen's example around people who find themselves in financial difficulty. We have a system that helps us identify changes in account behaviour: limited utilisation, repayment changes—anything that would indicate that somebody is at a very early stage of coming into financial difficulty. They may have lost their job and they have not told us.

That gives us the opportunity for very early proactive contact with those customers. We have a financial support team who can look at solutions for them in terms of whether we want to stop charging interest for a period of time or agree a different type of repayment plan or structure for those individuals. In that, we will also signpost debt management environments and people who can help them. We work very proactively with StepChange. In terms of what we would consider customers in that challenging situation today from a repayment perspective, around 10% of that in our business is being actively managed by StepChange. We signpost that on our website as well, and for anyone who thinks they are going into financial difficulty, or if they have accessibility issues through other vulnerabilities, we signpost everything we offer and what is available to them.

In terms of more situational stuff, I talked about our bereavement policies as well. That has been very much enhanced in the last year or so. We have developed guides for customers, and our customers have asked us for more of the guides that we have developed and provided to them, so they can give them to friends and family who have not had those kinds of guides. We take that kind of responsibility to help people very seriously.

We have a general insurance business as well, so we are very proactive around events that are beyond a customer's control. If you think of something like an extreme weather event, we have a home insurance to help customers. In the serious flooding 12 months ago, we proactively contacted customers within postcodes we thought might have been affected. We did not wait for them to see if they could claim or whether

they had insurance. We were very proactive, and we have a similar approach to training and education. It is really important for customers that they spot the signs. They have to spot the signs of customers telling us things that would indicate that circumstances have changed for them, so that they can make sure that we can offer that support.

Q226 Viscount Brookeborough: This is for Stephen, because it is about basic bank accounts and you provide them. What has been the level of the take-up with your organisation? Since the launch of it, has there been a decline in the number of customers who have been rejected totally for the current account and therefore you did not have anything to offer them previously? How do you market the basic bank account, and to what extent do you market outside your customer base?

Stephen Uden: We already have lots of basic savings accounts. We are already in that sector, and so when the revised agreement for basic bank accounts came out, we were very much involved in that and particularly welcomed the transparency around it. I do not have the figures in terms of our detailed market share and decline rates. What I can say, though, is that it is very much in line with our overall market share of current accounts, which is about 7%. But I believe the Government are about to announce very shortly market share figures, which were part of their transparency agreement and will therefore be in the public domain shortly.

To your other question around prominence, we very much in-branch make it available. It is part of our portfolio of offerings. We do not direct people towards it or away from it. One thing that would make it very difficult for us to promote a particular offering is that we do not incentivise any of our branch staff. We do not have sales quotas on anything, and therefore they do not have sales quotas on basic bank accounts either. We still have a good market share and we recognise that it is an important part of the market that we have always served and it is something that basic bank accounts enable us to do.

It is also worth just adding that, while the point was made in the previous session that it would be wrong to encourage people to move out of them, people's circumstances do change. We see a significant amount of turnover of people who had basic bank accounts at one point naturally migrating into other services over time. It is often a particular life stage for many people and, as their life stages develop, they will move on to other services.

Viscount Brookeborough: Do you have protocols in place so that, if somebody is being turned down for a current account, they are absolutely guaranteed at that stage to be offered a basic bank account?

Stephen Uden: Yes. Our purpose, our reason for being, is to serve our members, so we would always seek to try to find them the appropriate product if somebody is coming into branch. If it is clear that a regular current account will not meet their needs or they would not qualify for it,

we would always seek to say, "Is there a better alternative?" That would be completely endemic in our culture.

Q227 **Lord Harrison:** Sue, basic bank accounts are not provided by M&S, we understand, even though HSBC have signed up to what the Government are encouraging firms like yours to do. What is the rationale behind that?

Sue Fox: As I talked about previously, our entry into the current account market is quite recent, so we are new and we are establishing ourselves as a current account provider today. The vast majority of customers who come to us for current accounts—a high 90%, I would say, although I do not have the exact details—are already banked. They are coming to us because they see us as an alternative to a traditional high street bank and something different. That is how we positioned ourselves. We wanted people to see there was an alternative to the big four, including HSBC.

Lord Harrison: I feel there is a big "but" coming, and you will give us good news.

Sue Fox: At the moment we have very high accept rates, as well, so over 90% of customers who apply for our current account in stores, for example, in bank branches, are accepted. We do not have customers telling us that they need an alternative today, but as our products develop and our market share grows, if we get that feedback from customers that there are more that need a more basic-type bank account than the one we offer, we will absolutely consider offering one.

Lord Harrison: You would not think an old cynic like me would think you are trying to spurn that opportunity of providing a basic bank account.

Sue Fox: No. Our current account today is a very straightforward account and very easy to understand. There is no minimum balance criterion. It comes with an automatic £500 overdraft, with no charges and interest free for the first £100. If a customer has come to us and we have not been able to offer that product, we have examples where we have said, "We will have another look at that customer if they want us to", and we will just take the overdraft away. That way they may still qualify to have banking facilities with us.

Lord Harrison: Would you refer them up to HSBC's other facilities?

Sue Fox: We have not had need to do that, and if we did—and, as I say, as demand increases, if that becomes the case—we would talk to our customers about the availability of basic bank accounts with other providers. However, we would not be brand-specific. We would not see it as our role to say, "You should go to HSBC in particular". That would be customer choice.

The Chairman: Just so I fully understand that last point, you said there has not been the demand so far for you to have a basic bank account, but you said you have acceptance rates of 90%. What currently happens to the 10%?

Sue Fox: The majority of customers who are coming to us, which is higher than that—I would say very close to 100%—are already banked. They may have come to us because they see us as an alternative, but they have a bank account, so they may not have succeeded in transferring to us, but they have not said to us that that has caused them any difficulty.

Q228 **Lord Empey:** This is a question we have asked virtually everybody that has come before us, and that is the question of ID. It seems bizarre in this day and age, but it seems to be a major obstacle, and is in fact creating and adding to the problems that we see. Have you looked at alternative ways of identifying people, or would you need any government support in order to introduce any alternative mechanisms? It seems to be, from what we are learning, quite an issue.

Sue Fox: Clearly it is important. We have a responsibility to customers and society in general to know whom we are banking to prevent financial crime. We understand it sometimes can be challenging for customers to provide, in certain circumstances, appropriate identification. We have not seen it as huge problem in our business to date, because of what I said before. People are switching from other providers, so they have probably already had to provide identification. We electronically identify wherever possible. Of our current accounts, 90% are validated and electronically identified, so you would not have to produce any more documentation. That said, where we do require documentation we try to make that as broad as possible and give people every opportunity to positively identify themselves. It is important that we can demonstrate we know whom we are doing business with, but it is not a tick-box exercise.

Lord Empey: Would the provision or presentation of DWP documentation be of any help to you?

Sue Fox: Yes, any kind of government-issued documentation. We have a list of standard documentation that we accept. However, we have also empowered our people to exercise judgment if we feel there are special circumstances—for example, customers who are in a care home.

Lord Empey: You are not operating in a vacuum, because there is a legal requirement.

Sue Fox: Exactly. For us, I want to be able to create in our business the ability to say, “We have fulfilled our duty of care to society and the individual that we can positively identify”, rather than being so rigid around, “It has to be a photo ID of this description”. In terms of other types of documentation, we will do that on a case-by-case basis where people are in special circumstances. We allow our teams to exercise judgment in that regard as well. We recognise that it could be a problem, but obviously in our business, particularly given that we can electronically identify 90% of customers, it is not huge for us today. We do not see it as a big issue.

Stephen Uden: Certainly, we have regulatory requirements that we have to deliver, but there is quite a broad range of documents that can be acceptable. The challenge is often that front-line staff do not necessarily know about that. Coming back to the point of empowering front-line staff to deliver great service, we have a clear list with which we equip them, saying, "These are the other documents that you may not come across very often but would be acceptable", such as a universal credit welcome letter. First, they are trained to know where to go and look, and then they are encouraged to check on that list. We have found that is accessed quite a lot and is quite useful. The danger otherwise is if the staff are not aware of it and people do not present themselves in a way that is familiar, and they know there is very strong regulatory scrutiny around knowing your customer, by just saying no they are playing it safe.

Lord Empey: That is one of the issues that has been coming up with us. Staff maybe find themselves at risk of making a mistake, and then they would suffer an internal sanction for making a mistake.

Stephen Uden: For everybody in Nationwide, from the top down, but certainly the staff they are dealing with, part of their remuneration and measurement of their success is around customer service. Therefore, the people who do the training have a strong incentive, and I have a strong incentive, to make sure that those front-line staff are aware of all the options so that they can better support people. Those organisations, I suspect, that invest heavily in staff training and staff empowerment would be the ones where that kind of service and those different options are better serviced. If you have somebody who has very little time and very little training, they will always struggle to be able to look up things from a list.

Sue Fox: We benefit in M&S Bank from having a culture of wanting to say yes and wanting to do the right thing for customers in the first place. We are also relatively new to current accounts, so we do not have the legacy issue of this principle of there being an adverse sanction if you get it wrong. We can start from a principle of, "We want to do business with customers wherever possible and we will be as flexible as possible, but within the regulatory guidelines that we need to adhere to".

The Chairman: Sue, could you just explain, very simply and very briefly, when you have talked about electronic identification, what you mean precisely?

Sue Fox: Based on the information that a customer gives us on their application, we can use centrally held data—voter roll information, credit bureau information—to give us the likelihood that we are dealing with the person that is being presented to us. When that is a pass, it is a pass, and we would not ask for any further documentation.

Q229 **Lord Haskell:** Nationwide is one of the few mutuals that did not become a bank. It has worked out well.

Stephen Uden: It has. We are very proud of that.

Lord Haskel: Does mutual ownership make a difference in the way the organisation addresses financial exclusion or the way you deal with financially excluded people?

Stephen Uden: It is easy to say, and people do, "It is different for Nationwide because they are a mutual; they do not have shareholders. They can do that". The one thing that mutuality does for us is make sure that we are absolutely focused on our customers. I could name a number, not necessarily in financial services but certainly across the commercial sector, of shareholder-owned, for-profit companies that have an absolute focus on their customer. That is the key thing; mutuality gives us that really strong reason to do it.

There are some things that we do that maybe others would not do. Post the referendum vote, we announced a number of things to provide stability around consumer finance, a five-point plan, having consulted with some of our members. We have also created a Brexit consumer panel, drawing together a number of experts like Citizens Advice, MoneySavingExpert and so on, to help look at what challenges and questions are coming up from consumers in response to it.

There are some things we probably do more vigorously because we are originally, and still act today as, a collective of people who come together to tackle things they could not do alone. However, that core thing about whether you really respond to your customers is something that any commercial organisation can—and many do—step up to.

Lord Haskel: Most commercial organisations try to look after their customers as best they can. Do you feel that in mutual ownership there is something special that gives it the edge?

Stephen Uden: Yes. We can take decisions that are backed by our members that are not, of themselves, commercially attractive. Nationwide was originally founded with a social purpose, and its commercial purpose came later. You might wonder at my slightly unusual job title of Head of Social Investment. That is because we make investments where we are looking to make a commercial and social return. That lens is certainly very helpful but, as I think someone in the previous session said, we are not a charity. We need to make a commercial return in order to reinvest in next-generation banking apps. We over-invest in customer service and branch networks, but we do that because that is what our members tell us they want us to be doing.

Q230 **The Chairman:** To wrap things up, I wondered if you could tell us—and this is something we have asked all our witnesses—if there is one recommendation that you would like to see this Committee making to the Government when it draws up its report, what that would be.

Sue Fox: It is pretty straightforward. We take financial inclusion and vulnerability really seriously; I do personally, and we do on our board. We believe it warrants dedicated focus and resource at government level.

Stephen Uden: I was tempted to say “extending financial education into primary school”, but I decided not to say that. We certainly do financial education across the board, and we certainly believe that developing good, strong financial habits has a strong value. The thing we would focus on would be around the role of government in sharing some of the good practice that exists more broadly. The Government itself has done some very good work in that area, around bereavement, for example, with Tell Us Once. It would be very easy to create a blueprint and encourage other organisations to do that and show how they are doing it.

I talked to you earlier about the specialist support centre. We have decided that is not an area where we want to achieve a competitive advantage, so we have not signed an NDA with Macmillan around that, and we do not sign NDAs with the other organisations we work with. In fact, we want them to be effectively disclosure agreements. We want to share what we do and use it to lead the sector. Government has a role in taking those blueprints, encouraging others to take and adopt them, and sharing its own good practice as well to get people to adopt them. That would be the one thing that would be very simple and practical and would not take a lot of investment. There are a lot of good works out there, as I am sure you have heard through your evidence sessions. Making sure that those things are being taken, adopted and applied across companies would make a huge difference.

The Chairman: Thank you both very much indeed. Thank you very much for your time. It has been a very good session.