

TRANSCRIPT OF ORAL EVIDENCE

MINUTES OF EVIDENCE
TAKEN BEFORE
FINANCIAL INCLUSION COMMISSION

THE FAWCETT ROOM, THE WOMEN'S ORGANISATION, LIVERPOOL L1 0AB

TUESDAY 2 DECEMBER 2014

MR PETER FITZHENRY, MS SIW JONES AND MR MIKE KNIGHT

Oral Evidence

Taken before the Financial Inclusion Commission

Members present

Sir Sherard Cowper-Coles (In the Chair)

Laurie Edmans

Dame Mary Marsh

Chris Pond MP

Jennifer Duncan and Lisa Stidle, in attendance from the Commission

Examination of Witnesses

Witnesses: **Mr Peter Fitzhenry**, Director of Housing and Management, Golden Gates Housing Trust, **Ms Siw Jones**, Chief Officer, North Liverpool Citizens Advice Bureau, and **Mr Mike Knight**, Manager, Riverside Credit Union, gave evidence.

Chairman: What I would like is for each of you to make an opening statement about your thoughts in this area, but I will first explain, very briefly, what the Commission and introduce the commissioners. The idea of the Commission I think came from Chris Pond, sitting on my left, a former minister in the DWP, but he has acted in this area for a while. He made a point, which on hearing it, I completely agreed with. Since Brian Pomeroy's taskforce on financial inclusion was wound up in 2011, very little has been done, at least at the level of national politics, about financial inclusion in the UK, paradoxically at a time when it is moving up the agenda internationally with the World Bank and the Gates Foundation and a lot of areas around the world. Chris suggested that there was time for a group to get together, take stock of the unfinished business in this area and then report in the run up to the next election.

The plan is for us to probably towards the end of February produce a pretty short menu of areas of unfinished business which we would like the new government, starting on Friday 8 May next year, to address. We will map these out, not in a very specific way. Well, maybe quite specific, but we are not going to produce pages and pages of recommendations. But we really point out that there are still getting on for two million adults in this country who do not have bank accounts with Universal Credit, if it ever happens. We would like to hear your views on that. There are 12 million people living in households affected by Universal Credit. There are also sorts of other things: rising interest rates and

the new freedom over pension pots that are going to affect this area. So we would very much like to hear your views.

I will just introduce the commissioners who are here today and the team around the table. I am Sir Sherard Cowper-Coles. I am a former diplomat but I was hired just more than a year ago by HSBC to work on a number public policy issues for our chairman and chief executive. The one that has really interested me and excited me has been financial inclusion, and I have been looking globally at what the HSBC Group should be doing about it. The focus here has been in the UK and, rather to my surprise, I had met Chris and Brian Pomeroy, and others, and as I looked at financial inclusion and I was asked to chair this Commission and I am doing it very much with agreement of HSBC. Shall we just perhaps just go around the table with everyone introducing themselves?

Alaina Wong: Hi. I am Alaina. I am mainly here assisting Sherard. I am a policy assistant helping out with the Commission, but also I am organising or helping to organise a financial inclusion conference in January.

Ms Stidle: I am Lisa Stidle, so I would have been in touch with all of you already. I am working as one of the co-ordinators of the Commission, helping with the organisation and also some of the research that will go into the Commission's final report.

Ms Duncan: So I am Jennifer Duncan. I am, like Ms Stidle, a co-ordinator. I was seconded from MasterCard, who have a corporate objective about promoting financial inclusion, which is why they wanted to support this project and feel strongly about it.

Mr Pond: I am Chris Pond. As Sherard said, I used to be a Member of Parliament. I have been going straight for a number of years, during which time I worked at the Financial Services Authority for a while, so maybe that is not so straight. My day job is for a thing called Kreab Gavin Anderson, which is a Scandinavian communications agency. But I also chair a thing called the Money Charity. And this is almost my day job now as Vice-chair of the Commission.

Dame Marsh: I am Dame Mary Marsh and my main work currently is in the charities sector. Previously, I was Chief Executive at the NSPCC, and I am now running a small charity, and I have executive roles in a number of places, including the Cabinet Office but also on one of the subsidiary boards of HSBC.

Mr Edmans: I am Laurie Edmans. I am from the world of pensions and investment, so I am still

trying to go straight. I have been involved though with more the financial capability rather than financial inclusion agenda for the best part of 20 years now in its various guises, starting from the fact that when I was running a life assurance company I really wanted to use products and services that actually did the job for the people thinking it would be good for them and good for us in the long run. Still struggling.

Mr Pond: It will never catch on, Laurie.

Mr Edmans: One day, Chris, one day. I have 50 years in financial services this year and my faith in natural justice is still marvellously intact. If we do the right things we get the right results. So I have been involved in most of the formulations of financial capability work since the FSA started on that track in 1998. And the latest one, no easier than easier than any of the others, is I am on the board of the Money Advice Service.

Chairman: Great. Shall we start with you, Siw, if you would like to.

Dame Marsh: Explain the record-keeping.

Chairman: Yes, sorry. We are taking a transcript, which we will use in reaching our conclusions. I think that will be eventually placed on our website.

Ms Duncan: After this we will email you the transcript just to check you are happy with it and then we will just put all the evidence available on the website. So I will just explain. Graham is looking menacingly at me in the corner with his big camera. Basically, because we are trying to be more inclusive rather than writing a long written report we are trying to do video clips about the Commission and people's views on financial inclusion. So that is why Graham might grab you at some point just to ask you a few questions about financial inclusion.

Q. Chairman: Okay. Thank you very much. So, Siw, if you would like to tell us a little bit about your work in this area and views on what we should be doing.

Ms Jones: I am Chief Officer of North Liverpool Citizens Advice Bureau. So we are serving some of the most socio-economically deprived wards in the city and therefore the country, and we are one of five CABs in the city. Between us we see about 20,000 people and listen to about 55,000 different enquiries. Now, only about 30% of our clients are in employment. The rest of them would be unemployed sick carers or pensioners. Average household income for our clients is considerably

lower than the Liverpool average of £22,000, which is in itself lower than the national average.

So really what I am saying is that the client group that we work with are precisely those that are at risk of financial exclusion, and the fact that 80% of the enquiries that they bring to us are related to money, problems with money management, problems with benefits of problem with debt indicate, actually, that they are at the sharp end of financial exclusion. So my comments are based upon experience of working with a group that are in that situation are I would not want to extrapolate that for the wider population necessarily. So I just wanted to say that was what, essentially, our evidence is based on.

As you would expect our clients have difficulty budgeting because of inadequate income. They more for essential services whether it is credit or whether it is electricity, gas etc. – the poverty premium. They tend to have higher levels of debt than the average population, particularly priority debt. They not to have or, I think more importantly, do not use bank accounts. I think the majority of our clients would have a bank account but whether they are using it for advantage is the issue really. I think overwhelmingly our feeling is that over the past three years maybe the position of those clients has become more entrenched. I think in the kind of late 90s/early 2000s we were looking at moves forward away from kind of immediate money management problems, looking at things like the savings gateway and [inaudible] trust funds, which were beginning to be little levers to help people look forward and looking at saving for the future and so on. But I think we are at the stage now for those of our clients who are working where we see more flexible contracts, more zero hour contracts, which makes it difficult to manage money for the future. And for those of our clients who are not working the impact of welfare reform is enormous.

I think what we would like to stay about that really is cut to benefits are one thing but the major problem for our clients is the uncertainty that welfare reforms brought: people being moved from incapacity benefit onto jobseekers allowance quite often with inadequate decision-making, delays in benefit payments, greater use of sanctions in quite an arbitrary way for people who are job seekers, reliance on short-term discretionary payments to make up the shortfall of the bedroom tax, and the removal of the right to receive benefit while you are challenging a decision before it goes to appeal. All those things have created conditions where it is really difficult for anybody to have any certainty about their money and that is a real barrier to long-term thinking about money, which is what is needed if people are to become more financially included.

I think people in those circumstances often regard their transactional bank accounts as quite

dangerous because if you not sure what benefits are going into your bank account on a weekly or monthly basis then you are not going to want to have direct debits coming out of them, so you end up not using the cheapest means of payment and relying on cash payments or prepayments and so on. And it also encourages crisis borrowing from high interest lenders. So I think we are seeing more of that, and I think for those of us who have been involved in working in the advice sector and working on financial inclusion projects for quite a long time that is quite disheartening really. It feels like a step backwards.

The introduction of Universal Credit we think is an opportunity to provide people with the structure to take more responsibility for planning their finances. It is a challenge. Monthly payments are a challenge. Paying your own rent directly is a challenge. But there is provision with the Universal Credit framework, I am sure you know it, for personalised budgeting support.

Now, in Liverpool we have only had the role out since the beginning of October just to people without dependants, straightforward what would be JSA claims. The Citizens Advice Service in Liverpool has agreed to take on the responsibility for the personalised budgeting support. As yet we have not had any referrals at all in the first two months, which is disappointing for us because I think we see that as essential part if Universal Credit is to work. So universal is a threat, I think, but it is also an opportunity if it is used properly to its full extent and if the support is put in place. I am probably going on to long here, am I not?

Chairman: No, very fascinating.

Ms Jones: As an organisation we have been in financial inclusion initiatives for quite some time, mainly, as Laurie said, around financial capability elements. So we have done a lot of good workshops going back 10 or 15 years really with single parents, young people, and ex-offenders. More recently we have been doing more one-to-one work, getting involved in improving financial confidence, programmes that the lottery are financing for social housing tenants, which I think have been really important. And we also host a money advisor through the Money Advice Service, sort of a generic financial advice service, which again is a useful tool to look beyond crisis advice and to start helping people start looking longer term at their financial situation.

We are also involved in social policy and campaigning work. There were two things that I wanted to draw your attention to really. One is we are doing some work around the Fair Play for Prepay campaign, which Citizens Advice have started nationally. I think for a while we had been focussed

on getting people to use the cheapest method for paying for gas and electricity and focussing on checking and switching. It is not appropriate for a lot of people and for some people actually prepayment metres make the best sense in the situation they are in at the moment, but there is no reason why they cannot have the same opportunities of choice of tariff and the same level of quality of customer service as people who pay by direct debit or whatever can enjoy. So in a sense we have almost labelled people that use prepayment metres as financially excluded, and I think there is an opportunity there to say, 'Okay. That is a rational choice for you to use that method of payment, but there is no reason why you should be penalised for using that method of payment'. And that method of payment needs to be brought into the mainstream fold and be a better quality service and more choice.

The other campaign we are involved in locally, initially, was around monitoring the practice of bailiffs who are collecting unpaid Magistrates' Court fines. And, of course, most of those Magistrates' Court fines we find for our clients are for unpaid television licenses. And I think that is indicative of the kind of priority debt there is amongst our client group. If you are living on job seekers allowance as a single person paying for your TV license is something like 3% or 4% of your weekly income. If it is your first television license and you are trying to pay on the cash easy entry you have to pay for it in six months, so it then becomes about 7% of your weekly income. People are almost set up to fail there. They then get fined. They cannot afford to pay the fine or they ignore the fine. They then have bailiff's costs. So they can end up paying £500–£600 and be under an awful lot of stress and feel stigmatised and criminalised by what for people on an average income would be a very small amount of money to pay. So I suppose what we are saying is that it takes a disproportionate amount of people's income, there is disproportionate penalties for not paying and it actually that feeling of hopelessness and stigmatisation hinders people's feeling of being in the mainstream financially. So we would like to see decriminalisation and we would also like to see license priced according to your ability to pay or to be part of the mainstream tax system, which would be a form a means testing really, but it is a small part of people's expenditure but is something that has for people who get into that cycle of not having a licence, going down that route and coming out the other end of it substantially worse of and still not having a license it compounds their financial exclusion.

And the final thing that I would like to say really is about digital inclusion and the kind of threats and opportunities there. We did a survey of some of our clients last year, which we think was a representative cross-section. About 40% did not have regular access to the internet and 50% did not feel confident using online services to manage their money, benefit claims and so on. So that is a

major challenge, obviously. But we also see through our debt clients the ease of access to some financial product on the internet is actually compounding people's debt issues, access to high interest lending in crisis situations, pay day loans and so on, and vulnerability to scams or misunderstandings in the small print.

I think this year's issue is broker fees for finding a loan, which people are not aware that they are paying. So they will put their bank details and discover that those payments come out of the bank for searching for a loan, which they did not actually get. We have also seen examples of that information then being sold onto other companies who then also take a broker's fee, so people have multiple brokers' fees taken from their bank accounts. So I am making that point to illustrate really that not only is their need for internet access but there is also need for internet education, and the two things go hand in hand. And that is one of the initiatives we are working on at the moment with Liverpool City Council, which is to set up a network of digital advice and support hubs in community locations in the five most deprived wards in the city. And the idea there is that we combine the provision of internet online access for people with advice support and the support of an advisor who can also guide people not just in the technical aspects of getting online but looking at the sensible way to use sites to benefit their own financial wellbeing. So I leave it there. That is quite an important initiative.

Chairman: That is very, very interesting. Peter?

Mr Fitzhenry: Thank you, Chair. Perhaps what I will do is I will just give you an overview of Golden Gates Housing in Warrington, some of the switches that we have seen in our approach over the past three to four years, and maybe give you some of our experiences around Universal Credit. I am interested in some of the things that Siw said. We have got practical experiences I think that link to what she was saying.

Golden Gates Housing Trust is Warrington Borough's largest social landlord, 8,700 properties. We previously belonged to the Borough Council but we were set up as a housing association in 2010 after six years as an ALMO. We have had a long track record in terms of providing financial support to our tenants. I worked for the Council in '86. I think we had about 2000 of our tenants on a content insurance scheme back then, and I will bring that out perhaps in a second. Warrington is a really affluent area compared to the majority of the northwest I think it is fair to say. We have got something like 18 major companies in the town: only Manchester and Liverpool have got more large companies based in the areas in than Warrington, high levels of professional occupation, and modern 21st century

industry. So I think we are in a different position I suspect than lots of towns across the northwest.

In terms of our financial inclusion work traditionally these are the things we would have done: we would have had dedicated money advice workers to help out older tenants, that goes back 20 years I suspect; we provide an insurance scheme, that was one of our big focuses; we would help tenants claim housing benefit; we would work with local credit unions; and we would have some general money advice primarily linked to stopping tenants losing their tenancy. So it was just at that level, pre-eviction for want of a better phase.

In the last three to four years I think we have seen quite a shift in where we put our resources and we have put in about £200,000 a year extra to try and help tenants cope. We set up a pre-tenancy service. It was interesting what Siw was saying about TV licenses. We take tenants through all the costs and TV licence comes out of the blue to most people as can gas, electricity, and water. If you are on £56 a week you cannot afford to run a household in one of our tenancies. And what we are starting to see is if you want a one bedroom flat tomorrow in Warrington – I can describe it, it is a fantastic place to live – we could give you one, because we are finding people are voting with their feet. They are staying at home with parents. They are couch-surfing. They are making other arrangements because they cannot afford to pay the rent; it is all the other bills that they are struggling with. It equally applies if you are on minimum wage. You cannot make ends meet I think in those circumstances. So we do a lot of work before people get the keys, before they get into a financial mess. We are focussing far more now on people who are single with our money advice work, far more on people who are in work than traditionally we would have seen. They would have had reasonably paid jobs and they would have paid the rent and that would have been our main relationship with them. I will come back to Universal Credit in a few minutes.

The other big switch: we have put in far more resources, about another £400,000 a year into getting our tenants into work and we have got a really successful team. Again, in a context really where there is employment (some of a bit flaky, zero hours, self-employment, whether it is real self-employment I am not sure) but this year we have got 400 tenants into work and we will continue to build on that. We have spent a lot of time focussing on energy bills in a way, again as Siw mentioned, we know everyone who is on a prepayment meter. There is a scheme called Ebico, which actually treats you the same if you are on a prepayment scheme compared to direct debit, etc. It is a not-for-profit organisation in Oxford and they are competitive. And there is no penalty if you are paying in that way.

Q. Mr Pond: What is it called?

Mr Fitzhenry: Ebico. The chair is the Bishop of Oxford I believe. They have quite a good track record and we have traditionally focussed on our tenants. But linked to that we have spent a lot of money with the Council putting renewable energy on people's roofs, again to try and reduce bills and future proof as well as to have that virtual thing whereby we are getting our tenant into work through the installation. So it is proving quite successful, and I think we have something like 30 to 40% of our tenants with renewable energy by the end of this year.

We have set up a reward scheme whereby just as our staff have a staff reward scheme we have got one for tenants. There are no penalties if you are in arrears or not in arrears. We want people to try and reduce their outgoings and you can certainly save up to £500 through that scheme. And we have organised digital job clubs and we have done a lot of work around trying to get people online. One of our more deprived estates has got free internet access from a thing called a dongle. It converts TV into an android computer, so it gets over some of those entry barriers really of having a device or understanding what that device is about. So that is some of our content. We have always been pretty good collecting rent. We always range around about 99%.

In terms of Universal Credit I think we have got at the moment (because we were the first ones on the scheme in July 2013) around about 138 tenants on Universal Credit. We will be overtaken relatively quickly because the big cities in the northwest will start to dwarf Warrington. I reckon we are collecting 89% of our income from tenants on Universal Credit and that is significantly improved from around about 69% when we first went onto this scheme. Where the money is going we are not always clear, but Nicola, for example, we contacted and she said, 'I have spent the money.' She had nothing left to the pay the rent. Whether she understood clearly that I do not know. And it is not uncommon. But on the other end of the scheme we have got another tenant who sold his laptop and was on the verge of selling his drier trying to sort out his financial position. So it is not always just about people thinking, 'I have got the money off I go to the pub' or whatever it is. There is lots of reasons behind that. In terms of people managing their money I am not sure I share Siw's optimism about this. We have currently got –

Ms Jones: Optimism?

Mr Fitzhenry: Well, about the potential for Universal Credit. We have got 53% of our tenants already on direct payments. It will be more. There is only 7% of the tenants on Universal Credit where they

do not have increasing rent arrears. The others are not on direct payments yet because of the two month cycle has not been through and we often have debates with the DWP about what is a two-month cycle of debt.

Q. Chairman: And is the automatic switch back working? It was not when I came to see you.

Mr Fitzhenry: Well, there are two stories to this. It has improved; it has gone backwards, because we had a good relationship when there were a relatively small number of organisations working with the DWP to administer claims, to sort out problems, to use helplines and to use emergency email lines. We sorted out a lot of data sharing issues. It seems from a meeting last Thursday that our colleagues in the other associations agree that the administration has gone backwards since more people have come onto the scheme. They have tightened up on what an emergency is. You need to have a court order pending to get a response from this part of the system. Previously, we had a more open arrangement. More DWP centres are coming on stream. So we are going backwards in terms of the relationship. We were on to Bangor the other day, they would not share anything. You put the phone down, you get someone from another centre. It is a bit of a lottery. You might get somebody in Bolton who is far more experienced, not only will they deal with you but they will do what others will not, which is they will deal with another case as well. You are only supposed to deal with one at a time. So it is very hit-and-miss but it does feel that as more cases are brought on stream the limited housing expertise I think that has been built up seems to be dissipated.

Budget and support for tenants: well, you would be surprised to know, Siw, Liverpool is not much behind Warrington. Since July 13 I think there have been three people that have had budgeting support and we pushed for these. We were unaware of any initial case, and I still do not know, any people in Warrington who have been provided with that support on day one, which is still a big worry because we see lots of people, considering this is supposed to be the straightforward claims it is pretty obvious we have got people with complex problems behind them yet that isn't being found out. And I sometimes wonder if it is the sort of good cop/bad cop scenario. I am asking what help you need and then on the other hand I am warning you about sanctions.

And sanctions are the other thing that is blowing people's budgeting strategies off kilter. We have had a long history of promoting direct debit. We do not promote direct debit anymore for people on Universal Credit because we understand there are not necessarily any patterns there at this stage to allow them to budget on a monthly basis. I think a lot of people are getting paid monthly, but budgeting weekly. And we did not feel we would help them taking them down the direct debit route.

In terms of claiming Universal Credit online that has not been a problem. The initial claim seems to work. Changing of circumstances etc. just is a phone system. We are starting to see people who are in work claiming Universal Credit and I think they are a good illustration of one of the dilemmas that seems to happen with Universal Credit claims. Is it poor administration? I think it is far too early to say. Are there policy issues that will always mean people are five/six weeks in arrears with no resilience? I do not know if you saw the Legal and General report that came out last week that showed people's financial resilience. Social housing tenants have zero days of financial resilience. The average across the population I think is 29 days. So your ability to manage that five-week period in arrears is a tough ask for people who have come off zero hours contracts.

And I think that is the key issue I think for me at the moment is what is administrative and what was policy. And we are doing some work with some people who represent the self-employed. Some of the rules for self-employed people do not seem to be in place and certainly can have dramatic circumstances depending on how you get paid. And there are some perverse incentives emerging out of this situation. Our worry is that Universal Credit started off trying to minimise regulation. I am not sure as it evolves and as more complex circumstances come on stream that the regulation pie will start to grow in way that it did last time. There are some crude ways you could deal with that but I am not sure they would be acceptable. Rent increase is a classic example. Something in the region of two million social housing tenants have a rent increase in April. That is notified in March. Most housing benefit services have got some degree of automation for that and it is pretty seamless. I do not know how that is going to work April next year or the year after when the DWP have got to process that large volume in quite a short circumstance.

And we are seeing policy perversities I think. I dealt with one yesterday. He has given notice on 22 December on his tenancy. He has taken up a private tenancy. We do not expect to get any money for the period due to us. We will have to treat him as a former tenant. His private tenancy rent is about £20 to £30 more than his social housing tenancy. He will get the rent paid at the 20 to £30 higher rate because an in month change applies for the whole period. So he has gained in that circumstance. He could equally have moved the other way around and lost, and it is not naturally clear how these things are going to pan out. And at one level I suppose I am looking at it in detail because we are seeing lots of detail where people are struggling with the change. You could argue it is a struggle for change and I am sure the government would argue that for the majority of people who do not have housing costs some of these complexities are not there but as more and more people with housing costs come on I think will be some challenges in there.

Mr Knight: Okay. I hope what I am going to say is alright because I have not prepared for this. I have been off and I picked this up about two days ago. Alright? I will just tell it from my perspective, but I agree with what has been said so far. I see it from a different point of view in the work that I do alongside people.

If I was going to say anything about poverty or anything like that I would just liken it to my own experience. I got married in 1973. Me and Ms Knight moved up to Speke and we both had a job. One had a job in Dunlop's and I had the job in Liverpool corporation. And then overnight the Arab oil embargo via OPEC started the crisis smashed all the satellite industries that surrounded the Speke estate. You had Dunlop, Standard Triumph, Metal Box, Ford's and Evan's Medical. Every industry got hit. Overnight the estate became very, very poor, with high unemployment. So those people who were poor 40 years ago are the same people who are poor now except there are more of them.

So I see along in my journey an enormous amount of ingenuity that describes what poverty is like. It does not change. The problems just get bigger. And what we've tried to do, because we are just ordinary people living on an estate, is tried to challenge some of the things that have been going on. So doorstep lending is not a new phenomenon to us. It has been with us all my married life and my mum and dad's life. It was always been there. So we got together set up and tried to establish the Credit Union about 25 years ago and we have been going along. Riverside Credit Union (RCU) have got a bit of a pedigree. We have lent millions of pounds out. We do see people and all their circumstances. For example, we have problems with bailiffs, people often come running in, 'They (bailiffs) are at the school gate'. They are making a show of me. I need money. I have got to pay. So we help people.

My son works for Jaguar Land Rover. He is currently over in Shanghai. He has got a good job in Jaguar, but to get a good job in there he had to go through a zero hour contract, the temporary contracts that they do, and everybody else does. You have to do it for two years. And if you have a day off you are sacked. There is no excuse for any day off. My lad's best mate, Ben, got killed in Iraq and he had a day off because he had to go to the funeral because he just crumbled. So he was going to lose his job. The union stepped in and said, 'That is bang out of order.' So he was lucky.

He went onto university. He is doing alright. But all the satellite factories around that plant, Jaguar Land Rover, are supply factories. They have that Japanese way of doing things, production lines of "just in time". So if they need loads of wheels everyone is making wheels, if they need loads of seats, they are all making seats, and when they have got enough you stop. But that poses a problem for a

lot of young men in particular, but not exclusively, what happens is they get a bank account: because no one pays in cash. So you have got a bank account, you have got an overdraft facility. But it is not a facility. It becomes a target. You lose your job. You are snookered now because you cannot pay the overdraft facility. So that puts you in a dire situation. You have got to sign on for benefits but DWP will only pay into a bank account. You are just not getting out of it. So they come to us, to have their benefits paid in.

We have got to help them sort it out. We use Visa prepaid cards. We have negotiated with a company called CredEcard and inside the card you can pay standing orders. You get an app. Everyone gets a free text message. It works for us. We have developed it and we have been working alongside them and that kind of works. But that gave us another idea. It is not me being sexist here but women get it. Women just get it. We do instant loans now for people. We say to them, 'Yes, you can have an instant loan but you have got to put your benefits in to us electronically rather than the bank and we will then put the residue onto your prepaid card. So after you have paid your loan and done a bit of saving you get that right onto your card.' That is fantastic. That is a product that works, because I remember from my own days when we did not have a pot to piss in the only thing we had was the family allowance. So that was our rainy day money for the family. So what we have tried to do is design a little product where members of RCU can have their rainy day money and get a loan with it. So we generally issue two micro loans, one in the summer holidays, and one at Christmas.

And we see over a number of years what is happening. People will join. They might have a little holiday in the summer. They will get the £400. They will take the kids to a caravan in North Wales and they can face the other 51 weeks on the estate because it is hard. Then at Christmas, you can have another one. But your saving pot is building up. So after a couple of years, especially the women, they get the rest of their family in to join. 'Get in here. We are all going on holiday.' You see the members they go to Wales and then next year they go to Salou. It is a bit like Netherley with a beach, you know what I mean? Hey ho. People have a good time. They come back and it is happy days. And it just giving them a little bit of respite from the drudgery of being poor, just something to let their hair down.

It was "Black Friday" recently and it was a big day for us. Tuesday is child benefit day. So it is a big day in the Credit Union for us. It is our biggest day. Christmas! Hundreds of thousands of pounds issued in loans. And we know it is a good product but we had to stop, taking new members on, a couple of months ago because we do not have the working capital. We have got working ratios that

we have to maintain because we are regulated. We are restricted in the borrowing that we can do. We have got a product that we could replicate thousands of times but we just do not have the working capital to do that.

15 years ago, we have the situation in Speke where I live a former council estate and the housing stock got taken over by a social landlord. So you had to have a vote and everyone is going to get a new roof, central heating, double glazing, mechanical extraction if you vote yes. So all the tenants voted yes. That was great. They are going to get that. But you are afraid for the estate because one third of the stock is owned under the “Right the buy”. So they are generally the people who are working. So they come to RCU and say, ‘I look like the scruffy one here. They have not done any work. I work and I cannot afford a new roof. I cannot afford double glazing.’ So we went to the Housing Association and said, ‘Look, here is our issue we have coming at us. Yes, we might be a poor area but it is only for the lack of work. Why do you not give us some money and we will get our members, people who have skills in double glazing, roofing, electricians, give us the money and we will lend it to our other members so that other members can do the work?’ They said, ‘No. You cannot do that. We have got insurmountable procurement issue.’

So we went out, we borrowed some money, went to an organisation called the Adventure Capital Fund, borrowed £100,000, and said to the craftsman and skilled labour people in our credit union: ‘Right, he needs his roof done. She needs her windows done. They want the electrics sorted out. You do that. They (the members) secured a loan off us and RCU just kept the money circulating in our community several times.’ And it worked. We paid that loan back. So we have just tried to be imaginative and said, ‘Well, this is what we have got. We want something else but this is what we have got so how are we going to deal with it?’

Q. Chairman: Okay, Michael. Thanks very much. Now, we have only really got quarter of an hour left so we can run a bit over time. What I would like to do first of all is just ask you for the record if you all agree that – and it sounds as though you do – that financial inclusion is and remains a serious policy issue, and then against that background in your answers to the question which we have can you focus on what you really want us to recommend is done by government or by the regulators or by others. All of you describe a continuing and very serious, in fact, worsening problem as far as I can see, but what in public policy terms would you want done about it? So, first of all, do you all agree that financial exclusion remains a serious public policy problem?

Dame Marsh: Yes.

Mr Knight: Yes.

Mr Fitzhenry: Yes.

Dame Marsh: And a worsening one.

Chairman: And a worsening one. So who wants to open the questioning?

Q. Mr Pond: Could I? First of all, thanks, three fantastic presentations. They really sort of brought it to life for me. One brief question to Mike, if I may, and then to Peter and Siw. Mike, you said that one of your problems was not enough working capital so you are having to turn people away now, which seems to me a tragedy given the service you provide. Now, is the solution to that from your point of view or is the reason for that the regulations have become too tight in terms of your ratios or is it about the fact that we need to try to find alternative sources of funding for that working capital or is a mixture of both?

Mr Knight: The regulations are right. I mean we are dealing with people who are saving with us. If they lost a £100 that would be the end of the world, so the regulations have got to be there. They have got to be tight. The problem we have got is attracting capital because it is not a very sexy thing, is it (lending money to poor people)? It is not a groovy thing to get involved in. There are no philanthropist out there who will. We do not want a grant. We just want to attract a subordinated loan, five years/one day. We will repay with interest any money lent to us. We know we can do that. Our ratios and return on capital is there, but it is just not attractive. But we can demonstrate that people without jobs can repay and do repay.

Q. Mr Pond: So might one of the things we could think about recommending be a responsibility for commercial organisation to make available to credit unions or other forms of community finance an element of funding on the basis that we you know your customers and therefore the default rate is going to be much lower than it would be if they were just lending the money out into the blue. So would that be a solution?

Mr Knight: It is there. It is out there. I have got to watch what I say on record here you know. We are currently talking to a nice organisation who want to lend us money they are in the community finance sector, but they are talking about 10% return. So you think what would they get at the bank? What would they get from somewhere else? Why do they want 10% off us?

Q. Mr Edmans: If I may, the connection, which had not occurred to me before this I am ashamed to say, is with the stuff I do wearing my pensions hat. I am thinking of the yields which we are getting on bonds at the moment, which are nothing, pushing up pension liabilities and the size of the deficits for various pension schemes in a way which is damaging to the economy let alone anything else. And I have never heard and I spent just across the road in the conference centre a few weeks ago at the National Association of Pension Funds conference up here a lot of time in the investment wing of that with all sorts of people talking about different ways of increasing their yields. Nobody ever mentioned anything remotely like this. So I mean I obviously do not know but if there is a case for a reasonable match of risk and reward by way of yield through this given the actual performance of defaults rather than the kind of imagined perceived version then it ought to be looked at, because intuitively I do accept people from my side of the fence would think, ‘Lend to people who have not got any money? Why would you do that?’ But if you can show though that actually the performance over n years does not support that assertion then there is a case is there not? I think maybe it is something. The data must be available and pension funds are crying out for high yields and not just pension funds.

Mr Fitzhenry: Chair? All parties seem to talk about a crackdown on illegal and high rate lenders and that is okay in as far as it goes. I think the danger and the risk is that unless you fill that void people find a different route, perhaps to somebody who is even worse than the people you see at the moment. The government will spend this money on the NHS, but was it a £1.5 billion fine on the banking industry? There are a lot of dead accounts that are often talked about. We have got credit unions in Warrington and they always seem to lack the capital and infrastructure in many respects to compete. And I think if the country is serious about trying to build people’s financial resilience and have alternatives there that you can have a £100 loan from somebody and pay back on a reasonable basis there is the opportunity to us some of those sorts of funds to build that infrastructure. I think round about 2005 there was a scheme that the then Labour government promoted of offering capital for credit unions to offer low cost loans. That seemed to be very successful at the time and I think that money is still being recycled now. But I think the scale of the problem that we have got now is probably even worse and to look at the dead accounts or to look at some of those fines would be a good way to give a large boost to give people like Mike.

Q. Dame Marsh: Some of those unclaimed assets in banks went into the Big Society Capital pot to create that, but Big Society Capital does not lend direct. It lends through intermediaries.

Mr Knight: It becomes so exotic. I go to meetings and they actually talk in a different language. The terminology. It is all bound up in yields and this rate and that rate. And you go, 'If you lend me that I am going to give you that as the return.' I suppose professionally they have got to do it. They have got the certified knowledge. They know how it works. It does not matter that it is all practical around them. They have got the knowledge. We are dealing with people. We are working alongside young mums especially. You see it and it breaks your heart. They are born poor and they are going to die poor. That is the rule. That is how it works. Everybody knows. You just think how could you intervene? And then you try to let the barriers down so they can get in.

Dame Marsh: You said earlier about women get the finances.

Mr Knight: They get it.

Q. Dame Marsh: And you say that women begin to help their wider families understand it. Because none of you have mentioned this and it is something that has come up in our discussions previously, what should we be doing about trying to get people to understand about financial management and issues at a much earlier age? Have you had any involvement with the schools or through the families?

Ms Jones: We have done work in schools in the past mainly with 14/15/16 year olds and also some work with kids planning to go to university, which is a real challenge for kids in poorer areas to finance themselves at university and I think in a sense it is part of the cycle of disadvantage. You are at an immediate disadvantage if you have to work your way through college or if you need to stay at home as it were. We have done work in schools. I know we are not doing that at the moment for resource reasons. I think it is part of the curriculum now, is it not?

Chairman: Well, there is one word.

Q. Dame Marsh: It is in the national curriculum in England, but UK wide it is still patchy. And, anyway, it is only secondary, and my view that this family focus starts when children are quite young.

Mr Knight: We have junior saviours. Again, it is the mums. I am not saying all fellows are away with it. I am not suggesting that. It is just that they get it. They just get it.

Q. Chairman: So what else would you like to see? With Universal Credit what are the changes you think should there should be? Clearly the software systems are just totally –

Mr Fitzhenry: I know there is a phrase that the government uses about test and learn. Well, I have

not seen that evidence shared on a wider basis. It has got good potential, I think, Universal Credit. I think consolidating and making sure it works, it is fully operational, before the roll out continues, because I am sure there is a pre-election issue there that says Universal Credit is operating across the whole country will be the line that somebody will want to say. I think that is possibly at the sacrifice of making sure it works, because I do not know if you have seen the letter from the Northern Ireland office about Universal Credit. Direct payments are optional; people can get paid on a more regular basis than monthly. All the fundamental tenets of Universal Credit seem not to benefit people Northern Ireland, which if you think of unemployment levels etc. it would be an obvious area but they seem to have moved away from it. And I noticed last week that Scotland were given options about what happens on the housing element of Universal Credit.

So I certainly think consolidation before it continues to roll out linked to something effective about budget planning because we have tried, and we do in our pre-tenancy, taking people through budgetary proposal but it is quite a brief offer and it is not enough I do not think to really overturn some of the ignorance that exists in how you manage money in the 21st century. And I think it is interesting what Mike was saying. I grew up on a council estate as well. Life was far more straightforward; the products, the facilities did go online. It is far more complex is much greater, and to make it something that is more fundamental in the curriculum seems critical if people are really going to get what they need to cope with.

Chairman: I was shocked by your figures, Siw, on internet access.

Ms Jones: Obviously, that is with our particular client group, but I think you would probably find the same in the likes of Speke or parts of Warrington.

Chairman: So this idea that the money advice service delivers 99% of its product through the internet is completely hopeless.

Q. Mr Edmans: Well, up to a point. It is not a debate, probably, for around this table but you have got to look at the size of the overall problem and how you approach it. And you can either take the most difficult people on and try and deal with them in the most comprehensive way or you can try and take the people that are most easy to move. There are two ways of dealing of with the problem, and it is attacked from both ends.

Siw Jones: I think the important thing is having face-to-face intermediaries. So, for example, we have a money advice service – what we used to call the Money Guide – to differentiate from a debt

worker, or a money advisor in the Bureau. And her role essentially is working with clients who are very disadvantaged and looking at long-term planning, but her role would obviously be as an intermediary between the client and the online resources offered by the Money Advice Service, so sitting there looking at the websites. I think web resources are important but they need –

Chairman: – an intermediary.

Mr Edmans: It is stopping people coming through the door as well as dealing with the people who are already through the door I think is the problem.

Mr Knight: Two things for us that we have found: we have set up a budgeting account, we have talked to our software people and set up a design so that if and when Universal Credit hits us the money will come in monthly but we will disperse it weekly. People will sign up to that. So we will ease that for them. The other big leap for us is there are about 3000 people on the pre-paid card. I am sorry it is Visa. It used to be MasterCard!

Ms Duncan: We can discuss that later.

Mr Knight: It is back to Siw's point. It is resources. It is conceptual. They deal with cash. When we first started with the prepaid card, Doreen who issues our loans, she has got the relationship with people and I actually heard this conversation in the Credit Union. 'I need to speak to Doreen. Doreen, I am at the till now, Doreen. I am just putting my secret number in. 7-3 –' 'Don't tell me your number!' 'It has worked! It has worked! But I had my money in my hand anyway, just in case it did not. I feel like a film star!' They had never had electronic money before. That is not me being derogatory. They just do not get it some people. They have never had to deal with it. That initially was resource intensive for us, but then that women told people to go to the Credit Union and get one of them cards. It works.

Then we asked CredEcard, who we were dealing with via the prepaid card, to do an analysis of where our members were spending their money. It comes into us electronically. We disperse it onto the cards. Everyone gets a text message. It is funny. They all have phones. You go through the income expenditure and everyone has got a phone. So we found the best way is to send a text message. So they get a free text saying '£18/£19/£50 has been deposited on your card'. What was happening, bizarrely, was they would go to the cash machine and get the money out in cash and then go in the shop and spend the money. We were saying, 'You do not have to do that. What you can do is just go and get cash back. It is free', because there is a 75p charge at the cash machine. So it is only 75p but

if you have not got 75p it is a lot of money.

Chairman: The problem with any card is you cannot see how much is on it. So it may be an area to look at as to whether there is a technological solution.

Mr Knight: There is an app we have got. They (CredEcard) have developed an app for us.

Dame Marsh: You can with an oyster card very easily so surely the technology must be there.

Mr Knight: Or an online facility. This company we are working with are racing ahead for us because we are saying what is needed and they go out and are researching and developing it for us.

Q. Mr Edmans: Could I ask a couple of questions if I may? One is one I feel very awkward about, the other one less. I will ask the less awkward one first, which is if raising capital is awkward, particularly for the Credit Union, one of the things that makes capital awkward to raise is the rate of return that is required for the providers of capital, is there scope for increasing the rate that you charge above the minimum levels you are charging at the moment in order to attract more capital in?

Mr Knight: As a regulated firm we are capped. Our current lending interest rate is 2%. We are going to go up to 3% because we actually want to attract more money.

Mr Edmans: That is my point, really.

Mr Knight: And so we reach the cap then. But there will be a varying rate because we are saying is new members, people we do not know who we have no history with, who have no pedigree with us, it is 3%. Existing members will go down to 1 or 2%.

Q. Mr Edmans: I have had this argument with Jeremy McAteer, who is very prominent in the Credit Union. It has always struck me that the gap between what credit unions charge and the alternative source of finances is so vast that if you used up a bit of that gap then you could get in more money and you could make more people aware of it. It might be a sensible thing to do.

Mr Knight: The problem is our members, the people we deal with, the interest rate is not sensitive at all. It is access. That is the problem. They have got nothing. If you said the rate is 5000% they say, 'I need it this day can I have it.'

Chairman: That does suggest we should look at the cap.

Q. Mr Edmans: It does suggest we should look at the cap. The problem that we have is spending money on promotion, promoting the fact that the facility is available, is something that has no immediate, obvious benefit. You look at it and say, ‘Well, what difference does that make?’ But if, in fact, it has got somebody to access your rates, even if they are a little bit higher, than borrow from one of the payday lenders is worthwhile. But it is a difficult argument to win. I have been trying to win that over the last 20 years and mainly failed. But if the cap effectively prohibits not just the availability of the facility but the ability to raise capital then it ought to be looked at, not just from a simplistic point of view.

Mr Knight: It is a mad one. If you looked at it coldly and analysed it you would say to yourself, ‘Why on earth would you set up a credit union in Speke?’ But it needs it the most. But it is the hardest to do and therein lies the dilemma. We do not want to get into raising the capital because then you get into usury. Just because people are desperate and they need it does not matter. You shouldn’t you offer it at extortionate rates

Chairman: Your second question was?

Q. Mr Edmans: My second question. This is the awkward one because I am also from a council estate. I am from Peckham. Every year my school uniform got bought on a provident cheque and that was better than the [inaudible]. So I kind of know where you were. But one of the reactions to that in my bit of Peckham was there was a substantial grey economy. There was an awful lot of stuff that went on that did not trouble the taxman. My dad never actually joined the tax and accident insurance club because he did not think it was meant for people like him. Now, I think that is a problem, and it is extremely negative for all people concerned, and that there is probably a big benefit to the government, the economy and the people if you could bring more people in from that because clearly anything that is going into a grey economy is not going into tax.

Mr Knight: We try to get people off the black and out of the grey and into the white.

Mr Edmans: Is it a bigger problem?

Mr Knight: No comment.

Mr Edmans: Okay.

Ms Jones: One of this issues though is the legality, is it not? There is the grey economy of people

working below the rate of tax and national insurance but there is also cannabis farms.

Q. Mr Edmans: It seems to me that when you look at the numbers for these things the costs are always expressed in terms of the white economy. I think if you dealt with some of the problems which you illustrated so clearly you would get more people into the formal. You would start to convert.

Mr Knight: You would need to be in the debate, would you not? No one is ready for that.

Chairman: This applies, Laurie, in spades to immigrant communities in London, all the Polish builders being paid in cash, remitting money at great expense. When they could be, if they were in the digital economy –

Mr Edmans: It is very difficult to talk about, which is why I felt awkward raising it, but in a way that is I think one of things we are trying to deal with.

Chairman: We have run 10 minutes over time.

Mr Fitzhenry: That is not just about employment. It is also about the goods and services you buy, because on one of our estates some research shows there is £4 million a year of illegal cigarettes going on in that estate. The police could raid it today and it would be stocked up tomorrow.

Chairman: Chris?

Q. Mr Pond: I will be very, very brief. It is not necessarily a question but is something that has emerged from what you have all said. It is an obvious point really, but there has always been this mantra that the measure of success of financial inclusion is about getting people into bank accounts. We have reduced the number considerably of those who are unbanked. Actually, you said, Siw, that many of the people you deal with have got bank accounts but they do not use them.

Ms Jones: For reasons which we have explained are quite rational.

Q. Mr Pond: They are quite dangerous things for people in those circumstances. When we went to Toynbee Hall in East London we talked to one of the people there who said, ‘I no longer pay my fuel bills by direct debit. I would rather have a prepayment metre.’ Being middle class we could not get our heads around this. Why would pay more for your fuel? He said, ‘No. I am in control. Whereas with a bank account paying by direct debit I am not in control.’ So your point about having to remove

that detriment that comes from having a prepay metre, we have got to do something about that. And we have also got to move away from this mantra that it is just about getting people into bank accounts.

Chairman: That is a very important point and it applies around the world. One of the things we should look at is software engineering so that you have got something between the direct debit and the standing order, a direct debit that has a signalling arrangement. It is perfectly easy to do so that you press a button.

Dame Marsh: You authorise it happening.

Mr Fitzhenry: Smart metres will go some way to deal with that when they get rolled out because you can deal with it very similarly.

Mr Pond: I am slightly worried about the control aspect of that as well because you could wipe out Speke, actually, either by human error or by some mischief. You could wipe out everybody's supply.

Chairman: That applies to all digitalisation. Well, thank you three for some really compelling, in fact shocking, evidence. What I would like to say is that we have run out of time and we have not really focussed on what you would like to see the commission dump in the plates of the national politicians so if you have got further ideas would you email us? Do not be shy. We will not quote your email against you with HMRC. If there are things that occur to you on the way home or in the next few weeks please, please write to us because it is an opportunity to put practical suggestions that we want to turn into legislation, or regulation, or activity by the banks or the credit unions, or ABCUL, or the Community Development Finance Association, whatever it may be. Thank you very, very much.

Dame Marsh: Thank you all and your colleagues for what you do. I thought, Siw, it was particularly painful to hear your reflection on how everything is going backwards from where you thought you had got to over a decade ago. Thank you.