MINUTES OF EVIDENCE

TAKEN BEFORE

FINANCIAL INCLUSION COMMISSION

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

TUESDAY 2 DECEMBER 2014

MR AUSTIN STAUNTON, MS AMINA LONE AND DR PAUL A JONES

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 Austin Staunton**, North Lancashire Citizens Advice Bureau, **Ms Amina Lone**, Social Action & Research Foundation, and **Dr Paul A Jones**, Liverpool John Moores University, gave evidence.

Chairman: Thank you very, very much all three of you for coming. We have got about an hour. I am afraid some of us have got to get the train at about quarter to three, so we will take about an hour. You all know the background of the Commission. It is really to take stock of the state of financial exclusion in the UK and report [inaudible] and put it back on the political agenda. We have got four of the commissioners here with a team of supporters, and we will quickly run round. Then we will ask you each to make a short opening statement on what you think we should be doing. If you can focus throughout on practical measures, that will be really good. That is things you think that have not been adjusted that we should recommend that an incoming government should do itself, or get others to do in the shape of the regulators or the banks, or wherever it may be.

If points occur to you after this session that you have not made, please do write to us or email us or ring us up. The things you want to go into the record, mark them as such and the things that you want to say to us that you do not particularly want to go in the record, the same applies. We are taking a transcript of this and there is an opportunity to give interviews, if you would like to, to our videographic team there. Let us quickly run round to people on the other side of the room.

Alaina: Hi, I am Alaina. I am mostly here to assist Sherard in his work on financial inclusion. Also I am organizing this conference in January, which Paul Jones will be at, which is on financial inclusion.

Ms Stidle: I am Lisa Stidle. I have been in touch with you already. I am a coordinator of the Commission and I work for Policy in Practice.

Ms Duncan: I am Jennifer Duncan. I am another coordinator for the Commission. Lisa and I are just doing all the work in terms of approaching witnesses, and we will be in touch with the transcripts and things following this session. I am currently seconded from MasterCard, who are supporting the project.

Mr Pond: I am Chris Pond. Earlier I introduced myself as having been an MP but having gone straight for some time since, but since there is somebody in this room who is thinking of slipping into that recidivism I do not think that [inaudible]. I am proud to be vice chairing this. I am chair of the Money Charity, day job with Kreab and Gavin Anderson, previously worked at the Financial Services Authority running their financial capability programmes.

Chairman: I am a former diplomat who was hired about 18 months ago by HSBC to work on public policy for the group. As part of that I have been looking at financial inclusion. As a result of that Chris came to me with the suggestion of this Commission, which I think is an interesting idea.

Dame Marsh: I am Mary Marsh. I work mainly in the charity sector, and charity and social enterprises. I used to be chief exec of the NSPCC until about six years ago. I have been doing a leadership development organization for charities and social enterprise, and I have some non-exec roles with government and otherwise. I am also with HSBC's regional subsidiary in York.

Mr Edmans: I am Laurie Edmans. I am a pensions, financial services type person.

Mr Pond: That is what it says on his passport anyway.

Mr Edmans: All I really need to do to make sure you understand that is to cite the show on the TV. Who is the guy with the chair, the Irish bloke who runs that chat show?

Ms Duncan: Graham Norton.

Mr Edmans: Graham Norton.

Ms Duncan: I am the only one who watches telly.

Mr Edmans: On his last show he had somebody on. He said, 'Who are you?' He said, 'I am Fred', and he said, 'What do you do?' He said, 'I am from financial services'. I am trying to be a good guy sometimes, and I have spent a lot of time working on financial capability. I was a trustee of NEST until recently, the new pension scheme, and I am on the board of the Money Advice service.

Q. Chairman: Will you go first, Austin?

Mr Staunton: I am Austin Staunton and I am chief officer of North Lancashire Citizens Advice Bureau, which is the Lancaster and Morecambe area, the top of Lancashire. I have about 30 years work within Citizens Advice. Particularly, because of the nature of the work at Citizens Advice, a lot is about how people manage their money and how people raise their and get income, whether it is debt issues or benefits, employment, housing. It is very much about how people live their lives. I am very committed to helping people resolve their financial issues and looking at the impact of particularly things like poverty on people's lives. Currently, I chair the Lancashire district Financial Inclusion Group, and I was a previous chair of Morecambe Bay Credit Union. I also lead on an advice partnership that we have in the Lancaster district, which is a community advice network of 15 agencies.

Q. Chairman: Would you like to give us your ideas, make an opening?

Mr Staunton: Thinking about over that time what has been the change and what has made the difference, I go back enough to remember when we first hit £100,000 worth of debt in one year. Someone coming into the Bureau with a possession order used to set alarm bells going. Our Bureau now deals with close to £10 million worth of debt. About a third of that converts into bankruptcies or DROs. We have seen the emergence of high interest rate lending. It is very interesting, with the criticisms of Wonga, where they were up to a few months ago lending at a rate of 4,254%, and then when they were criticised and asked to put money aside their response to that was to increase their interest rate to now 5,300%. There seems to be something there that is quite out of control.

You would think that in a normal market that organisations like Wonga could not and should not exist, but then why do people use them? People use them because they have got very little choices available to them. They tend to make use of them because it is something that they need to sort out in a very short space of time, which is one of the issues that we come across. People are making decisions that do not have a long term view. They are very much reactive decisions that people are making.

A few years ago the issue was around mortgages, mortgage interest rates, about people getting into debt with mortgage. The number of repossessions that we were handling was quite massive. If you want to think about what is the trigger now, it is about welfare reforms. That now is impacting massively on people's ability. If I can give you an example that relates to one particular benefit with particular impacts on disabled people, and that is employment support allowance. We have a scenario where someone, because the criteria has changed, because it has now been assessed by ATOS, they are about to change. We did actually a report on it about how that was impacting on people.

Q. Chairman: Can we get a copy of that report?

Mr Staunton: Yes, absolutely. The report gives a number of scenarios about why that is not working. This is particularly where, because the criteria have changed, people with physical disabilities find it very difficult to get access to that benefit because of the criteria and the way they look at. In particular this affects people with mental health problems. People get turned down for employment support allowance. We are finding more and more that they find out that they have been turned down, or they have gone for a review in particular, when they go to their bank account, try and make a withdrawal and there is actually no money in there. We used to have a system where the DWP would inform someone before they actually then carried out the action or carried out the decision. What we are finding now is that people are becoming aware of the decision when there is no money in their account.

Someone in that situation is then told that because they are deemed in some way fit for work. We have had people with severe mental health problems; we have had people on kidney dialysis; we have had people with a whole range of different conditions. We have had people whose behaviour means that no one would employ them but they have been deemed to be employable. What they are then told is that, 'You must therefore sign on for jobseeker's allowance'. We now have an absolute dilemma for this person. If they sign on for jobseeker's allowance they are signing on that they are fit and able and actively seeking work, but actually they have just applied for a benefit where they are saying the very opposite of that.

They are now in this situation that in many cases they are not able to go through that signing on process, so they do not fulfil the criteria in some ways. Even if they do manage to sign on they get very worried about, 'If I sign on then it is counteracting against me'. If they do then sign on they invariably fall out of some of the conditions, the job search conditions. Then the benefit stops.

Q. Chairman: Do they get sanctioned?

Mr Staunton: They get sanctioned. We are normally finding that the sanction would be 13 weeks. I do not know about anybody in this room, I would struggle if I suddenly found out that I was no longer going to get my income for 13 weeks.

Q. Mr Pond: This could be a cut of, what, 40%? Or is it 20%, or…?

Mr Staunton: It could be, for a single person. It could be. The other thing that happens is that it can take generally a couple of weeks to make that change round again, and there are associated benefits with it. As soon as you change one benefit you then change things like the housing benefit and other complementary benefits. When we are talking about a benefit that is particularly for people with a disability, then the fact that someone has decided that they are no longer eligible does not take away the disability. It does not take away the cost of actually supporting through that disability. They have not just reached a neutral point: they have gone backwards. Invariably what we are finding is that is having a great impact, particularly on people's mental health. It is not just about stopping someone's benefit; it is having a direct negative impact. That is just one benefit.

Q. Chairman: On that, Austin, have you got evidence of people appealing and appealing successfully? We have had evidence earlier today that 70% of the appeals are upheld, but of course people are off benefit while they go through the appeal process.

Mr Staunton: Yes, exactly. What we are finding is if someone just themselves appeal, the change of decision is about 40%. If they get help it runs up to 80%, 90%. So where we are helping people then that is the sort of level that we are running at. I do not know, but if there is a system that is in place that is somewhere between 40% and 80% wrong there is something –

Chairman: It is systematically flawed.

Mr Staunton: Yes. The other bit of it is that we can make mistakes, we can make wrong decisions. However, what does not seem to be happening is there does not seem to be anything coming back from the tribunal service that says, 'If you make that decision again we are just going to turn it round again, so learn from this so that you will not make that decision again'. It does seem that there is an expectation of the number of people that will be refused that particular benefit.

The bit in terms of this in financial inclusion is how do you plan when you have got payments going out? This is particularly if you have got them through a bank account, because that not only penalises you because you have now no money, but actually you are getting changes because of some of the things that you have set up that there is then a cost to you. So the question is if you are on a benefit and it is subject to some potential change, is it a good idea to have a bank account? It might actually be the worst thing you are doing. Now that cannot be right either, can it, to say to someone, 'Move more into a cash way of living, because actually you will get penalised because of the decision that has been made that is out of your control, because someone has assessed you differently because there has been a change in the rule'?

We are talking about the introduction of PIPs, we have got universal credit coming in. You will have heard, presumably, about bedroom tax and how that is impacting people. There are lots of changes like that, but at the same time people still need to eat, hence the increase in food banks. Last winter was a very mild winter, but we still had people coming in to the Bureau that had not heated their homes for three and four weeks and had not eaten for two or three days. This was generally related to some kind of change in their income. I am very fearful, very fearful, about the risk to people's health if we have a severe winter. When we are talking about five years ago, in terms of food banks they were dealing with about 28,000 food parcels. It has gone up each year over the last five years. They themselves predicted that last year they would deal with 500,000 food parcels from the Trussell Trust. They were massively wrong. It was 928,000 food parcels. We as a Bureau, just one Bureau, for one food bank, made food vouchers for 963 people last year. 267 of them were children.

I have given you an illustration, which is someone on benefits, but what we are also finding is that people are coming into the Bureau that are in work and poor, so in work and in poverty. Being in work is not the magic wand that takes people out of that scenario, and particularly when we are talking about things like nil hour contracts. Running up to Christmas, most people that are doing that kind of work will be earning money, up to Christmas, but come January, February, then that makes it really difficult. If you are claiming working tax credit and you have got a nil hour contract, how do you illustrate what the hours are you are working if they are changing week by week? Even a benefit that is there to help support someone because they may be on a low wage, actually because of the terms and conditions they are working in it actually makes it very, very difficult for them. I could just go on.

Q. Chairman: Shall we come back to you in questions and if there are any other points, and then Amina may make a short opening statement and then Paul, and then we will come back to questions.

Ms Lone: Amina Long, co-director of the Social Action & Research Foundation. I am a parliamentary candidate for Morecambe and Lunesdale constituency in the North West. I have worked with people for over 20 years, particularly underserved communities, I would call them. I have been involved in formal politics for seven years and set up the SARF two years ago. I am from these communities. I am a single parent, and so I understand the lived experiences that many of these people face.

I know you wanted solutions. I just wanted very quickly to do what I am told by the brief that was sent to us. That was what are the problems, and what do you think the main issues are. Just to encapsulate, I agree entirely with has already been said by Austin. However, for me it is about the lived experiences and that is probably what I will talk about most. There are two main issues. One is the cultural and social barriers, which we do not necessarily anticipate. Lots of what Austin has already talked about is the structural barriers and inequality within society that we can change. Also the policy changes of welfare change, tax credits and insecure work. There are also things like the educational maintenance allowance, which was just cut for all 16 to 18 year olds. That impacts families massively, and particularly poorer families are not sending their children to college because they cannot afford to pay for travel and to pay for food as well.

However with the cultural and social barriers there is a whole issue around their financial competency, understanding how credit works, the benefits of it, the pitfalls of it. There is an issue around understanding that many of these people operate within a cash economy, that they do not trust the institutions and there is a real distrust between financial institutions and alternative financial networks. In South Asian communities there is a thing called a Comente system, which we would translate as committee I suppose. This is where they have a cash economy where they save money. There is no interest on it. All of us put money in, then one person's name gets drawn out and they use that for whatever they need to. Then everybody carries on paying it. They can operate over 10 months to five years. That is an alternative form of banking for them, and many people use that rather than use a financial institution.

The research that I have done is on white working class communities, as part of a European wide study, and reporting on the riots in 2011, as well as 20 years of working with the communities. What we found was that people had an approach that was very short term, which is about surviving rather than thinking about any middle or long term plans. So it was all about, ‘What do I need to do to get through from this pay check to the next pay check?’ When they needed money and there was an emergency, like the washing machine breaks down or the fridge breaks down, then it was either friends or family or pay day loan companies. People did not understand or had little understanding about savings and how they can save, whether they can afford to save, or why it is important to save.

I think it is fantastic, it is really commendable the work that you are doing. I do think you have opened a Pandora’s box and you may well be pulling your hair out by the end of it. However, I think if you are looking at challenging some of this then you have got to address some of the cultural and social barriers as well, because they will be about behaviour change. That is probably going to be a much, much harder sell. I say that as a politician who opposes many of the welfare changes. Trying to think about the impact welfare changes and other social policy changes have had on communities is one thing. A young mum who we talked to in our research said that she was better off on benefits. She was the single parent of two children, lived in private sector housing that was not particularly great, but believed that she wanted to give her children a better role model. She would not be on benefit, even though she would get more help if she was on benefit, but she would not think to come to a bank to support her to move from a to b. They are some of the fundamental issues that we need to look at.

What we are doing to address it, myself and Austin are working together with Morecambe Food bank, as Austin has already said – I volunteer there when I can – the CAB and other organisations to look at how we can lobby decision makers and policy makers, people like yourself, but also look at how we can have a strategic approach to having financial literacy within communities, looking at communities that are operating under a radar. Also, for me, I would push a real principle about this should not be about the individualistic problem, that we need to change individuals. This is about our society and what kind of society do we want to live in. Do we really think it is okay for over a million people to be going to food banks in one of the sixth, seventh richest countries in the world? I think that there are some underlying principles and values that will need to be established.

I will not give you stats now, apart from one: 32% of local people aged 16 to 74 work part time in Morecambe and Lunesdale, and that rises to 41% from the Upper Lune Valley, which is a rural [inaudible] constituency. Many of them work less than 15 hours. How can we talk about financial inclusion or financial competency when many of them are just surviving? They cannot see a financial future, so actually part of what we have got to do is look at the wider economy and the kind of jobs that we have, things like minimum wage or the living wage. How do we strengthen local infrastructure and use powers, like the devolution powers that are being given to local authorities, to actually strengthen local communities so that they can be more financially competent? I am going to just whizz through some of the solutions. The [inaudible] did ask that and I should do what I am told.

Q. Mr Pond: So you will be a good member of the PLP then.

Ms Lone: I am practising. Austin and I have talked about these. We will be putting a report in together, and these are things we have come up with together. Some of these you may have already heard.

The Commission to come up with a view from financial institutions, like HSBC and others, to partner with and invest in local credit unions so that they can provide a basic bank account with financial inclusion training. We very, very strongly feel that it should not just be about financial products. They have actually got to look at financial competency training and making sure that people are financially resilient, but also that we develop a preparedness for people so that they are actually looking more longer term.

You could have a basic bank account, and credit unions can develop a more personalised service to clients. Agree to freeze the overdraft charges and penalties and fees when an account is being reassessed. Under the current rules what happens is when they are sanctioned they also get a charge from the bank, and that can be looked at. That is something that you can do. Whether that is how you address that – you could impose a limit, or until the appeal has been accepted – but that is certainly a solution.

Looking at working with local communities and IT booths where people can access financial support. These could be placed in communities, like schools or food banks or CABs. People could have an individual unique code, so they start building a relationship with a bank. Then the bank does not see it just as an instant monetary gain for themselves but actually they think, ‘This person is on a low income, has no relationship with a financial institution. We will set up a basic account where money comes in and money goes out, but actually over five years we want to get them from a basic account to be able to be eligible for, say, a loan or a mortgage’. Then there is a long termism from the bank as well, and there is an investment in communities. That plan can be seen as a social benefit, not just a marketing opportunity I have written here. That is being quite cynical, but there we are.

Finally, supporting or partnering up with credit unions and opening a children's account when they start school. Automatically with a school registration, as long as they have proof of identification, the child is given a bank account. It is all done through the schools, so you work with schools as well. They are registered with the schools, they get a personalised account and they can learn to save from there.

Q. Chairman: Thank you, Amina, very much. There are some good practical suggestions in there. Paul?

Dr Jones: I work here in Liverpool, Liverpool John Moores University up the road, where I have been doing research into financial inclusion and related matters for quite a while now. One thing I am conscious of, though, is everything I have got to say you probably already know.

Mr Pond: I would not make that assumption.

Dr Jones: That is a massive assumption maybe, but I think it might be true. We were asked to talk about what we see as the problems, [inaudible] solutions, and also a little bit about what our organisation is trying to do. I will talk about our organisation at the end.

First of all, we need to be clear about what we are talking about, which is financial inclusion. We are talking about the problem of financial exclusion within our society, which is a problem, which we are going to talk about. Of course that is related to other problems, bigger problems actually, around income, whether that is low wages or inadequate welfare benefits. That is different but that is related. Financial inclusion is not low income, but financial inclusion is compounded often by low income, and those two are distinct. Over indebtedness is another big issue, which is also distinct. We are talking today about financial inclusion and exclusion.

I will just say a few brief words around banking, credit and savings, why that kind of thing might be the issue. We still have a problem. I have done research into access to transactional services for quite a while, and we still have a problem for a significant number of people in society that they do not have access to bank accounts. First of all they might not have access, and then secondly they might not have access to those sorts of accounts that they can use well and that are appropriate to their needs. That is the problem. Access, just saying that so many people have been brought into banking over the years, is not the end of the story. It is about how people are able to use those and how they are appropriate to their needs.

The basic bank account, which is a big step forward, was not always the right sort of vehicle to assist people on very low incomes to manage their money. We know from research in 2010 done by the Financial Inclusion Taskforce, that only about 25% of people going into that actually were better off financially. A lot more were better off socially because they actually felt part of the community again. I did a research project for a prison, and the big outcome there was not so much using it for the benefit on a low income, they actually just felt part of society. They could actually use it to go and pay in the shops.

We know that there are still problems with bank accounts and I think really the solutions are two things there. The banks, HSBC and all the other banks, should charge for accounts. There is too much focus on the behavioural charges that people actually get on accounts. HSBC should take the lead, because nobody is going to jump in that way because all the middle class folk are going to squeal. Free banking we are used to. However, it skews it all and it makes it that people who are more financially vulnerable pay, as Austin has already said. That is one thing. Also banks could do more about having a more flexible type of account. One thing you have got to realise is the lived experience. Amina, you started talking about this. How people on low income live is a struggle. You rob Peter to pay Paul, week by week, and if a direct debit comes in and it just misses it by a day you get a bank charge and an overdraft charge. Banks could somehow or other – they can say the computers cannot be smart enough, but I am sure they can.

Also, banks should not be pulling out of giving basic bank accounts, which I get the feeling that they are. Also, they should implement the European directive on a right to a bank account. I did a project recently in the North East with a homelessness charity. I did it for 18 months, struggling to get a bank to say, ‘We will work with this charity to get your people a bank account’, because they did not have the address history, they did not have their ID. ID is not a problem actually, because they will now accept a letter from the DWP. It is the address history. Then you get, ‘Where have you been for the last three years?’ We had a nightmare on that one because, ‘I have been on a park bench’. ‘What is the address?’ So the right to a bank account. I do not know what is happening about that. I am not up to speed, but I know there is a European directive coming in. That should be implemented, so that is a recommendation.

When it comes to credit, we all know about credit being a can of worms, but also we should be looking at the impact of overdrafts and credit cards. I know that is on the agenda now, but it is a much bigger problem than pay day lending actually. The low income households use it, credit cards, not being able to pay down, not paying down for ever. Banks and credit cards should be looked at. Regulation is coming in now. That is very positive. There needs to be more of that. I am not convinced that the cap is low enough. There are quite a few people talking about that, that 0.8% is too high, it could maybe be lower. So I think more of the regulation, regulation across the board to all forms of credit including accounts and credit cards and home credit, which seem to be now the good guys. When I got involved in this they were the bad guys, but they are still around these estates around Liverpool.

There are two suggestions there really. One is the social finance sector, which is the credit unions and the CDFIs has got a big role to play, but it has not got the only role. It cannot be the only role. It is miniscule compared with what is going on. So that is regulation, increasing support of the social finance sector. We were at a meeting the other day, were we not, about a CDFI offering loans for household goods in competition with the rent-to-own sector. That is a good one. That is a good recommendation: those kind of initiatives should be supported. Also here there is another big one that I would try and get back on the agenda: the social fund. When I started doing research around Liverpool, more than 10 years ago now, in communities and talking to people about where they accessed credit, all the usual came up, except pay day lenders. They were not around then. All the rest were there, but social fund was the most valued.

Q. Chairman: That issued loans not grants, was it?

Dr Jones: It was loans, yes.

[Crosstalk]

Dr Jones: It is very limited now.

Ms Lone: Emergency loans.

Dr Jones: And crisis loans.

Ms Lone: Yes.

Mr Staunton: One of the problems now, and one of the things I talk about, is the geography of poverty. Each local authority has its own local scheme, so it depends where you are what the budget is.

[Crosstalk]

Mr Staunton: As I understand it, I am not quite sure, but I think Northampton and Oxford have closed their schemes. Wolverhampton has run out of money. The majority of local authorities are now saying that if the ring fencing, as expected to, comes off that scheme next April they will no longer run a scheme.

Ms Lone: They cannot afford to.

Q. Chairman: These are the crisis loans are they?

Mr Staunton: Yes.

[Crosstalk]

Chairman: Those are loans, yes.

Dr Jones: Or they can be grants, can they not? They can be grants.

Mr Staunton: Yes, these are the grants.

Dr Jones: The discretionary ones. The budgeting loans, which I think are very limited now about what you can get, that is a great system and used to be well used. People repaid through the benefits, or whichever benefit they were on. Rather than trying to get credit unions to do that kind of thing, for me I think that is much more [inaudible]. Credit unions and CDFIs have got a great role to play, but they cannot be the solution for this whole effort, this whole new enterprise.

Finally, a few words about saving: another thing that I would resurrect is the Saving Gateway, if we can get that back on the agenda. Saving is incredibly important. Around cultural change Amina is right about the culture. I have been to many groups around here and they will say that, 'We cannot save and we cannot get a bank account'. They tell me things like, 'You need a letter from God to get a bank account round here'. You cannot even get high cost credit. I have had people moving from Liverpool to somewhere else because, 'The property collector does not come in our area'. Saving is good for cultural change, and particularly started in school. All schools should have saving banks or credit union banks, credit union savings account. People in employment should be defaulted into saving. I think it is a good idea. One other thing is to get all the government departments having credit union accounts, that kind of thing. Saving is incredibly important and I think government should support saving for low income communities, because they do for the more moderate income, particularly pensions. I put extra pension in John Moores every month and I am getting tax relief on that.

Mr Edmans: [Inaudible] one of the 5% of people that does that.

[Crosstalk]

Dr Jones: Why should I be subsidised and the folk round the corner –

[Crosstalk]

Dr Jones: I do not think that is fair. I do it because I can do it, but I do not think it is fair really, because the government is supporting me because I have got the money to put in. I think resurrecting some kind of matched saving schemes. It is good around the world. The guy that we all read is Michael Sheridan. He is American, and he was behind all of those matched saving schemes. They work in the States, and I think that really is the way forward. We have to promote saving, not just access to credit.

Chairman: A culture of thrift.

Dr Jones: We have got to try and do something about that. The Saving Gateway was a good idea. The credit unions were going to be in it. Everyone was going to be in it. It would not have cost a fortune. Maybe now the economy is looking up, maybe they will put a bit of money back into that, probably not.

Those are a few ideas and a few solutions, things I have mentioned. What I do, I work here at the Research Unit for Financial Inclusion, which does research into low income finance. We also run a little course, a master's degree, [inaudible], a certificate of professional development at master's level. We run it around the country. I have just been in Manchester. I have been in London and the North East. This is quite good really because it gets people from the social housing sector, the credit union sector, CAB, anybody working in local authorities, prisons, on a professional development course, talking about all these issues around financial inclusion. We get all the people. Sian Williams talks on it and all the other people and everybody comes and talks on it [inaudible]. There you go. Maybe HSBC could support a chair if I mention inclusion. That would be a good idea.

Q. Chairman: Thank you very much. Could I, just for the record, ask you a question to which I assume the answer is yes? You all would agree with the hypothesis that underpins the Commission, which is that financial exclusion remains a very serious and probably worsening problem in this country?

Dr Jones: Yes.

Ms Lone: Absolutely.

Dr Jones: Also that it is linked to social exclusion as well. That is the problem. It is an element. It is not just about not having a bank account or credit; it leads to all sorts of other complications. Austin mentioned health, but the social exclusion. The particular projects I have done are with people in prisons and they are coming back into society. The difficulties they have had getting bank accounts, often that just says, 'We do not want you as part of our society' and leads back to reoffending.

Ms Lone: It also perpetuates the thing about identity and belonging, which we know is massive. What happens is you blame another. I am dreading to bring this up but I will, about immigration and all these people. It is all their fault, but the reason is their sense of belonging in a local community or a sense of value of contributing to community. This is because you are actually not seen as being part of that community because you have not got legitimacy if you do not have a form of ID. Having a bank account is a form of legitimacy; it is having a form of ID. You cannot afford a passport so that is out of the equation, so the bank account is the next best thing. What that does is you do not have that so it is not invisible but it is very much under a normal radar, much of what we take for granted. I go into these communities and live in these communities and work in these communities. When you go into these communities, they survive and it becomes normal. That becomes a normal way of living.

Q. Chairman: What is going to happen – let us make a big assumption, which is that universal credit will actually happen and be rolled out. So everyone will have to have a bank account, everyone who has it, but in practice these people will just withdraw it all in cash.

Mr Staunton: It is about how you use it, because the financial exclusion – if you are not managing your finances well then you pay a penalty. Even if you just take the example about how you pay your fuel, you pay it by direct debit you are way better off than if you are paying through a meter.

Q. Chairman: You pay 6% less. It is outrageous, yes.

Mr Staunton: If you are paying through a meter then is likely the meter has been put in because you ran into arrears. So you are paying a penalty on it anyway to pay off the arrears, whereas it is much more cost effective, if you were into arrears that you pay off a direct debit at a much smaller proportion. The other bit about it is that we used to talk about people being cut off with their fuel because somebody came from the electricity board and cut them off. People now self cut off. They cannot afford to feed a meter so they themselves cut it off. It is one of the aspects of financial exclusion that just gets hidden because no one stands up and says, ‘I could not afford to feed my meter last night’.

Ms Lone: From the white working class reports, we had one of the neighbourhood managers that is senior in one of the housing associations in North Manchester and he said that the bedroom tax is a drop in the ocean compared to universal credit. ‘Forget the bedroom tax’, he goes, ‘universal credit is going to be disastrous’. He goes, ‘You are giving people money who do not know how to manage money’. When something goes tits up, to be quite frank, in those households, when the boiler goes or the washing machine goes or they need to buy school uniform or something happens, that money is going to be used for that, because they are not used to dealing with £800 or £1,000. Then what will happen is that they will get a payday loan to pay the rent. Then that kind of cycle of getting another payday loan to pay the first payday loan will happen, and you will get these people who [inaudible].

Q. Mr Edmans: [inaudible] that is generalisation, is it not?

Ms Lone: Of course.

Q. Mr Edmans: There are lots of people who will be in that situation who will not act in that fashion. What I am reminded of, horrifyingly, is my upbringing in the 50s and 60s. That is because what you described [inaudible] back streets of Peckham. So I know all about people who did not join the social security system, had never joined the tax national insurance club because he did not think it was for people like him. Most of my neighbours –

[Crosstalk]

Mr Edmans: At least now the exception is to have a meter they put money into. Where I grew up it was absolutely the norm, and [inaudible] for the meter was a very commonplace thing in many of the TV comedies of the time. Obviously I feel strongly about this otherwise I would not be sat here, would I, but one of the things I do not think helps deal with the issue is if the worst case is presented as the general case. I worry about us doing that a bit. My parents in law, for example: mother in law was a cleaner, father in law was a window cleaner, and they had precious little income. They never got anywhere near that situation, and to suggest that people like that could not manage it if they got 800 quid is simply not the case. People out there are actually pretty good and they are not stupid. There is kind of a condescension sometimes to people who are on low incomes, that they are too dumb to somehow manage £800, and it does not help the situation.

Dr Jones: I agree totally with that actually. I think this whole debate sometimes is shot through with moral judgments like that. We do know that people who manage in cash week by week manage actually better than people on higher incomes who do not know what is coming in and out or going out of their accounts. That is actually true, but with the advent of universal credit it would assist people if they had the kind of account, probably a bank account of some sort. Some people will be able to have a credit union account that is like this, but not enough people, an account that actually will ring fence the rent and pay it, one of those budgeting accounts. That would assist. It does not mean to say that they could not do it, but that kind of budgeting account that they used to call jam jar accounts would assist people to manage their money. Then they would know exactly how much left they had to manage in the way that you suggest, because I do agree with you: people on lower incomes manage their money week to week better.

Q. Mr Pond: They do. I used to run an organisation called Gingerbread for lone parents and they were the best managers of money. The problem is we seem to have a situation at the moment where we are seeking to teach people to fly by throwing them off the roofs of buildings. There were support networks though. People can manage probably day to day, week to week. What they cannot manage is when something goes [inaudible]. They cannot manage that crisis. The support mechanisms that were there, whether it was the social fund or whatever it happened to be, or people living in the same communities and supporting each other, those support networks are breaking down.

Mr Staunton: The other thing is, to give an analogy, what is happening now is people are balancing on the knife edge of debt. Any one thing can tip them off it. They may appear to be managing it, but any one thing and suddenly they fall into it. It is where they then go to service that loan.

Ms Lone: I am going to have to slightly disagree with you, I am sorry, Laurie. I know I probably should not do that. I think you are absolutely right that there is a generalisation there. There you are right: we should be really, really careful about making the worst case scenario the general thing. We should not do that. However, the evidence is, and certainly from our research and the people that we have spoken to [inaudible], that when we were talking about these communities that were very close knit communities, very supportive communities, these communities are feeling under strain, in multiple strands of their life. There are welfare changes.

I grew up in a very poor household. I am a single parent now. I manage my money just about, but we manage it. There are ways, there is a mechanism we can support each other. People are in low income, insecure work. There are welfare changes. We have had a weakening of communities and community relationships and kinship. This is because people are feeling the strain collectively, whereas before we did not have a situation where the people in poverty are working. The majority of people that are in poverty are working. We did not have that situation before. That is at unprecedented levels. That is what the evidence is saying.

Q. Mr Edmans: 1950s? It is history. Not so much has changed. The direction of the relevant movement from where we were, say, 10 years ago, I agree with you wholeheartedly. I take Chris's point about it is not a very good idea to teach people to fly by throwing them of roofs.

Ms Lone: Yes, that is the thing. It is the unpreparedness and the resilience that is not there, and you are right.

Q. Mr Edmans: My point really was a much smaller one than I fear I made, which is simply that if some of the arguments that need winning here are going to be won, the quantification needs to be really quite precise. Otherwise people are going to say, 'What about all this lot?' One of the arguments that I deal with within my pension scheme, I chair the trustees of the Mirror Group pension scheme. So I am quite often in Liverpool because we have our trustee meetings now where the people are. If you would ever like to come along sometime and meet a few pension scheme members, please do. My frustration is that half of those people join the scheme and get the benefit of effectively 10% extra pay that comes [inaudible] into the pension scheme, and half of them do not. There is no difference in the demographics and the pay or anything else of the half that are in and the half that are out. There is something going on there about why is this group are in and are doing the saving, which [inaudible] matched saving in a pension scheme is not matched saving, it is matched saving plus.Why are they [inaudible] like that?

Dr Jones: There is lots of inertia around, is there not?

Mr Edmans: There is lots of inertia and half of them are not inert.

Dame Marsh: Unless people do not understand it.

Q. Mr Edmans: People do not understand it or people – I am sorry, I am talking too much. I am here to listen to you. Sorry, I will shut up very shortly. It is people not choosing to understand it. There is a great big difference between people not being capable of understanding and people not choosing to put in the effort to understand it, because people can understand it. There is not any question about that.

Ms Lone: Yes, absolutely.

Mr Edmans: They have got the capability. It is the inclination [inaudible].

Ms Lone: What we cannot do is individualise it. My worry, which is what I said at the beginning, is if we individualise it so that it is an individual's problem and you are part of the solution. I am one of those people who fundamentally believes that we have responsibility and should take responsibility for our actions and consequences for that. However, we also need to have a society where we have a support structure that looks at social justice and looks at financially resilient communities and society that supports them. What is happening is that that has been stripped away, stripped away, stripped away currently, and people are very –

Q. Mr Edmans: No, no, no. I wish we had two hours, because I agree. What we are doing here, I guess, is trying to work towards how do you square all this stuff. Can I just put one thing on the table that has not been mentioned yet today in trying to understand this, which I simply do not understand really? It is how do you somehow square all this off with what is happening with gambling? I do not want to pull that piece of string. However, if you look at what seems to be happening out there, the propensity of people to make the kind of savings provisions we have been talking about and the propensity of people to bet, other than on the lottery, which is [inaudible] itself, there seem to be [inaudible]. Brian Pomeroy who set up the Inclusion Commission also chaired the Gambling Commission. Looking at his numbers you can see the number of people who bet other than on the lottery has crossed over the number of people saving in a pension scheme. What is going on there?

Dame Marsh: Unfortunately it is highly addictive.

Mr Edmans: It is highly addictive.

Ms Lone: But it is emotive. It is not logical. It is not logical. It is emotive.

Q. Chairman: What has changed since the 50s is that pressure on people to consume, to spend. If you walk along a high street you pass [inaudible]. Your kids in school, their friends have got a flat screen television. The single mother will say, very often, 'For Christmas I have got to get my children a flat screen telly or an Xbox'.

Mr Staunton: The great example of this is Black Friday. The behaviours were absolutely abnormal.

Q. Mr Pond: [inaudible], do you know what the lone parents said to us? The thing that most upset them about living on a low income was not being able to send their kids on the school trips. It is not just about the flat screen TVs, it is those sorts of unexpected expenses.

Mr Staunton: Also wearing the wrong uniform, so not getting the right uniform for the right place.

Ms Lone: Non uniform day, which is always horrendous.

Dr Jones: That is what I meant about the link between social inclusion and financial inclusion, social and financial exclusion. [inaudible] Can I just ask a quick question about your pensions? Is there any kind of possibility maybe of having more default schemes? We know that if you are defaulted in, that inertia about defaulting out, so all those –

[Crosstalk]

Mr Edmans: It is other than pensions, as well.

Dr Jones: And pension as well.

[Crosstalk]

Mr Edmans: The answer has got to be yes.

Dr Jones: So more default out rather than opt in. Opt in or opt out.

Q. Chairman: There are all sorts of clever things that can be done with software for budgeting, for payments of rent, for automatic savings. There could be much cleverer direct debits that did not just sweep the money out of the account without the person knowing about it in advance. It all needs a bit of investment in software engineering.

Dr Jones: That also leads onto the other issue that financial inclusion and digital inclusion now are so closely aligned. There are housing associations around Liverpool that are having digital mentors. That is really important, because if you cannot access the technology you are not going to be able to access the financial services system.

[Crosstalk]

Dr Jones: More effort in that area is important.

Mr Staunton: We have a financial inclusion worker, and in terms of looking at both claiming benefits and some of the examples in which people can save, it was £1.8 million worth last year. The whole idea about how you buy your products, whether you buy it online or you buy it from a shop, and how you get credit, that whole thing about the digital opportunities are great, but the gap is getting wider.

Chairman: I am afraid –

[Crosstalk]

Chairman: Please write to us if there are other points.

Ms Lone: Yes, we are going to submit a report [inaudible].

Chairman: Thank you very much.