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TAKEN BEFORE

FINANCIAL INCLUSION COMMISSION

THE NORWEGIAN CHURCH ARTS CENTRE, HARBOUR DRIVE, CARDIFF CF10 4PA

FRIDAY 9 JANUARY 2015

MS KATIJA DEW, MR BILL HUDSON AND MS LINDSEY KEARTON

Oral Evidence

Taken before the Financial Inclusion Commission

Members present

Chris Pond MP (In the Chair)
Laurie Edmans
Dame Mary Marsh

Jennifer Duncan and Lisa Stidle, in attendance from the Commission

Examination of Witnesses

Ms Katija Dew, Financial Inclusion Programme Director, Wales Co-operative, **Mr Bill Hudson,** CEO, ACE Credit Union Services/NACUW, and **Ms Lindsey Kearton,** Policy Officer, Citizens Advice Cymru, gave evidence.

Chairman: Thank you very much for joining us – we really appreciate it. Let me just explain what we are doing. Hopefully, you are aware of that. The Financial Inclusion Commission was established a few months ago. It is funded by MasterCard but it is absolutely independent and non-partisan. We are trying to get the issue of financial inclusion up the political agenda in the run-up to the May General Election and to try to build stuff into the manifestos. We have a range of Commissioners, including experts like Dame Mary Marsh and Laurie Edmans, both of whom you will know, as well as some major parliamentarians from the Conservative, Liberal Democrat and Labour parties. I am Chris Pond and am fulfilling the role of Vice Chair of the Commission. Brian Pomeroy is acting as our President. With the Taskforce having come to an end in 2011, we feel that quite a lot has happened since then. There have been many improvements and we have seen some progress in terms of basic bank accounts but, in many other respects, things have started to slip backwards. From some of the evidence that we have so far, a consistent theme is that the welfare-reform changes have had a major impact on some of the people who we are talking about. They both require people to take on greater responsibility for managing their money while, at the same time, reducing the capacity to do so.

That, then, is the context for this, but could I ask you, as well as introducing yourselves briefly for the record, to say a few words?

[Housekeeping remarks]

Katija, could you tell us first of all your perception about where we are in terms of financial inclusion? I would ask each of you to focus more on what we need to do about it and what you would like to see in the manifestos, and not necessarily to say much about what the problem is.

Ms Dew: Some of us are a bit long in the tooth now in respect of financial inclusion. It has been around for a while.

Chairman: Who is she talking about, Laurie?

Ms Dew: I am talking about myself. In some senses, it is really quite a fast-moving issue, with things changing such as economic dynamics in terms of employment, and being told, on the one hand, that the economy is doing better and, on the other hand, that nobody has any money. In some senses, things are moving, with lots of changes in terms of welfare-benefit reform. In many respects, however, we are exactly where we were before, because the bottom line is that people are still struggling to manage their money. They do not have access to the appropriate services that they need and they do not necessarily have the confidence and knowledge to use those services in order to manage their money in the short, medium and long term. I know that I sound as though I have just read that off something but, as I said, I am a bit long in the tooth. That, however, is what it boils down to.

We have had many definitions of financial inclusion over the years, but the issue is that people are struggling. Not only are they struggling with a low income but they are also struggling with a moderate or slightly-lower-than-moderate income, because they are financially excluded and those products are not doing what they need to do for them. That pushes them, effectively, into poverty. Alongside the changes in the labour market and the changes to part-time working, zero-hours contracts have been known about for many years but are being used more because they are more flexible for employers. People are unable to plan their incomes and it is much more difficult to manage their money. That is where I think we are: we are in a different place, but in the same place.

In some respects, the different place may well mean that different people are now financially excluded, whereas they were not before. For example, we have seen that some of the payday lenders are very much targeting a different market, and they are no longer lending to some of those people who they traditionally targeted – for example, the doorstep lenders – because it is more lucrative for them to target people who are just that little step up – those who are employed and who earn a salary. That is where we are.

In terms of where we need to be, I had a very careful look through the wording of the request for today. We have had these conversations for a number of years, and I think, in respect of policy, rather than particular policies that I would like to pull out and say, 'We need to do something on this and we need to do something on that', we just need to change policy much more quickly. We need to be much more responsive. That might mean that there needs to be some kind of central vehicle in respect of Government. For example, in terms of payday lending, five or six years ago some of us – colleagues at Citizens Advice and credit unions – were saying, 'This is going to be a big problem.' Five or six years later, here we are, and the momentum has gathered pace only in the last six months and we are now seeing some changes. The problem with that is that we are seeing particularly people in the younger age range – not teenagers but those in their first job or living in their first new home – having had the formative years of learning to use their money properly being embedded in that kind of culture, where you can get a loan within 15 minutes. Now, we are faced with having to change those sorts of behaviours.

It is, then, not just about bringing in legislation and regulation; we have to be much more strategic about what we are doing. I feel that Government needs to have more trust and to listen to those organisations out there that are seeing this, and to have somebody responsible who is there to overlay that with the statutory thinking about where we are going and how we are regulating and move along more quickly.

Chairman: Thank you, Katija, that is very useful.

Ms Kearton: I suppose it is easy for me to say that I would echo a lot of what Teej has just said. As you can imagine, Citizens Advice is very much at the front line of some of the impacts of the economic downturn and the impact of welfare reform over the last couple of years. In terms of debt-related problems, I have figures specifically for Wales, and they make up around 30% of all problems that bureaux across Wales see at the moment. What we are seeing, across England and Wales, is the changing nature of that debt, which I think is largely as a consequence of the economic situation. More and more people are coming to us who have fallen into arrears on essential bills such as their rent or council tax. In fact, council-tax arrears are now the biggest debt-related issue seen by bureaux across England and Wales. That pattern has been a bit slower coming into Wales, for whatever reason. Perhaps some of the policies that the Welsh Government has put in place have protected certain aspects of the impact in Wales. We are, however, now seeing that pattern coming through in Wales in terms of people's general ability to live currently being threatened.

You may talk a bit about this further in the discussions, but the impact that welfare reform has had on many people is huge. It is the biggest issue that we help with now. It accounts for around 40% of all our problems. We have done some research in Wales looking specifically at that experience of how people are managing. Picking on something that Teej said about needing to act more quickly, that was definitely a lesson from what is happening around welfare reform. People were unprepared. Most of the people we have spoken to did not really know what was going to happen until it directly affected them. They are still very much in the dark around what is down the line in terms of Universal Credit. While there are things in place to try to prepare for that transition – and it is going to be a huge transition – it has been thought of by Government, as it often is, in terms of the technological side and what a big challenge that is going to be, but it is also about changing people's behaviour. You are asking people to change longstanding behaviours that have enabled them to cope. Most people on low incomes do manage on a weekly budget, but it is being forced on them that they are going to have to change their behaviours that have worked for many years. In terms of that forward-planning and acting more quickly, that is definitely something that needs to happen, particularly with that in mind.

We definitely agree that there needs to be a refocus of effort from Government in terms of tackling financial exclusion. Again, I think we have been slightly better off in Wales in terms of Welsh Government policy around the Tackling Poverty Action Plan but, even in Wales, the focus on financial inclusion has been lost slightly, so we would very much welcome a renewed focus. It is about the planning and trying to build in that preventative action in terms of educating people. We find that people are struggling because of various cuts to benefits, or delays to benefits, etc, and there are still a lot of people out there who are not claiming everything that they are entitled to. In terms of financial gains that we work on, millions of pounds are brought back into the economy and into individuals' pockets, because they are being supported to claim benefits that, previously, they were not aware that they could claim.

It is about investing in preventative action and listening to customers or organisations that represent them in terms of their reasons behind why they use particular products, such as payday loans. We are doing some work on that at the moment, just to understand some of the motivations behind their use of particular products. We know that mainstream providers currently do not provide the products that people on low incomes generally need. There has been a breakthrough with basic bank accounts, but it is about more than that. It is about building trust, particularly for people who have bad experiences with banks: building trust between customers and the banks, and particularly for people on low incomes, and building on the offer that other providers can provide, such as credit unions or the Post Office, for example. Again, they are more trusted than many mainstream banks. It is critical that the public are involved in designing future products down the line in terms of making them more appropriate for people on low incomes and their needs.

Chairman: Well done for setting the credit unions up.

Mr Hudson: I think somebody else set me up.

Ms Dew: We have not planned this.

Mr Hudson: I am here today representing ACE Credit Union Services. I have worked for ACE since August last year, so I am a newcomer to the credit-union trade-association business, but I have been working with credit unions for the last 24 years, 14 of which were spent at Teej's company, the Wales Co-op Centre. I will also plead guilty to being the author of the first ever Welsh Financial Inclusion Strategy, published in 2009, and I very much take on board and agree with some of the comments made about the Strategy not moving much further on than it has. A lot of it is to do with the financial downturn and budget cuts. There is no money available to invest in the kinds of initiatives that could work, but I think that there are other issues that Government – both devolved and national – could be looking at. As well as doing the strategy, I also went on to work with the All Wales Credit Union Support Programme before starting the job with ACE.

When I speak today, I think I am speaking on behalf of ACE, but I have looked through their objectives and I have seen what they say about financial inclusion, which is generally very positive. ACE, as you may or may not know, is one of the smaller trade associations. Quite often, we feel that, because the Association represents a smaller number of credit unions, their voice is not heard as much as the louder voices. We would see this as an ideal opportunity for us to say a few words about financial inclusion.

One of the reasons why ACE Credit Unions are there is to support people on low incomes and people who are excluded, although we accept that credit unions have to have a diverse membership to be successful; otherwise, a credit union made up just of poor people is a poor credit union generally. I would not say that that is always the case, because a lot depends on the amount of loan activity that smaller credit unions are able to perform. Credit unions are unique, I think, in the financial-services sector, in that they are pretty much the only financial institution with social goals as well as economic goals. While we accept that all credit unions must operate professionally, efficiently and effectively in terms of their business model, they also have, as part of their overall objectives, an aim to support less well-off people. That brings us to a bit of dilemma, in that there is an expectation that credit unions could be the answer to the problem of things like payday lending. We recently had a fantastic level of support from the Archbishop of Canterbury and the Duchess of Cornwall, who were sounding out that credit unions are a potential solution. The Archbishop said that he wanted credit unions to compete Wonga out of business, to which Wonga said, 'Thank you very much, we welcome the competition.' Since that statement was made, however, the interest-rate cap has come on to the payday lenders, so they might not be so confident in that. It raises the awareness of credit unions and is a welcome piece of marketing, but our Association is not sure that seeing credit unions as a solution to a problem is where credit unions fit into the market.

The Welsh Government led the way in that it is one of only government that have provided compensation payments for credit unions that provide services to financially excluded people, and they have been doing that for a good period of time – about five or six years. There is some debate about whether that has been wholly successful, in that some credit unions have grown very quickly and very close to sustainability, whereas many are still quite small and do not really reflect the investment that has been made in them. I think that that is probably more to do with the politics of funding in Wales, which says that you cannot leave any particular area out. We may want to discuss, at a later stage, the issues that are faced by rural credit unions, which are very different to urban credit unions, which generally grow more quickly, although that is not always the case. A lot of credit unions have a mixed common-bond area of both urban and rural, so it is a slightly mixed case. I think it just reflects the case that no two credit unions are the same, and that they are diverse and different.

In terms of possible policy changes, having been involved in the writing of the Strategy, there is no easy solution to this, and it is something that can be achieved only with everybody working together on it. One of the failings of Taking Everyone into Account – the Welsh strategy – was that it outlined all the main areas and themes of financial exclusion and said what should be done to address those issues. It told all of the stakeholders what their potential role was in terms of improving the situation and encouraging more inclusion. What it failed to do, however, was to have any command that said, 'This is something that you must do', which is why I was particularly pleased to see the Welsh Financial Education and Inclusion Bill, which I think you heard about this morning, come out with some proposals that would force local authorities to have their own Financial Inclusion Strategy, to have them monitored, updated and changed every so often, and to accept guidance from Welsh Government Ministers. The fact that that has been shelved is disappointing, I would have been interested in what the AM had to say this morning about this, but I hope that that does not mean that that particular part of the Bill disappears, and that local authorities are held to account for their contribution to the financial-inclusion market.

My other issue might not be one that my trustees would fully agree with, but I have not had a chance to ask them. I would say that the role of banks could be better. At the moment, if you asked any of the major banks whether they supported financial inclusion, they would probably all say yes, but they would not be able to provide much evidence, other than basic bank accounts, of what they have done. I think Lloyds and Barclays are the only two banks that have a small fund that supports credit-union development and training. The rest of the sector seems to have taken a backseat on that. In the US – and this is probably a controversial issue – there is the Community Reinvestment Act, which you might be aware of. It encourages banks to provide services, or support for other organisations that provide services, to people on lower incomes. There is a league table of funders, and I heard from one of the credit unions there that many of them battle with each other to see which can be top of the league in terms of who is giving most to support community-development credit unions there. It has been discussed in the UK but it is more than likely that nothing will ever come of it in this country. We thought that we would never have an interest-rate cap for payday lenders, however, and that has happened, and that is a massive step forward for people who are excluded from mainstream financial services.

Q. Chairman: Thank you very much. Could I begin by asking: you have played an important role in making sure that Wales was so much further ahead in some of these issues than England. Teej, should we be trying to clone you in terms of the champion's model of having someone, perhaps, in each local authority who takes responsibility for coordinating what is going on and, as Bill said, for making sure that each local authority has a strategy on financial inclusion?

Ms Dew: Our approach to Financial Inclusion Strategies, per se, is, 'Yes, have one but, if you are going to have one, have someone leading it who has the gravitas, the seniority and the kudos to be able to make sure that it is delivered. Please do not write one and then put ticks against the outputs.' When we work with local authorities and large service-providers, we will help them with their Financial Inclusion Strategy, but we will work with them as an individual. If it is better to integrate financial inclusion into their wider strategy, we will do that, because at least then it is going to work, because it hangs as part of the entire strategy of the organisation; for example, local authorities' Single Integrated Plans.

I think there needs to be somebody leading that agenda within local authorities. I am going to stop short of saying that I do not want to be quoted on this, but the local authorities in Wales have the lead for welfare-benefit reform, and we regularly go to meetings and advise on financial inclusion. What I have noticed is that there is such a mixed bag. These individuals come from revenues and benefits, from housing and strategy, and from welfare rights. Some are directors and others are officers. We need some kind of consistency so that lip service is not paid and so that it is integrated and delivered.

When I say we need someone to lead this, what we need, other than those outputs, is a change in culture. Local-authority staff need to really understand what financial inclusion is, and that is one of our biggest problems. It is not just local authorities, but also health boards.

Mr Edmans: Is that in the public sector?

Ms Dew: Yes, and the Chair of that health board had said to me, 'We really want to see this happening'.

Q. Chairman: Just taking that point forward, you were talking about the potential but also the variability of credit unions. Is this something to do with workplace-based credit unions versus community-based credit unions? You were talking there about using payroll to make savings into credit unions, which could be community-based, but is there something in the model of workplace-based credit unions that is more successful?

Mr Hudson**:** Some of the bigger ones started off as work-based, but most are a mixed common bond. Cardiff, for example, was originally set up as a South Glamorgan Council credit union back in 1994. Over the years, however, we also set up many smaller credit unions in Cardiff, which we had to do because that is how the regulatory system worked, with the old Registry of Friendly Societies. If you had more than 15,000 people in an area, you needed a different credit union, because people would not know each other. That has all gone, thankfully. Most credit unions now do represent their communities, although there is an argument that perhaps somewhere like Cardiff does not do it to its full capability and that it still relies on that focus on the people who get their wages paid into the credit union. However, it is something that all community credit unions can do and, if they get the support of the local authorities or health boards, for example, they can encourage more people to join, regardless of whether they work for the organisation. It just makes more sense for people to be able to pay directly through their wages.

Q. Chairman: Before I cease abusing my right as the Chair here, could I just ask one point of clarification? You said that debt accounted for 30% of the problems presenting. I assume that these are problems, not people.

Ms Kearton: Yes.

Chairman: Then you said that 40% are related to welfare reform.

Ms Kearton: To benefits and tax credits, which includes the impact of welfare reform, but it also includes other issues that might not necessarily be down to the changes.

Chairman: Those two categories probably overlap a bit. You could not say that 40% plus 30% are debt-related.

Ms Kearton: You could say that three quarters of issues relate to one of those things but, as you can imagine, when people come into bureaux, they present with no end of problems. We make sure that those are recorded, so there are multiple problems from just one client.

Q. Dame Marsh: You talked about the importance of some controls on payday lenders. Do you think they are sufficient? It seems to me to be a very first step.

Mr Hudson: I think you are right. I think we were all pleased to see some control.

Dame Marsh: I agree.

***Mr Hudson*:** I think that you take it one step at a time, and the fact that if you borrow £100 you'll never pay more than £200 is, I think, a step forwards.

Dame Marsh: Yes.

***Mr Hudson*:** If you borrowed £100 and did not repay it, then you could be paying thousands.

Dame Marsh: Yes.

***Mr Hudson*:** So at least that has stopped. But, obviously, the more you regulate things like that, the less they will provide services, and what we do not want to see is that a service that is currently available to people becoming unavailable, because they have been priced out that particular market. So although I think it could be improved, I would say that it was definitely a step in the right direction.

Q. Chairman: Is there a case for applying that to other forms of consumer credit, and credit cards or bank charges?

Mr Hudson: Certainly on bank charges. I think they need to be reined in. It used to be £30 each time you made a payment when you were overdrawn, which was absolutely crazy and just sent people plummeting, and left Citizens Advice and other debt advisers with an enormous task of trying to sort out the problem. But I think you need to be very careful. The banking sector is pretty powerful in this country so, for me, the government has been reluctant to interfere or intervene in the mainstream banking sector for a very long time. And I think doing the payday lender bit, where you see APRs of thousands of per cent, is just criminal and should be stopped, whereas you could not really say that a credit card of 26% was criminal.

Q. Chairman: I am very careful what I say in the presence of someone from MasterCard. There are many people using payday loans who say they do so because if the alternative was to run into an overdraft or to max out on their credit cards, they would end up paying more, in cash terms. For them the APR is a bit irrelevant, next to the amount that they are actually paying. Is that the case, in your experience?

Mr Hudson**:** I think as long as they do not get into difficulties while they are repaying it.

Ms Kearton: It is that short term need. People need the money now, and I think perhaps that is still perhaps one of the issues with credit unions, that they cannot. I know that they have changed in terms of their approach to providing more instant credit, but there is an issue around that and I think because of the ease with which people have been able to get payday loans over the last few years, where we have seen their use increase exponentially, I think that has been one of the major factors that has resulted in their expansion.

Q. Mr Edmans: Could I ask a question that I have asked before, but not today, about the limits on the interest rates of credit unions? I am from the financial services industry, which is my big admission. My second big admission is it was pensions. So you know where I am, and so credit unions are not something I am really familiar with, but I have spent lots of time talking to Mick McAteer. Yes.

Mr Edmans: You know Mick?

Mr Hudson**:** I know Mick, yes.

Q. Mr Edmans: I am a big Mick McAteer fan on all sorts of levels. Not everyone, but most. And way back, when I first started to get interested in this sort of thing, being a West Ham, my third big admission of the moment, I noticed as I walked from where I parked my car to the stadium, cheque changing shops were opening up. This is going back 15 years, and I can remember saying to Mick, you know, ‘I do not like this. What is going on?’ And he was very frustrated because his credit union is in Hackney, which is the next borough. And one of his big frustrations was people walking into these cheque changing shops, which were the equivalent of payday lenders, and not coming into the credit union. I said, ‘Well why not?’ He said, ‘They don’t know we are there.’

So I said to Mick, being a marketing guy, that is four admissions, ‘Well why don’t people know you’re there?’ and he said, ‘Well we can’t afford to tell anybody we’re here. Because it’s our rates of interest are capped.’ I said, ‘Well that’s fine. I understand that, but wouldn’t they be better off, if you were able to charge a little bit more and let them know you exist, rather than go to the cheque changing shop?’ And he said, ‘We could not possibly do that.’ And it was not a statutory thing, it was a belief thing, that he couldn’t charge the people more than the raw cost of borrowing the money. Now, I understand that, but if the end product of that is that credit unions are serving this bit of the market, rather than that bit of the market…

Mr Hudson: Yes, I totally agree, and the interest rate cap when I first started was 1% a month, 12.68% APR, and it took about 15 years for that to go up to 2%.

Mr Edmans: Yes.

Mr Hudson: And then when the reform was going on, and within two or three years there was a call from a report commissioned by the Department for Work and Pensions that interest rates needed to go up to 3% for credit unions to be viable and to encourage more lending to the lower income people. To break even. But there has been lots of research which says that the reality of it is to be at breakeven point you would need to be charging 110% or 112% APR. So basically credit unions will be providing the services they provide on the cheap, whether it's 1% or 3%. There are some credit unions in Scotland who still insist on 1% and will not go above it, for the very reasons that you say: that they do not see that it is fair to be charging people on lower incomes more for the service. But they can get away with that, because their level of business is much higher than others, so the market penetration levels are much higher, so you get more business in, you're turning over more money. So that what you make on £100 loan is multiplied by hundreds.

Q. Mr Edmans: Could I link that to Katija's point about the pace with which change happens, or rather does not? Because if people are looking for credit unions to fill this gap, and we heard some very worrying stuff, did we not? We went to that policies meeting the other day, looking at what's happened in the US with the arrival of caps on payday lenders, and what I took away was that the lenders might have changed, the need and the demand has not changed. What has happened is, instead of people borrowing at normal rates from licensed payday lenders in the US, they now borrow at abnormal interest rates from unlicensed lenders on the internet. So it seems to me eminently sensible to have something like the credit unions, which have got the ethos that you describe there, as a really viable alternative. But if you can't do that within the cap, then somebody ought to be having this under review. Is there a process for looking at this?

Mr Hudson: Yes. It is usually through the trade associations meeting with the regulators, the FCA and the PRA. You have to argue the case, if you want that to happen. I mean the fact that the last rise came from when they were looking at the credit union expansion project, the government's investment into the credit union movement that replaced the Growth Fund. I think it initially started at 78 million. The steering group met, led by somebody from Barclays, and they came back with this recommendation that credit unions should be charging 3% and not 2% and then they reduced the budget saying they could do all this work for 34 million, and not for 76 million. So it seemed like a strange sort of thing to be doing and, you know, once you've got that much money committed, I suppose, if you're a government and you're looking to make cuts, then you get a recommendation like that and…

Mr Edmans: I had better shut up on this point at the moment, but that does seem, to me, to tie in very neatly, and the fact that you are obviously a complete expert in this. But the number of different places to go, and difficult to remember who said what, which point, something with which I'm very familiar, especially as I get older, does argue your case for there being some kind of standing body that actually keeps all of this in some kind of order, rather than it being tackled, as most things are, and is certainly happening in pensions, just with this bit and this bit, and sometimes the logic joins up, but most times, it does not.

Q. Chairman: Just this very technical point. Is APR a useful measure any longer? I mean if we are talking about a 3% limit on credit union loans, and we are talking about several thousand per cent in terms of payday lending, but then you're trying to compare that with the cost of credit via mainstream banks, etc, is there not a better way of getting a proper comparison, and perhaps releasing credit unions from the straight jacket of the percentage APR?

***Mr Hudson*:** Yes, I think you are right. I think APR is very confusing for people who work in the sector, so I think somebody outside is not going to know or care what the APR is. People want to know how much it is going to cost. But, at the moment, that is the way that credit unions are regulated, and we have had a big issue with the FCA recently on where you say 3% and that, to them, that's 36% over a year. 3% per month. And credit unions have done the sort of calculations, and it comes out something like 42.6%, which is what they have been charging, and now the FCA are saying, 'You have got to give that money back, because you are telling them it costs this, and then you are charging them that.' And the people who do the financial systems, the accounting systems, have had to go back and re-sort of schedule the whole thing so that people are not being overcharged. How that got to that point, God only knows, and why the previous regulators never picked it up, I do not know. But all credit unions have had a letter just before Christmas, which was nice for them, to say that they needed to make sure that they were charging the right amount of interest, and if they had not been, then they should be paying back their members.

Chairman: Alright.

Mr Edmans: So it is not just the pensions companies then?

Q. Dame Marsh: And with regards to you, Lindsey, with Citizens Advice you know, obviously what the people you are seeing are critically in need of you, both in terms of you can meet and demand you cannot meet, is that a problem? That there are more people who want your advice, but on the other hand are there also some people who just do not realise that you are there and can give advice?

Ms Kearton: No, definitely. Yes. I mean in terms of demand, definitely. There is a huge increase in demand, and it has come at a time of decreasing funding. Many Bureaux are really struggling to survive. Each Bureau, as you probably know, is an independent charity. A lot of their core funding still comes from local authorities and, as local authorities' budgets are shrinking and being stretched and pulled in all directions, there are significant challenges there. And also the loss of Legal Aid contracts has had a huge impact on Citizens Advice Bureau. A lot of the specialist debt and other benefits advice that they have provided in the past was done through those contracts. I'm not quite sure if I have got this right in terms of the annual figure, but I think it was around £22 million that the England and Wales service used to receive annually from Legal Aid Commission contracts, and that was cut by around 83%, with the changes.

Dame Marsh: And very sharply, too.

Ms Kearton**:** Yes, very suddenly. So what has happened is that that ability to provide that specialist legal support, in particular when people are having to go through quite complex legal issues and have that case work support, it just is not there now, and that is having a really sort of big impact on the Bureaux's ability to help people in that way.

To some extent we have been protected in Wales, as the Welsh government have provided some frontline advice funding which I think is £1.3 million that Citizens Advice and Shelter Cymru in Wales have been successful in being awarded, which is to help plug some of that gap in Wales in terms of the provision of that specialist advice. But it is that casework specialist support that has been drastically impacted with the loss of Legal Aid for social welfare cases. So it has had a big impact, and it is continuing to impact each year. Bureaux are having to face additional challenges in terms of trying to meet increasing demand.

Q. Dame Marsh: And what is your penetration in the more rural areas in Wales?

Ms Kearton: Well, we have got all-Wales coverage, and increasingly now Bureaux work is through outreach. So while there are 20 member Bureaux, they operate from over 375 locations across Wales. More and more there is that need to go into locations where people are, in everyday locations, like supermarkets. We run a particular project in Wales called Better Advice, Better Lives which is an income maximisation project, which goes into health settings and so where people are referred through perhaps consultations with GPs, etc, and there is another underlying issue identified and they are referred that way. So we have got coverage in rural areas as well, and when you analyse, as you can imagine, the type of issues that are common to people in cities, they are just the same in rural areas. Debt and welfare benefits problems are equally as high in those areas as in urban areas.

Q. Dame Marsh: And how is your volunteer workforce holding up?

Ms Kearton: They're still holding up very well. We rely hugely on our volunteers, as you know, and obviously without them we could not function. As far as I am aware, there is not a volunteer shortage at the moment. I think they continue to provide an essential role to the services that Citizens Advice provide.

Q. Dame Marsh: Can you maintain the level of induction training and refresher training that you have done historically?

Ms Kearton: Yes, that is still a core aspect of what we do though. I think that is critical really, in terms of that training and the ongoing training needs being something that, as a service, is still heavily invested in. We are, perhaps, having to modernise. We are changing in terms of service provision. There is investment in our online provision, for example, and in telephone provision. So it is to try and free up more time with the more complex cases and the need for face to face advice. Like a triage system really; when people come into the system they are assessed at that gateway stage. Sometimes their issue can be sorted there and then, or they can be referred to a different organisation or whatever support we might be able to help them. Or they can be then referred to an appointment with an adviser if that is deemed necessary. So yes, so we are having to adapt to both technological advances and having to manage on less money.

Q. Chairman: And are you able to use, for instance, Skype to bridge that digital face to face?

Ms Kearton: I think it is something that has been increasingly talked about, and I know a couple of Bureaux which do work that way. In fact, talking about rural issues, the Bureau in Gwynedd, in north west Wales, actually have a bus that they are very proud of, which does travel around the county, because it's quite a big county as I'm sure you know…

Dame Marsh: Yes.

Ms Kearton: And they provide outreach services through that bus, which allows things like Skype to be used. And I think it perhaps will start to become used, as people trust it. Not everything can be done that way, quite often you need to see the documentation that clients are presenting. Quite often they will just come in and dump a load of reminders and court orders or whatever on an adviser's desk and say, 'Help!'

Dame Marsh: Help. Yes.

***Ms Kearton*:** But certainly for certain types of advice that people need, that is an option which we are looking into more and more, web chats and things like that. Developing that offering.

Q. Chairman: And could I ask Katija, with the increasing digital provision of financial services, is that making the situation of exclusion better or worse, or both?

Ms Dew: It is just making it different. The issue of rurality and access to digital means is enormous, and there is a real problem with that. The Wales Co-operative Centre leads on the Welsh government's primary digital inclusion initiative, and it uses 2.0, which is to digitally include the people of Wales. So we have some experience in this because we have a pan-Wales project and our own staff have great difficulty in Skyping in to meetings, so it is a real problem.

I think there are a number of issues. There are the services, so, technically, can you log into your bank account? There is the bank's end. Then you have access, so can you get access to hardware? Can you access a wireless connection? And then you have got people's digital capability and confidence, and all three of those vary, depending on the extent to which the technical side is there. But again, you need to question what sort of services are we talking about? For example, my 82 year old mother is brilliant on her iPad, but she draws the line at online banking. She won't do it. And yet she will Skype, and email and everything else. So that bit is there for people who bank online. Not all services – I know credit unions are looking to offer more services online, and that is great. But not every product that people need has that access. Then, as I say, there is the issue of hardware and the signal, if you like.

Q. Chairman: On the hardware thing, I am wondering whether, to set aside the digital capability for the moment, if the blockage is the hardware, people cannot afford to get one of these things, or one of those things, but if they did they could make considerable savings over time?

Ms Dew: Absolutely.

Q. Chairman: If they could access those financial services they could start to get their fuel at a cheaper rate through a pre-payment meter, they could do this, they could do that, they could get deals on the internet, etc. But they have not got the wherewithal. Now, one thing they could do is go to the credit union and borrow and buy it. The alternative would be if we could have some mechanism, maybe operated through the credit unions, which recognises that over time they are going to be making those savings. Therefore, if you could pave the costs of the loan, as the savings accrue, so people do not have to come up front, even with the interest payments, but they're using the savings they get to pay it off. Is there any mileage in that sort of idea?

Ms Dew: There are a number of different ways of doing it, and actually we have a project that has been born out of the community's 2.0 work, operating in the upper end of Caerphilly, in the Rhymney Valley, which is quite deprived and distant. Our office has been working with local school on a project called No-one's Left Behind, so obviously children who cannot access computers are having difficulty in doing their homework. So that is where it came from, and it is quite an involved project, but it is owned by that community.

So there are a number of different elements, but the upshot is that parents can buy a refurbished machine from a social enterprise that is refurbishing these machines, and educating the children in how to refurbish them as well, so a [inaudible] aspect. They can buy that, with all the software loaded on, for £100. And they can borrow that £100 from the credit union, and the school and other community projects within our community underwrite that loan for the credit union until the individual has managed to pay it off. So the credit union is not exposed to the risk. And an instant loan to a family that may or may not have that track record. They may not have given that loan to them in the first place. So there are lots of innovative ways of doing things. It needs to be born out of somebody having the idea and then that community taking hold. The school is very enthusiastic. The local community's [inaudible] enthusiastic, and now we are able to talk to other areas about adopting that kind of model. So the costs can actually be quite low, if we look imaginatively.

Q. Chairman: Right. I am going to misbehave because I have just been told to ask you something, and I am not going to as yet, because I wanted to follow this stream of thought. There you've got a loan underwritten by the community, so I was going to ask Bill, will that wash with the PRA? In terms of the risk profile?

Mr Hudson: 100%, yes…

Chairman: Oh really?

Mr Hudson*:* I see no reason why not. We started a drama scheme in Wales, about 15-20 years ago, which was in partnership with the Coalfields Regeneration Trust , and I think it went quite well for quite a long while…

Ms Dew**:** It did, yes.

Mr Hudson: And it was an underwriting. So there was a fund, I do not know how much it was now; it was not a huge amount of money. Because basically all you are doing is underwriting the potential for bad debt. Not the whole amount that you lend out and I think while there was somebody in control of it and making sure that it was delivered properly, and that non-payers were being chased up, then it worked. But yes, I see no reason why the regulators would say, 'We do not think this is a good idea,' if the credit union is covering this risk. And they could do it just by taking deposits from the organisation, or whether it be a school, and use that to write off, so – and I am sure they've come across this.

Ms Dew: It only hits credit unions' accounts if there is a default. So it is a contractual relationship with a third party, and there is a memorandum of understanding.

Q. Chairman: And then there is the wider issues involved of access to capital for credit unions, and is that an issue in Wales as it as elsewhere?

Mr Hudson: Not really. There are very few credit unions which are, in terms of their loans-to-assets ratio, anywhere near the recommended 70% to 80%, which is supposed to be what they should be doing to maximise their income and cover the risk. I think, from my memory of doing the four year project in Wales, the average cumulative loans –to-assets ratio was around about 50%. So if a credit union has got £1,000,000 in assets, at any one time it has only got half a million out on loan. So they have got half a million sat in the bank earning nothing, basically. So there were one or two unions which struggled because they were up to 90%, and the regulators would remind them, every now and again, that they needed to bring this down. But generally, I think, liquidity is not a big problem.

Chairman: That's interesting. Okay.

Mr Hudson: Yes, I know I cannot speak about the whole of the UK, but I think pretty much there has been a sort of a lowering in the amounts that credit unions lend out. Either because they are risk averse, and they do not want to lend it out to people who come across as slightly more risky, or people are not demanding it, and I think it's probably the latter, that a lot of people are now saying, 'Well, you know, I will try not to get into debt. I will not give myself any more problems. I will not borrow any more money. I will not buy the thing that I would have bought, the Sky television or whatever to please everybody, so I will not have that debt.'

Chairman: Yes, I think it's interesting, isn't it, to hear that kind of problem, which is at exactly the opposite end of the spectrum to the people who are borrowing inappropriately from the payday lenders? It just goes to show the variety of life and behaviour out there, and takes me to a question which really picks up on something you said, Katija, about how people still lack the confidence or knowledge to get the best for them, or words to that effect.

Ms Dew: Absolutely.

Q. Chairman: I hope I have not put the words. But I wonder: I've been involved with financial capability initiatives one way or the other quite a long while, and it's a question of how to get people engaged. Because I found, through various things and people over the years, that once you have got people thinking about it, despite the diversity of views, once you get people thinking about it, they are not stupid and they very soon pick up what are sensible things and they make their choices. And I almost do not mind what they do, as long as they know what they are doing. But how do we get over this engagement problem? And do, in particular, do life stages, or life events, provide the right route in and, if so, what are they?

Ms Dew: Okay. I think life events do. And to answer your first question, as to how you engage with people, through something that matters to them now, so if they want to achieve something, if they want to do something and money is holding them back or they could do it better by managing their money better, then that is the route to get through to them.

Chairman: That's the moment. Yes.

Ms Dew: So, for example, and you did put on something somewhere about our financial inclusion and digital inclusion project, that includes the establishment of a website, Money Made Clear Wales, which you may have seen, which is a very, very basic level landing pad. There are lots of websites out there. We do not create websites for the sake of websites any more.

But what we had seen was that most, most basic, 'Well, what do I do first?' level. On there we have an area which we call Worth the Money, and that was written specifically to go alongside a piece of work that was being done with people who were seeking work. So Jobcentre Plus were referring people to our 2.0 staff and they were doing some work with them around accessing and writing online CVs and having an email address and job search online and so on, and we said going back into work is one of those life stages which is going to have an enormous impact on how you manage your money. So let us have a look at extending that, which was called the Web for Work training, to include some money guidance type stuff. And so that was incorporated into the Money Made Clear Wales website; very clear stepping stones. Do this first, have a look at the benefits, have a look at bank accounts, whoever you are borrowing from, are there any grants you can get, that kind of thing, and that then engages those people.

You are thinking about money in a slightly different way. In fact I was talking to one of the trainers a couple of days ago, and he was relaying anecdotal stuff about one particular lady who had a bank account but suddenly, just with a light bulb appeared above her head, and said, 'Why am I paying these fees? I need to do something about this.' And she was terribly motivated to do something that actually she had not necessarily thought she was going to do. But it was because she was engaged, through some route, that she was thinking to do something else. Which was 'Get a job.'

Q. Mr Edmans: That's, with that, could I just pull that out of you then, perhaps all three of you, if there were five life stages that you thought were the most important ones to make sure that when people are there it's really easy for them to get into the system. If there are five, what would you put on that list?

Mr Hudson: School leavers. That's starting point.

Ms Dew: Yes. First job, yes.

***Mr Hudson*:** Yes. Moving into work.

Ms Dew: Yes. First job. I would say establishing a home is a big…

Mr Edmans: Yes.

Ms Kearton: I was going to say perhaps things like health-related events. I know it is stuff that the old FSA used to do before, in terms of new mums-to-be, expanding family when demands on your finances are going to sort of change, totally. Or perhaps if you have been unfortunate, if you have been diagnosed with a particular condition, or been in an accident or whatever, and your life just changes overnight. Your whole financial situation is going to change with that. So some of the work that we are doing around impacts of welfare reform is trying to get the health sector a bit more engaged in terms of supporting, you know, ensuring that people coming in to have their conditions, or for medical help, are also receiving additional support which might benefit them to improve their finances.

Mr Edmans: I have had a number of moments of enlightenment in the process of doing this. It is fascinating sitting this side of the table. Because I tend to think, having spent my whole life in financial services, of things in financial context, and what you have been talking about there is that the finances are adjacent.

Mr Hudson: There's a massive area around when people stop working, and they move onto pensions.

Mr Edmans: Yes, I am more familiar with that one.

Ms Dew: And even more now.

Mr Hudson: Myself, I've got a few pensions, but I have no idea how they work and why they pay me such an amount and why they charge 40% tax on it.

Mr Edmans: Have a word with me after.

Chairman: Now we had better draw it to a close, not least because there is a rather nice red Mercedes sports car out there, which I assume one of you has left out there, and I'm worried that a tree is going to blow over onto it.

Ms Kearton: You can tell we are good at managing our money.

Q. Chairman: But just two quick questions for you. First of all, just imagine that you broke into the headquarters of each of the main political parties and found that they had left their desktop on and open on the page where they are drafting the manifesto, and you can slip in there, at the top of their list, one thing that you think they should do around financial inclusion. What would that be, according to you?

Mr Hudson: I think I have already mentioned my Community Reinvestment Act.

Chairman: Okay. Alright. Lindsey?

Ms Kearton**:** I think it would be, predictably, in terms of maintaining that investment in preventative work. So, investing in financial education.

Chairman: Financial education, yes.

Ms Kearton: Financial capability programmes, and debt advice, I would say, just to ensure that problems do not escalate, or problems do not get to that crisis stage in the first place. Just maintain that, because advice services, and particularly specialist advice services, have been very much botched over the last couple of years.

Chairman: Okay. Katija?

Ms Dew: Mine would real investment in [inaudible] capability. To go alongside the opening up of financial services market better. You can have those products, but people need to know how to use them.

Chairman: Right.

Ms Dew: I am afraid I do not really believe that the build it and they will come model works within half a generation in terms of financial products. Payday loans, of course, overnight. So yes, it would be around financial capability. Motivating people to change their money behaviours, I think.

Q. Chairman: Okay, great. And then I have left the most difficult question to last, which is that given that the UK is a leader in financial services, do you agree that the UK should actually seek to be a leader in the promotion of financial inclusion?

Mr Hudson: Definitely.

Ms Dew: I think it’s a disgrace that we are not.

Ms Kearton: Definitely.

Mr Hudson**:** I know it might upset a few people, but any mainstream bank that has made a lot of money out of the business they do in this country should be saying, ‘Perhaps I had some responsibility here, and maybe I should give something back.’ So Barclays, Lloyds, they give a small amount, but it is a small amount. 1 million, 4 million, you know, it is peanuts in terms of what possibly could be invested. But you cannot force people to feel responsible, corporately. Or can you? I do not know.

Chairman: No. With all credit to MasterCard, no pun intended, that they are supporting this work with a very low profile and…

Mr Hudson: Excellent.

Chairman: And with that word from our sponsor. Anyway, thank you very much, all of you, for giving up your time.

Dame Marsh: Thank you. Very helpful.

Chairman: For everything you are doing, practically, to deal with the problem. Thank you. Safe journey home.