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TAKEN BEFORE

FINANCIAL INCLUSION COMMISSION

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MONDAY 26 JANUARY 2015

MR NICK KENNETT and MR MIKE GRANVILLE

Oral Evidence

Taken before the Financial Inclusion Commission

on Monday 26 January 2015

Members present

Sir Sherard Cowper-Coles
Professor Sharon Collard
Lord Archy Kirkwood
Dame Mary Marsh
Mr Chris Pond

Witnesses: **Mr Nick Kennett**, Director, Financial Services, and **Mr Mike Granville**,
Head of Policy, The Post Office

Chairman: Thank you for making the journey here. You know a bit about the background of the Financial Inclusion Commission. You will have seen the website and heard about it. We are in the final stages of gathering evidence. We are working on some draft conclusions which we will be putting to all the main political parties in order to get financial inclusion back on the political agenda in the run-up to the next Election and after it. What we normally do is ask the people giving evidence to make an opening statement and then we will have about an hour for questions and comments and exchanges. I will just get the team on this side of the table to introduce themselves. We might as well start with you Alaina.

Ms Wong: Alaina Wong and I am at HSBC supporting Sherard.

Mr O'Halleron: I am Rob O'Halleron. I am also here at HSBC and also supporting Sherard.

Dame Mary Marsh: I am a Commissioner. I happen to be a Non-Executive Director to the HSBC Bank's European subsidiary. My current roles are mainly in the charities sector and other non-exec roles in the public sector.

Lord Kirkwood: I am Archy Kirkwood. I am a Liberal Democrat Peer. I guess I developed my initial interest in all this as Chairman of the Select Committee on Social Security in the House of Commons. I am also a Commissioner.

Chairman: I am Sherard Cowper-Coles and I am leading the Group's work on financial inclusion. We had a big conference in London last Monday addressed by the Archbishop of Canterbury and Queen Máxima of the Netherlands, who is the UN Advocate for Financial Inclusion. If I am a bit woozy I have been in Saudi Arabia for the weekend presenting condolences on the death of the King and I came back overnight.

Mr Pond: I am Chris Pond. I am also here to support Sherard as the Vice Chair of the Commission and in a previous life I was supporting Archy in the Social Security Select Committee. I have spent my time down the road in Westminster, but I have been going straight for a number of years since. Currently, as well as having a day job with Kraeb Gavin Anderson, which is an international communications agency, I chair the Money Charity and the Standards Board on Equity Release and I am involved in various other

things in the area of financial inclusion.

Professor Collard: I am Sharon Collard. I am a Professor of Personal Finance Capability at the Open University Business School. Before that I spent 15 years at Bristol University at the Personal Finance Research Centre, where we did a lot of work on financial exclusion and inclusion and had lots of discussions with the Post Office about those issues.

Ms Stidle: I am Lisa Stidle and with my colleague, Jennifer Duncan, we are the co-ordinators for the Commission.

Q. Chairman: Over to you, Nick.

Mr Kennett: Let me introduce myself to give you an idea of my background. I have been at the Post Office for three and a bit years. My background is banking and payments. I spent 11 years in Australia and ran all the retail products of the Commonwealth Bank down there. One of the things that will be interesting to talk about is the role of the current account and pricing and so forth because I was involved in the restructuring of that market. Latterly, I then was running Strategy for Visa in Asia. I came back to the UK during the financial crisis and I was recruited into the Post Office to help build their financial services business three and a bit years ago.

Mr Granville: I am Mike Granville. I am the Head of Policy within the Post Office. I have been in the Post Office for 30 years and my career has covered all of the various

operations and policy positions within the Post Office, including our liaisons with our sub-postmasters who primarily are a franchised business, so I have been involved and responsible for the contracts, the payments systems and so on with sub-postmasters.

Q. Chairman: If you would like to make an opening statement.

Mr Kennett: One thing which I might do when we have finished today, if it is helpful, is I made a presentation to the Westminster Forum back in November and reading it through again it really summarises quite nicely the Post Office's position and its role in inclusion and its role in banking and so forth, so I can send that through.

If I just step back, the Post Office plays a unique role and 'uniqueness' comes up a lot in Post Office dealings because it is like nothing else around. In this space, we perform two functions. One is we are a player in our own right. The announcement we have made about our brand is really emphasising that intent and ambition. That is a discrete business. It is a commercial business where we provide products, normally on the back of somebody else's balance sheet because we do not have one, but we are increasingly looking to do it ourselves, and we are competing in the market-place as an emerging player, as a challenger brand, whatever one wants to call it, and we have significant ambitions in that area. On the other side of the equation, we provide supporting services to other players in the market-place to enable them to deliver in communities or in product areas they would not otherwise be able to do. The two core ones of that are, firstly, our banking services arrangement which has got a lot of publicity recently. There is a session tomorrow chaired by the Secretary of State, Vince Cable, and we have a very

big and important role as a facilitator, as a distributor to other institutions' current account holders and banking customers. Then the other side is areas like our Post Office Card Account, which is a DWP Government payment mechanism to recipients of benefits. That has evolved over time. We were talking just before we started off as to how that might evolve further to become a much more user-friendly product rather than just being a cash-dispensing product. In between there are a couple of products which we provide which while commercially based they are very much in the inclusion area, things like the Budget Card, which is a small-scale savings product, a budgeting product, which has constrained usage to encourage people and to facilitate them to save for things like utility bills, et cetera. Then we have our Christmas Club product which again is focused on savings and then the release of those savings in the November/December period to enable people to put aside for their Christmas purchases.

In a nutshell, with those two big sections, being a player in the market-place who sees its ambition as being significant, drawing on the brand, drawing on the trust, drawing on the value-for-money that consumers see in us, and we will look after them, and then the service side where we are a distributor, an access point for other people's financial products, if we put those two together, we play probably the single biggest role in supporting the ability of the population of the UK to actually manage their finances.

Q. Chairman: Could I start by asking first of all a general question. As a matter of policy, you would presumably support the objective of the Commission which is to complete the unfinished business on financial inclusion in the UK, ie to reduce even

further the number of people without bank accounts and people who have bank accounts but are not using them in an intelligent way?

Mr Kennett: The principle stands on its own. It is about going further. It is about reducing the black economy. It is about therefore increasing the ability of people to actually access the most effective way of making payments, direct debits and direct credits and so forth and debit card transactions. It is about being part of a society that is underpinned by a financial structure, absolutely.

Q. Chairman: I have increasingly used the term of a 'financially civilised society' where just as everyone is on mains electricity and mains water so they should be on the mains financial system, as it were.

Mr Kennett: It is interesting because it becomes a question of when does it become a utility and what is the role of the utility, either with a big or a small 'u' and how does that then get priced?

Q. Chairman: It is a system for transmitting and storing value in the most frictionless way possible, just like the National Grid. Anyhow, the second question I have is on the roll-out of Universal Credit. We have taken some rather worrying evidence about the lumpiness of the systems actually rolling it out, but on the assumption, which seems to be shared but all main political parties, that benefits will be paid in a lump sum direct into a bank account, how is that going to affect your work with the Post Office Card Account? Is the Post Office card going to be withdrawn from people or will they get their benefits on a card? Do you see people moving to a Control Account? I should perhaps know the

answer to this, but will people be able to get Universal Credit paid direct into a Control Account instead?

Mr Kennett: There are a number of different components to your question. If I start off with the very first part which is the policy question around the role of Universal Credit, that is clearly outside our remit. Putting that aside, as a citizen, putting it into one account and access with a bank account makes absolute sense, but the policy decision I will leave to one side.

In terms of the relative roles of the Card Account, the Control Account and Universal Credit, the Control Account, which just for reference is one of three current accounts that we offer, it is a *bona fide* standard current account which has a debit card to access funds. It has direct debit/direct credit functionality with the normal sort code structure so it operates as any other bank account would.

Q. Chairman: Is that run by the Bank of Ireland or by you?

Mr Kennett: It is part of our relationship with the Bank of Ireland, so our financial services in this domain are manufactured, for want of a better term, by the Bank of Ireland. They are our banking engine; they provide the balance sheet; they provide the products; they provide the systems, fraud, credit, et cetera controls. We are a distribution point for them. We have the customer relationships. We market the products. We have the conversations with customers and they are buying a Post Office product which they know is provided to them by the Bank of Ireland. That is a theme that will run through quite a few of the banking products. Other products are a bit different. So it is

manufactured by the Bank of Ireland as part of our long-term relationship.

If I then step back to your question, the Control Account can do anything and everything that is asked of a bank account and therefore if the Universal Credit payment is made into a Control Account then it would be as if it were going into any other account, so it would have all the functionality you would expect from a fully functioning personal account or current account. The POCA or Post Office Card Account is a bit different. It is structured as it is now at the request of the DWP, so it is a little bit like that combination of relationships I mentioned earlier. Our customer in the Card Account is DWP. They set the specifications over what is expected of the functionality of the card. Their customer is the benefit recipient who comes in, in effect, on an agency basis into our premises and does the transaction. As I mentioned to Chris before we commenced, it is public knowledge that DWP has awarded the Post Office a new contract.

Q. Mr Pond: And it is only for receipt of benefits and pensions, is that right, or can it now receive other forms of income?

Mr Kennett: At the moment it has not changed form or functionality at all. It is in effect a DWP prepaid card that they load through a mechanism that the benefit recipient can then withdraw in cash either at an ATM or over the counter.

Q. Chairman: But, Nick, will that be withdrawn as Universal Credit is rolled out and paid directly into people's bank accounts?

Mr Kennett: We have just renewed that contract.

Q. Chairman: So people will get Universal Credit paid once a month onto a POCA?

Mr Kennett: That is still being debated. I am not sure of the situation with that.

Mr Pond: They could choose an alternative account, if they have another bank account presumably or if they have a Control Account?

Q. Chairman: I thought they had to have a bank account. The whole point is to teach people how to use a bank account.

Mr Kennett: We can maybe come back to you. This is an area that is still under discussion.

Q. Chairman: But my understanding was that benefits would be switched from being paid from a POCA perhaps into a Control Account so that people have flexibility with their money in a monthly lump sum and you therefore should see a big reduction in the use of the Card Account.

Mr Kennett: Mike will correct me if I am wrong, but I think the assumption at the moment is that for working-age recipients that will be the case, but for some of the retired POCA customers, where their particular requirements are perhaps more narrow, it would continue as is. However, I would re-emphasise my side point which is the functionality of POCA is driven by the DWP and their requirements. We are an agent to them.

Mr Granville: So in many ways it is a policy matter from DWP's side, but we are providing mechanisms to enable that.

Q. Mr Pond: And 90% of those customers over the pension age will also have a bank account. Could I just ask a little more about the Control Account and where that fits within Post Office Money? I assume its title is “Control Account” because it helps you stay in control? Because other people have interpreted it as, “We are controlling your money”!

Mr Kennett: No, no, it is marketing gone wrong!

Q. Mr Pond: Am I right in saying that actually it does not offer an overdraft facility with a Control Account?

Mr Kennett: The essence of the Control Account was - and the word was carefully chosen but maybe it got lost in the translation - to put you in control of your money. It has consciously a limited functionality in that it does not come with an overdraft. It is turning the current account, in effect, into a very clear payment transactional device, so credits go into it, charges come out of it. It does not provide an overdraft, but it provides all the functionality you want such as direct debits and a debit card to withdraw funds with. It does not come with a cheque book because that is also difficult to manage your monies on. It does come with direct debits and direct debits do bounce, so the structure is for £5 a week (*sic*), which I like to say is 14 pence a day, you get a fully functioning transactional current account and no more fees. So if you do have numbers of direct debits that bounce or insufficient funds for whatever reason, there are no charges.

Mr Granville: It is £5 a month.

Mr Kennett: What did I say? A week? Sorry, I was getting too excited by the 14 pence a

day! A month, indeed.

Q. Chairman: Nick, without breaking commercial confidentiality, and you may want to think about this, what is the reaction of customers to taking out a Control Account and to the monthly charge? Is there customer resistance? Is it a stickier product?

Mr Kennett: When it is explained it is very well-received. I think one of the issues that I have been very public on in a number of other fora is the implications of what is called the 'free in-credit account', which works on a series of cross-subsidisations and that drives sets of behaviours where people assume that they are getting a free bank account. They are not; they are cross-subsidising. Perhaps the more wealthy could put more money in which sustains that account, perhaps others are unable to do that but assume that they will not go overdrawn, they will not bounce things, in the same way that everybody says when you ask them the question, "Would you use your credit card to borrow because it is very expensive?" "No, no, of course I won't. I will pay it back." The whole industry is based on that dislocation between intent and belief in what they can do and their own capability in managing their account. What we see in the Control Account is when you explain to people, when you look at their history of transactions, they will have gone overdrawn, bounced a cheque, had unauthorised terms, and you tot up, it costs maybe £150 to manage that account for the year, the great thing with the Control Account is that it is £60. I am absolutely proud to say you pay good money for an account, but that money is well-spent because that account gives you exactly what it says on the tin.

Q. Mr Pond: The importance of this really came across to Archy and I when we went along to Toynbee Hall and we spoke to someone who had been through the money mentors course. She proudly told us that one of the ways she had found to be more financially capable was to pay her fuel bills through a pre-payment meter. Our reaction was, “But you are paying more for your fuel for that.” She said, “No, no, I am in control. By having a direct debit, the direct debits go out, the money has not gone into the household bundle yet and we get heavy charges so I actually pay less overall for my fuel by paying it this way.” So in having this account and by paying upfront you know precisely how transparent it is seems to me very important.

Mr Kennett: It also unwinds all those cross-subsidies, so there is nobody else subsidising it and they are not subsidising everybody else. It is 14 pence a day, £5 a month and you are getting a fully functioning account. I drew on my experience in Australia very briefly earlier. I was leading the retail business at that stage and we did exactly the same thing. It was a market which was based on cross-subsidisation similar to the UK market and by moving from a free in-credit account to at that stage it was AUD 2 a month and unwinding some of the other cross-subsidies you create a very clear and transparent pricing model where people understood what they were paying for, they knew what was coming and it changed the market into a much more economically sustainable and inclusive market because in the same way that people know if they are going to take a bus ride they are going to pay a bus fee, if they use a bank account, they know it costs money; it should be charged. It opens it up and makes it transparent.

Q. Chairman: Lisa and Jennifer, it would be very good if you could perhaps liaise with

Nick off-line and any published material there is on the way retail banking in Austrakia was restructured because it is the big central question, and in my work with HSBC we have seen around the world how financially excluded people do not mind paying small sums for banking services providing they know what it is for. What they cannot stand and why half the people without bank accounts in the UK who have had bank accounts in the past is the massive charges slapped on them when they get overdrawn or step outside the lines set. We would like to draw on your experience off-line, if we may.

Mr Kennett: It is a few years ago, 2002 or 2001. But obviously you have got the history from thereon in as well.

Chairman: I am sorry but Chris and I have rather dominated this. Who else has got questions from the Commissioners?

Q. Dame Mary Marsh: Could I ask, on your approach and your new products emerging as we speak, how far is a digital interface going to be part of what you are going to be providing?

Mr Kennett: By digital interface you are meaning?

Q. Dame Mary Marsh: Some on-line support, on-line banking.

Mr Kennett: The Control Account can be managed on-line, so that has an on-line functionality, and all our main products have an on-line functionality. Is it where I would like it to be? No. As with all technologies, it is about bringing together the different bits of spaghetti that have been put together over many years. If I look at the wider Post

Office beyond Post Office Money, we see one of our key planks of change as the digitalisation of the Post Office so that as customers come in, whether it is for a credit card or whether it is for a postal product, they can do whatever they want to do either on-line or in a branch or in a contact centre and the experience and the processes are the same. We are not there yet and we have got a long way to go, but our plans and our ambitions are very much it will be digital as well as face-to-face.

Behind that sits a strategy that I am pushing very hard which is while the overall view of banking at the moment is that it will move to digital and remote and direct and what have you, and while that is certainly the case for certain products or certain segments of the population, there are still a significant number of people who would like to have face-to-face conversations in some format, maybe starting on-line and then going into branches. So my strategy in the financial services world is very much about that mixed access of branches, direct contact centres and digital, allowing the customer to choose where and when they go. The single biggest strategic play that the Post Office has is that access of 11,500 branches around the country, and, therefore, being able to use those and allow customers to make whatever decisions and actions they want in branches means it is much more accessible, much more local and much more in the community than it otherwise would be.

Q. Dame Mary Marsh: How is the bank going to work in this wider domain you are creating with an integrated label on it? Are they going to be underpinning all of it?

Mr Kennett: They will manufacture the product.

Q. Dame Mary Marsh: The whole thing - Post Office Money?

Mr Kennett: They look after the banking side so our bank accounts are run through them. They have the bank licence under which we operate. Other products, so for example the announcement I made two weeks ago around our Post Office Management Services, which is our own insurance broking business, that is run under our own capacity.

Q. Dame Mary Marsh: I was just trying to get my head around the digital access point really, so that if you have a customer, because for them, presumably, they are not particularly worried once they feel reassured that it is the Bank of Ireland or somebody else who is underpinning it, and I just wondered if you were going to have difficulty about security of access to different sorts of products because you have different providers underpinning it. I was trying to tease it out.

Mr Kennett: Sorry, I misunderstood the question.

Q. Dame Mary Marsh: I want the simplicity end but I was trying to understand how you are going to achieve that.

Mr Kennett: Bringing together disparate relationships into one single point is a challenge; there is no question about that. Our ambition though is for a Post Office Money customer you will have a single entry point into a Post Office Money website and that will then pool together your current account and insurances or any other products into one site location for you for your accounts. We do that not at the back end banking systems or insurance systems but at the front end in terms of the middle where that

interface is between the two.

What is more challenging is the contact centres because those are third-party run and that becomes much more complicated. Part of the announcement I made two weeks ago was establishing a contact centre in Glasgow for our insurances which for the first time will enable all the insurance conversations to happen in the same place rather than at different underwriter-owned contact centres.

Q. Dame Mary Marsh: Presumably, the regulators are taking a particular interest in all the digital underpinning of what you are doing?

Mr Kennett: Yes.

Mr Granville: It is probably worth saying, as Nick has said, that this whole digital approach is entirely consistent with our policy approach of maintaining the physical network. We do see the two very much as complementary and we are committed to the maintenance of the physical network. In fact, we are developing and investing in that physical network doing things like extending hours, et cetera, which is also complementary to these strategies of access to financial services and so on.

Q. Chairman: Forgive my ignorance. You must be under a statutory duty? Although you are now partly privately owned, there are a number of statutory duties placed on you by the Government?

Mr Granville: We are not privately owned. We are 100% Government-owned. We are separate now from Royal Mail.

Q. Chairman: I see. Post Office Counters, you are completely separate?

Mr Granville: We are separate entries now. Royal Mail has been through the privatisation process; we are 100% Government-owned. The policy position is there is a Government policy position in terms of the size of the Post Office network and there are a series of accessibility criteria about population within a mile, within three miles and so on which are standards that we seek to meet. We greatly exceed those standards at the moment. Policy-wise though within the business, and it is consistent with Government policy, it is around maintaining the network and indeed investing in the network, so we are trying to do things particularly around extending opening hours within the Post Office network. There is a lot of investment going on at the moment to change slightly the operational models by which sub-postmasters operate which enables them to be open. Post offices typically historically were in the back of a store. That is the typical image that people have. By enabling more integration operationally within the store we can make sure the post office matches the hours of the store itself. We have modernised, for example, over 3, 500 branches in the last two years, which is a massive change in its own right. That has actually delivered 100,000 extra opening hours per week, so you have post offices that open at 7.00 in the morning and go through to 10.00 at night. I think the relevance, particularly in terms of the discussions we have been having here, is that that greater time accessibility added to the physical accessibility we have is of significant benefit to our customer base in their ability to access post offices on a much longer time-frame as well as digitally and as well as by telephone. Another example, about 2,250 post offices are now open on Sundays, so we have got a much wider network.

There has been a massive development in the last couple of years of extending the time accessibility of physical post offices and it is complementary to this strategy of multiple points of access and clearly relevant to financial access.

Q. Dame Mary Marsh: And also co-located with other businesses. I notice more of that emerging.

Mr Granville: Yes, the traditional post office model is a classic co-location model and that is what does enable us to have such a wide network. Partnering with a viable retail business does open it up and, again, it gives more sustainability to the Post Office itself and it does open up greater accessibility, so that is very much where our network strategy is going at the moment.

Q. Lord Kirkwood: As a matter of interest, just to get this clear in my head, do you operate UK-wide or Great Britain-wide or what? Are you everywhere in all the devolved legislatures?

Mr Granville: Yes.

Mr Kennett: The national four countries, Northern Ireland, Wales, Scotland and England.

Q. Lord Kirkwood: I would be interested to know if you notice any difference about operating in any of the other domains.

Mr Granville: That is an interesting question. We operate on a UK-wide basis so our systems and our structures are UK-wide. Clearly, we are conscious of the different needs of different parts of the UK, rural areas, more remote areas and so on, but our operating

approach is UK-wide so our cash systems and our computer systems are UK-wide.

Mr Kennett: So you could do the same transaction downstairs in the Canary Wharf branch as you could do in the Outer Hebrides.

Mr Granville: It is a single system which means say, for example, when we talk about the conversation tomorrow with the Secretary of State, we are talking about banking services and once we are linked up to a bank, you can do it in the branch downstairs or the branch in the Outer Hebrides. It is exactly the same process, the same service, the same mechanisms.

Q. Lord Kirkwood: Does the Control Account have the capability of operating jam jar-type functions within it? One of the things that particularly concerns the Commission, and the Chairman mentioned it a moment ago rightly, is that Universal Credit is the biggest psychological change in the delivery of cash transfers that we have seen in the last 30 or 40 years. People who are used to budgeting on a weekly account will struggle when they get six benefits rolled up into one payment at one time and paid monthly. Is there anything that you do or could do or might do even under the Post Office Card Account if it is not a control account that would make that easier for people?

Mr Kennett: There are a couple of different components to your question. The jam jar approach was discussed quite extensively two or three years ago, and we took the view that in launching our Control Account that there were some complications with offering a jam jar facility that would (a) be extremely expensive to implement but (b) was also structurally quite challenging. Some of that, for example, is around if the customer says that money is going to go into their electricity bill and then they phone it up and say, "I

want to move it out”, what is the legal position around that, for example? Can you actually force the customer to put it into their electricity account when they actually want to move it over and put it into the gas account? I am being flippant but all of those sorts of things were not clear and I would say the industry has struggled with this. There are some players who have some functions but it is done at a very high-cost, high-touch level which is certainly not the model that we were looking at here. However, the Post Office also does run a Post Office Money Card which is a prepaid card which would allow you to put money in and segregate it into different pockets. It is not at this stage a functioning bank account. It is a pre-paid under the money licence regulations. So our observation would be that the assigning of funds into certain pots is a very attractive concept but it actually has proved to be extremely difficult to put into practice in a way that is useable and economically sustainable. We are trying to look at it through prepaid cards and so forth.

Q. Lord Kirkwood: That is crystal clear. Thank you for that. But if the DWP is the customer, could you not argue the case, whether using a Card Account or Control Account, to make this facility available even if it is expensive? I am just trying to see whether there is anything more they could do. I think that your systems fly perfectly for 75-85% of the population. What I am really worried about is the lowest two deciles of the household income group in our country who are going to face increasing challenges, to put it mildly. I am just trying to think of any way that you could suggest to us as people who can put pressure on the DWP politically to do more to help you service that section of our community.

Mr Kennett: I think the challenge goes back a little bit to our earlier point about pricing. There are two assumptions within the model that you perhaps are putting forward. One is that it has good functionality and the second is that it is free to the user. The two of those are quite difficult to align with each other because the more options and the more functions you put in, the more the risks are, the more costly it is and, therefore, the less likely it can be managed on a low-cost base because there is no income there.

Q. Lord Kirkwood: Dr Cable may be willing to pay for that. You might ask him tomorrow.

Mr Kennett: More his colleagues at DWP, but I take the point. At the same time this is getting into policy and that is probably outside the conversation, but each department is trying to drive down its costs, so it is saying, "Instead of paying X we want to pay 0.7X", or whatever it might be. Putting a purely commercial hat on, as a financial services business we are providing services to our consumers at an economically sustainable level. Perhaps I should have started there. I cannot offer products that are not going to be sustainable because all that will do is reduce the viability of the Post Office which will reduce the viability of the branches. It has to be commercially sustainable.

Q. Lord Kirkwood: You have made that point very clearly. I am trying to get you to consider taking more Government money!

Mr Kennett: That would be absolutely appropriate and would work. If I go back to my Control Account, if somebody is unable to pay the £5 a month and the DWP or somebody else were able to, that would open up a whole new avenue and that would

potentially be able to fund such things like adding extra functionality.

Q. Lord Kirkwood: We are here to be serious and we are not being profligate with public money either, but would you know of anyone who could give us a ball-park figure for what extra you would need? You are looking me straight in the eye and you are being honest with me and I appreciate that for you this has to be commercial, otherwise you are kidding everybody on and it will not work, and that is in no-one's interests. Is there any way of estimating once we trade ourselves out (and Universal Credit will take another five or six years before it is properly rolled out) of estimating the cost of getting that extra bit of functionality? I think you are right that jam jars was the fashion two years ago, but would there be other ways of doing it which would make it easier for that 20% of the population?

Mr Kennett: I cannot quote a number but let me give you two examples. At the Post Office we are able to run a fully functioning current account for £5 a month. That gives you one threshold point. There is a player in the market who offers a closer to jam-jarring facility and they charge £15 a month.

Q. Lord Kirkwood: So that is the difference.

Mr Kennett: I am not saying that is the only reason for the difference. They are different businesses with different profiles, but that facility run by that company is a very hand-on process, with a big call centre with lots and lots of calls.

Q. Lord Kirkwood: And you could not means test that? If you were making that

product available, you would need to see it was available to everyone and therefore it would be quite a big number?

Mr Kennett: I really cannot comment on somebody else's commercial model. All I am trying to do is to help expand the thinking or the perspective to say there are two players in the market who show different models at a certain pricing point to the customer. One is £15 with what is approaching a jam-jarring type facility, very hands-on, a lot of customer contact, very handholding, and that is £15. The Post Office, which is a standard current account but without the overdraft, is £5 a month, and we both, I assume, are making the returns we are expecting.

Q. Lord Kirkwood: That is very helpful. Finally from me, this is maybe a slightly unfair question, but do you get the sense that the DWP has renewed the Card Account simply to wind it down or do you rather get the impression that they are thinking of doing constructive things in the future that might develop it and create new facilities?

Mr Kennett: I have no hypothesis on that either way. Certainly the discussions with them, and I am not involved, it is not my product, but I was somewhat involved in the negotiations and looking at the contractual side, and I have no view on their view, except that the new contract has been awarded for a seven-year period, which suggests a longevity of aspiration.

Lord Kirkwood: That is very helpful, thank you.

Q. Chairman: Can you give us a number for the number of Post Office Card Accounts

in the UK?

Mr Kennett: Is it public information?

Mr Granville: I will get you the figure but it is over 2 million.

Q. Chairman: Is it publicly available the number of Control Account holders?

Mr Granville: No, that will be in confidence.

Q. Mr Pond: Mike was talking a little earlier about this digital/face-to-face mixed offering. I was very fortunate to be able to go and see your laboratory down at Elephant and Castle where you are experimenting with different ways of mixing the digital and the face-to-face in what I assume the sub-post office rather than the Crown Post Office might look like in the future, with touch screens with different products so the customer does not have to go to the counter and be dependent on the person behind the counter to tell them the options, they have got it there, nor indeed do they have to be sitting at home and doing it in isolation. They can see what is available there on the touch screen and if they need further information they can go to the counter. They can also use the office for picking up stuff, paying cash to other accounts, et cetera. I gather that there are plans for the first of these to be commercially rolled out, but is this something that you see as viable in the long-term for the entire network?

Mr Kennett: The Elephant and Castle facility, which I recommend people to see, is fascinating. It is a peek into the future and what the future could look like, and there are components of it which will happen and there are components which are probably a bit fanciful and maybe will not happen. We will see what happens when. I think one of the

core aspects, which picks up the earlier question from Dame Mary, is where does digital fit in within the Post Office and its services? One of things I did not mention, which is very evident in the new model, is around digital assistance, so that is where you have digital capability with screens, and there are two types here, one is where you have somebody in the branch helping that customer make themselves feel more comfortable with the digital interfaces, and one which we are actually about to start trialling which is where you sit in front of a screen and you can talk to somebody centrally around perhaps the more specialist products, so for example our mortgage products, where you need to have a much more technical conversation than a sub-postmaster would be able to have. It is a form of web chat or web conversation and we are about to roll that out as an actual trial rather than the one you saw which is theoretical.

Mr Granville: It is probably worth saying on the directional movement of our network, and I talked about the modernisation activity, that part of our modernisation involved our largest Crown offices and typically there we have been putting in more self-service technology, a lot of it based around mail where, classically, people can go in and weigh their parcels and they do not need to go to the counter. They can send it through and so on. But that does also include bill payments facility. You can also scan your bill and pay it there. That is within the context of post offices where our language is open plan, so we take down the screens, the office is open plan and that is about then using the entire space of the office as working space to interface with customers. In our largest offices which are open plan we have got people who are walking the floor, if that is the right phrase, and are there to assist customers, and that is opening up the space for the kinds of things that you have seen around assisting people.

Probably the only other thing I should mention is that our network is incredibly diverse. We talk about large offices in city centres and mobiles in the Highlands of Scotland, post offices that are in pubs, because that is the place where we can provide the services in that community, and so on. There will be different variants in different places, but there is a core process where the transactions that are available, as I say, in Trafalgar Square are also available in that little post office in the pub, and that is particularly important for things like cash access or accessing bank accounts or paying into bank accounts and so on. So we will always have diverse models, I think is the issue, and we have to, but behind the diverse models there is a consistency of standards and service abilities. In many ways we are a physical network but we are a joined-up computer network, if you like, a digital network to be able to service that. We are also a cash network because we get the cash out to all these places so we can physically provide the cash. The Post Office is those three things together and clearly wrapped up with a brand and product position that is supporting that.

Lord Kirkwood: Can I just say I am very grateful for the post office that comes every Tuesday and parks immediately outside my door. I used to think it was a special service and then the postmaster told me that there is a connection to the internet which is in front of my house.

Q. Mr Pond: It is your Wi-Fi they are using!

Mr Kennett: The cash side that Mike has just touched on is important as well. It is a

slightly different form of inclusion, but the Post Office is the single biggest provider of cash into communities around the country. Whether it is through a POCA, where people take money from a POCA, or whether it is through cash withdrawals from bank accounts, it is a hugely important part of sustaining communities because they actually have cash going into that community rather than somebody going into the local town, getting the cash there and then more likely spending it there. One of the concerns I have at a policy level is that as bank branches close, if the post office is not there to continue to support the money going into that community, the transactions that are going to the local pub and the local stores and what have you will migrate to the town where the banks are. Therefore, you will have not just the bank moving but actually the shops and things that are supporting that community disappearing as well. Thus we have a hugely important role in providing cash to the community, and that is something I am going to be discussing at the Vince Cable meeting tomorrow. It is a slightly different form of inclusion but it is one that is very important to be aware of.

Q. Chairman: Is there any reason why a customer could not come into one of your branches and if there was an arrangement do their banking with Lloyds or NatWest delivered through the platform of a post office?

Mr Kennett: That is the service I am talking about, so they can do that today.

Q. Chairman: But a wider range than just paying in?

Mr Kennett: Part of what we are talking about tomorrow is around what that range of service is or could be. It will be inevitably around cash in/cash out, balance enquiries and

then similar things for the business community. There may be a few add-ons on top of that for specialist services, for example encashment of cheques for disabled people where you do not have a PIN and you just take a signature. That is the core banking services proposition that we are talking about.

If you move beyond that and start saying that we are going to open your account for you or we are going to do something else, that moves us into a different competitive world, where I would much rather talk to them about a Post Office mortgage, so that is a slightly different thing, but in terms of what are broadly anonymous transactions (they are not anonymous because we know the person, but we are acting as an agent of Lloyds, Barclays, et cetera, working on their behalf, providing a service to their customer) it is that range of cash in/cash out/cheque in and some encashment as well and a few other bits and pieces.

Q. Professor Collard: I have several questions. The first one that you probably cannot answer but I am going to ask it anyway is around the Control Accounts. Is there anything you can say in terms of who you think is using them? Do you think from the information that you have that it is used by people who might not otherwise have a bank account?

Mr Kennett: It is impossible to tell. Well, not quite impossible. The key thing for us is looking at the extent to which it is being used as a primary account or a secondary account. If it is a secondary account, because you can look at the transactional flow, there clearly will be an account somewhere else. If it is a primary account I do not know whether that is the first account they have ever had or they have switched from somebody

else. I know where we have had switches so I assume that anybody else is a new bank account person. I think the numbers are commercially in confidence, but that is how I look at the market. The conversation has revolved a lot around the Control Account. One of the single biggest challenges we have had in delivering this has been the ability of the citizen/the customer to be able to identify themselves in a way that meets anti-money laundering requirements. It is a huge issue. I am getting about X% of people who come in who cannot identify themselves, and it has been higher. We have the widest acceptance of paper documentation of anybody in the market-place.

Q. Chairman: This is for Control Accounts?

Mr Kennett: It is exclusively for the Control Account but we established ---

Q. Chairman: X% of people who apply for a Control Account cannot identify themselves?

Mr Kennett: Cannot prove themselves. It is horrendous. It is unbelievable.

Q. Chairman: On that first occasion, proof of identity and proof of residence?

Mr Kennett: For anti-money laundering requirements and also for our own credit, to be able to say, "I am John Smith, living at 27 Acacia Avenue", or whatever it is.

Chairman: But there are two elements; proof of identity and then there is proof of residence, and they cannot do that?

Q. Dame Mary Marsh: It is the time-frame presumably because it is not just the current one; it is sufficient history.

Mr Kennett: If you have moved in the last three months or something, yes, but it is that you have bills that are paid into your account. DWP letters will suffice. I can give you the list of documentation we accept. It is very wide.

Q. Lord Kirkwood: But your X% are not sent back out the door? You find a way round that?

Mr Kennett: In the end if they cannot prove themselves, I cannot give them an account. I would be breaching money-laundering requirements.

Q. Lord Kirkwood: But that is not the X% figure? These are the people you refuse ----

Mr Kennett: --- we are unable to complete the application for.

Q. Lord Kirkwood: Therefore they have no access to your Control Account. That is a staggering figure.

Mr Kennett: The Control Account is open to any citizen of the UK who is able to prove themselves, identify themselves and has not got a pending county court judgment against them. They are the only two criteria we set.

Q. Mr Pond: We are not talking about people who come into a post office and do not happen to have the gas bill with them and are sent off to go and get it?

Mr Kennett: No.

Q. Mr Pond: These are people who have gone through that whole process and they still

Mr Kennett: So there are people within that process who fall off so they come in and you say well, you have brought your gas bill but you also need something else and they do not come back. That is why I was careful with the words. That X% do not complete their application because they are unable to identify themselves. Some of them just cannot and for some of them the process stops. So initially, when we kicked it off 18 months ago, we actually had a very clever application process which meant that as long as people presented themselves and we could identify them on-line digitally, immediately they could walk out with an account. For this group that does not work at all, so what we have now moved to for the Control Account is the best way is coming in with your documentation, so if you want to talk about a Control Account, if you bring in a gas bill and an electoral roll or something like that we can do it there on the spot. Thus we try to encourage people to come in with their documentation and then we can complete it then and there. If they cannot prove themselves, we cannot offer an account.

Q. Dame Mary Marsh: If they have gone to a digital gas bill?

Mr Kennett: This is one of the problems, as more and more accounts move to digital, and digital bank statements are not accepted. That is actually one of the unintended consequences of digitalisation.

Dame Mary Marsh: Then to get a verifiable one you have to pay extra to get a printed

one?

Q. Professor Collard: It just takes time.

Mr Kennett: It takes time and people lose the momentum and the will.

Q. Chairman: By definition, those people are going to face higher hurdles at HSBC or Barclays, so they will not bother and they will remain on a POCA and the cash economy.

Mr Kennett: Perhaps I should have mentioned this earlier. That is the single biggest challenge to providing a Control Account.

Q. Lord Kirkwood: And that will not be unusual to you, you surmise?

Mr Kennett: I have certainly raised this with the DWP, for example, and they are aware of the situation,

Q. Chairman: It is probably a higher proportion of applicants.

Mr Kennett: Because of the natural skew of our population and it is a product that was explicitly targeted at customers who either having excessive fees or have not got an account today, so we are adversely selecting, if you like, to that group, but X% (and it was higher for a while) is terrible.

Chairman: This is a question for the Commission: what will happen under Universal Credit if people have to receive the benefits paid into a bank account and they cannot satisfy a bank that they exist?

Professor Collard: Well then, they will have a POCA, I suppose

Chairman: Is Universal Credit going to be paid on a POCA? We have not asked that question.

Q. Professor Collard: If the POCA contract has been renewed for seven years there must be some anticipation by DWP that some people with a POCA will continue to be paid, but then it is not clear how that is going to work. I think exposing that today has been really useful.

Mr Kennett: There is another dilemma just to maybe have in your thoughts and I would share with you. As you move to an account-based solution, which I assume will then involve some sort of fee charging, the £5 a month type fees, what happens if that fee is not paid to that account, and therefore if that account is then closed, which would be the normal course of action, what happens to that benefit recipient's payments? One of the concerns I had with the DWP proposal as was discussed a couple of years ago with the jam jar idea was exactly that issue. If the Post Office has to draw the £5 from an account and that is the way the account is structured to receive benefits and there are no funds in it to pay their fee, where am I left? Do I then put them into arrears? I cannot do that. Do I then close the account? I cannot do that because then they cannot get the benefits, so I am left with an account where actually I cannot charge the fee that is sustaining it and you have a different form of cross-subsidisation.

Q. Professor Collard: I do not know how the other providers deal with that. I think there are at least two other providers that have paid-for managed accounts and I am not quite sure how they deal with that.

Mr Kennett: It is not an issue at the moment because benefits are not going into those accounts. It is when you create that as the receptacle that the problems arise.

Q. Professor Collard: Can I ask you, Nick, in relation to the Control Account, because you have got a £20 minimum deposit with it, what was the particular rationale for that? I wonder whether that could act as a barrier to some people who do not have £20 to open it.

Mr Kennett: It was established as what was seen as being a low threshold to start the process off. From a commercial perspective, I would need to make sure there is some desire by the prospective account holder to use the account. People could just come in and say, "I will open one", and it just remains dormant and that does not help anybody. They can put the £20 in and take it straight out again, but that seems a fairly pointless exercise. You do not have to leave that £20 in. It is simply you are putting it in to kick the process off and it was put as a low threshold.

Q. Professor Collard: I just wanted to pick up on Archy's point about jam jar accounts because I think there is an element of the Post Office that we have not talked about yet and that is the bill payment services that you offer. I think I am right in thinking that the Post Office accepts things like budget cards for, gas, electricity and water so people can actually pay-as-you-go through the Post Office. Can you just say something about those

services and are they likely to be services that are maintained because, from research with people on low incomes, they are really valued as ways of managing without having to pay on direct debit or quarterly?

Mr Kennett: The simple answer to the question is “Yes”. It is very much part of the financial services portfolio. It fits in more with banking services because, again, we are acting as an agent of British Gas or whatever it might be and their customers coming in and doing their top-ups and what have you. It is, as you quite rightly say, a very beneficial product for our customers. They can manage their outgoings for electricity, gas, telephone, broadband, rent payments and so on. It is an absolutely ideal way of managing of your money. In fact, one of the pleasures we have around Christmas time is to work in branches and indeed when we had strike action last year I worked behind the counter and one of the things I learned serving customers just around the corner from here is what a lot of the customers do who are on the POCA account, is they come in and say, “How much in my account?” You say whatever it is and they say, “I would like to put £20 on the gas and £15 on whatever and then I will take out some cash”, so it is a quasi DIY jam jar, but it really works well and they manage their money. By doing it that way, they have made sure they have paid for those utility essentials first up and then they take out whatever is left and use that.

Q. Professor Collard: Does it cover the TV licence? How broad is the range?

Mr Kennett: The arrangements we have are all commercial arrangements with the utilities. The Post Office has the majority of bill payments. We do not have the TV licence, that was lost some years ago to PayPoint so that one does go to someone else, but

the vast majority of the utilities, gas, water, electricity and telecoms, we do supply.

Q. Professor Collard: How does it work with rent payments? Is that on an individual basis with local authorities or housing associations?

Mr Kennett: Housing associations - some of them are direct; most of them are done through what are called reseller agreements. There are four reseller companies - the Co-op, Santander, allpay and a recent entrant whose name escapes me who only just started and came into the market a few weeks ago - and they offer both local authority bill payments and some national utilities but also housing associations. For example, Allpay is very strong in housing associations in Northern Ireland and they manage them that way.

Q. Professor Collard: That is really helpful, thank you.

Mr Kennett: It is interesting how consumers have managed their own affairs using a quasi DIY jam jar account. It does not need to be structured for people to do it. You can manage it your own way.

Q. Professor Collard: The other thing I always come back to is there have been attempts to offer those types of accounts, I think the Woolwich had an Open account going back ten years and it flopped and I think, intuitively, you think that that type of account should work for people on low incomes because it mimics what they do, but in reality it does not. That is a really important point and it is one of the few areas where we do not have enough research, strangely.

Mr Kennett: If I can add to that, it works best when you have an internet technology capability because you can move stuff around.

Q. Professor Collard: If you are doing it on-line.

Mr Kennett: Again, the segment we are talking about will not necessarily be the ones who can do that comfortably and intuitively.

Mr Granville: It is probably also worth mentioning in this context that we do have a Budget Card product as well.

Q. Professor Collard: Which you mentioned earlier, thank you.

Mr Granville: I suppose it facilitates the kind of thing that we have been talking about, ie it allows you to put money on to your Post Office Budget Card for future payment of bills, so it is what we talked about. It is helping people to manage at the counter in terms of, "I will put £10 into my Budget Card and that will help me pay my bill in a few weeks' time."

Q. Professor Collard: What does a Budget Card do? Is it essentially a savings card like a pre-payment card?

Mr Kennett: It is a pre-payment card. It is low value with people putting £2 or £5 onto it. It accumulates, it does not earn interest, it just holds it there and it can only be drawn down to pay a utility bill at the Post Office, so you match it.

Q. Professor Collard: Any utility bill that you might be able to pay?

Mr Kennett: It is the ones we accept.

Mr Granville: So it facilitates some of the behaviours that we talked about earlier. It facilitates those and enables some potential smoothing by the customer.

Mr Kennett: People cannot withdraw cash.

Q. Professor Collard: Okay. The other question I wanted to ask was around partnership working because I think I am right in saying that going back some time there have been lots of discussions about the Post Office linking up with credit unions, for example. I am a bit out of touch with this. I just wondered where we are in terms of that relationship?

Mr Kennett: That goes back to the banking services side. Credit union customers can access their money and do lots of banking services rather than just at the single or maybe two or three branch outlets of the credit union throughout the country. We are very keen to do it. I will see Mark Lyonette tomorrow at the meeting and we will have a further catch-up on that. The challenge has always been to have the technology linkage from the credit union system into our system. That has been a problem because their systems are bespoke and just do not rhyme, so there is investment going on under the auspices of the DWP which will hopefully facilitate having a single access point into the credit union system, if you like, which will enable somebody to do that.

Q. Chairman: Is that cornerstone financial services or is that providing the common wholesale banking platform?

Mr Kennett: This would be doing the same sort of services that we do for the banks for their customers.

Professor Collard: It would be like an agency agreement but with credit unions?

Q. Chairman: But I think they are sponsoring this grouping together?

Mr Kennett: Yes.

Mr Granville: It is really about linking the systems.

Mr Kennett: From the Post Office's commercial perspective, the way we are looking at it - and, again, this will be part of the conversations tomorrow - is to keep it as low cost and as ubiquitous as possible. We need to have standard T&Cs, standard technical interfaces, standard pricing and that means it becomes a utility so that anybody from an emerging new Metrobank or HSBC or a credit union can join and get that service, so it becomes a non-competitive issue between banks because everybody has the same access. It has to be simple and straightforward and systematised so that I can do it low cost.

Q. Professor Collard: So at the moment it is not possible to have that sort of agency relationship with credit unions, even the ones that have offered the credit union current account?

Mr Kennett: The ones that come through the Co-op link do because the Co-op link comes into us but if it is a stand-alone Credit Union ---

Q. Professor Collard: With a savings account or something?

Mr Kennett: We cannot do that.

Q. Professor Collard: Are there any individual relationships between post offices and credit unions that operate at local level or again is it a systems-based relationship?

Mr Kennett: Credit unions are businesses in their own right and they are offering in many cases competing products. I need to draw a distinction between where we are offering a service to credit union customers through our counters, that is the comment I just made, and where we would be sitting with them in terms of selling product, and they would be a competitor, so we cannot do that.

Q. Chairman: Can I just ask on the Post Office Card Account, what are the barriers to giving card holders access to the LINK network or to other ATMs, presumably just costs; the DWP will not pay?

Mr Kennett: At the moment they have not asked us to.

Q. Chairman: Or is it an ideological thing?

Mr Kennett: I would need to look into that because I am not sure what the functional specifications of the card are. To be accessible into the network you would probably need to make it into a 16-digit card payment structure that would allow it to be able to use ATMs and so forth.

Q. Chairman: It would be interesting to know whether the Government does this on the grounds of cost or ideology.

Mr Kennett: I cannot comment.

Mr Pond: You mentioned on a number of occasions the meeting tomorrow with Dr Cable, and his Department is obviously your main Government point of contact, which sort of made sense when the Royal Mail and the Post Office were all part of the same organisation, but now that you have gone your separate ways, financial services is very much central to what the Post Office is doing and you have also got this arrangement with the DWP who clearly are requiring you to deliver their services. It occurs to me that it would be more sensible in helping you develop your financial services offering if you had the Treasury as the lead department rather than BIS. As I got to the end of that question, I realised that our witnesses could not possibly comment!

Q. Chairman: And the Treasury likes to have direct responsibility for as few activities as possible.

Mr Kennett: I certainly cannot comment, but I would say that we fit in BIS under their shareholder executive side, which owns stakes in entities, so we are a shareholder executive rather than necessarily there because of business, but, beyond that, I probably should not comment.

Q. Chairman: Thank you very much. It is pretty clear to us that the Post Office for a Government that was really serious about delivering financial inclusion, you have the bases there, the platform for reaching right across the United Kingdom, but it would involve cost and it would involve innovation. I think the most striking piece of evidence is access to the Control Account for people who cannot verify their identity or their residence and how that is overcome. It is something we need to flag up. Thank you both

very much.

Mr Kennett: Our pleasure. My summation would be that the Post Office does play a unique role. As I mentioned, 17 million people come into our doors each week and a third of small businesses. We have not talked about small businesses but they apply as well. We have contact with people and we can provide these services. It is about identifying a business and a commercial model sometimes to deliver it and where the conflicts between product structures might preclude it. We did not talk a lot about the cross-subsidisation of the current account, but that is something I feel does sit at the heart of it and I have been very public about that. There is another component here which is both the cross-subsidisation of the product itself and the ability of incumbents to back book/front book cross-subsidise, so in other words they do marketing initiatives to attract new customers on the back of the existing base and cross-subsidise so you have front book/back book cross-subsidisation and then cross-subsidisation between customer groups. That just means it is very difficult for new entrants to come in successfully.

Chairman: The area that we have not really teased out, and we need to find this out from the DWP is how this is all going to be changed by Universal Credit.

Q. Lord Kirkwood: The payments have started rolling already.

Mr Kennett: On a trial basis, yes.

Chairman: And it is still just a few thousand people.

Q. Lord Kirkwood: They must have discovered these problems for themselves and it is very important.

Mr Kennett: My understanding, and we can confirm this with DWP, is the people who have been brought onto it are new recipients who have come straight into a Universal Credit environment and I think had bank accounts to start off with, so you are looking at not a selection or a reflection of the total population.

Q. Professor Collard: And it is very interesting because this is going back to about 2001 when the DWP was first moving to automated credit transfer and we did some research at Bristol looking at the groups being transferred over and the ease or difficulty of transferring different groups, and what was really striking was the overlap between the population and how many of them actually did have bank accounts, and some of them chose to be paid by a POCA because that is how they wanted to receive their money. That was particularly true of older people. That raises the question in my mind about if you have got somebody coming on to Universal Credit who has got both a POCA and a bank account, will the DWP be saying, "We will not pay it onto your POCA; we will only pay it into your bank account." I think that is something that we need to find out.

Mr Kennett: The policy decision is outside our remit.

Professor Collard: Absolutely.

Chairman: If the ideology behind Universal Credit is to teach people to behave as they would do in work and to manage their finances, then it argues for not allowing people to

opt for the POCA.

Professor Collard: Yes, because the POCA was never a tool of financial inclusion. It is just an electronic giro cheque.