

TRANSCRIPT OF ORAL EVIDENCE

MINUTES OF EVIDENCE

TAKEN BEFORE

FINANCIAL INCLUSION COMMISSION

MEETING ROOM 4, LEVEL 42, HSBC, 8 CANADA SQUARE, LONDON E14 5AH

TUESDAY 27 JANUARY 2015

MR PETE TURNER, MR JONATHAN WESTLEY and MR MICHAEL SMITH

Oral Evidence

Taken before the Financial Inclusion Commission

On Tuesday 27 January 2015

Members present

Sir Sherard Cowper-Coles, in the Chair
Mr Laurie Edmans
Mr Chris Pond

Witnesses: **Mr Pete Turner**, UK Exec Board Member and Head of Consumer Services, **Mr Jonathan Westley**, Managing Director of Consumer Information, and **Mr Michael Smith**, Assistant General Counsel, Experian.

Chairman: The purpose of the Commission, as I am sure you know, is really to take stock of the state of financial inclusion four years after the Brian Pomeroy Task Force was wound up and in the run-up to the next UK Election, and the idea is to get financial inclusion back on the political agenda for the next UK Government. The Commission is formed of representatives of the three main political parties: Nick Hurd for the Tories, Wilf Stevenson for the Labour Party and Lord Archy Kirkwood for the Lib Dems, and then a range of others from financial services and the third sector, and you will have seen it all on the website. What we will do is ask your team from Experian to make an opening statement after we have introduced ourselves and then we will get into discussion. This is being recorded, but if you ever want to go off the record or there are things you would rather not appear in the record of this session, do say so.

I am Sherard Cowper-Coles. I lead HSBC's work on financial inclusion across the Group which means across the world. So it is not just about saying things about financial inclusion and corporate social responsibility, but we are also looking at what we as a bank can do particularly in emerging markets to address this problem. Some interesting work is going on on that. Laurie, would you like to introduce yourself?

Mr Edmans: As I mentioned, I am the pensions, insurance and employee benefits guy of some years. I have also been working in the area of financial capability under various hats for the last 15 or 16 years. At the moment I chair a small life assurance company, the Trinity Mirror Pension Plan, the Independent Governance Committee for Zurich and I am a Non-Executive Director of the Money Advice Service.

Chairman: Deven, would you like to introduce yourself.

Mr Ghelani: I am Deven Ghelani. I am the Director of Policy in Practice. We are supporting the Commission, mainly Lisa if I am brutally honest with myself, but I am here partly because I am really interested in how credit scores affect people in poverty and how that works, particularly with the planned welfare reforms and local authority changes as well.

Chairman: Then the rest of the team.

Ms Duncan: Lisa and I are a double act so we are the Commission co-ordinators basically, either seconded or on a consultancy basis, to the Commission.

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

Mr O'Halloran: Rob O'Halloran, also at HSBC and supporting Sherard as well.

Q. Chairman: Over to you.

Mr Westley: I am Jonathan Westley. I am the Managing Director of Consumer Information Business, so anything that involves consumer data I am responsible for and I work closely with Pete, who offers a direct consumer product.

Mr Turner: Pete Turner. I run one of the four divisions in the UK, Consumer Services, so everything that either Jonathan collects from consumers or from some of his peers and businesses, my job is to make it available to, I believe, its rightful owners, the consumers who came up with it in the first place. There are a number of services that we either sell direct to consumers or we provide the services through partnerships. We also run statutory credit reports to provide those services for a small fee to everyone in the UK.

Mr Smith: I am Michael Smith. I am from Experian's UK legal department. I have responsibility for both contractual and regulatory matters in the UK. I spend the vast majority of my time on regulatory matters and supporting Emma Thomas in our Government and Public Affairs Department.

Q. Chairman: It sounds familiar in a building where we have several thousand

compliance people. Would you like to make an opening pitch?

Mr Turner: Firstly, I think it is fair to say that Experian, and the three of us with Emma as well, have financial inclusion running through our blood. Experian, as you may or may not know, devotes a lot of time and effort globally to financial inclusion in much the same way as HSBC does.

Q. Chairman: I did come to Victoria Street to see your Government Affairs guys as part of my study in.

Mr Turner: And in fact, the Board, Don Robert in particular who is now our Chairman, puts a lot of effort behind making sure that the whole company recognises its responsibilities, again globally because we do a lot work in emerging markets. Here in the UK we are the leading credit reference agency. I think it might be worth taking us back a few years and thinking about how people used to apply for financial products and take on credit before automated systems existed. Twenty or maybe 30 years ago, to apply for a financial product meant lots of personal relationships, certainly face-to-face meetings with financial institutions and lots of paperwork that took a lot of time to gather and probably was off-putting to a lot of people. Nowadays, down to a lot of great work done across the board in the financial services industry in the UK, it is an awful lot easier to get people through the door to be able to apply for and get accepted for financial products. That comes from automated decision-making and from identity and fraud systems that try and make it easier for customers and also prevent unauthorised access and also, of course, it makes it easier for consumers to apply for credit and for organisations to make sure that only those who are creditworthy get through the door.

As a CRA, we are pretty vital in that chain and as the leading one in the UK to most of the organisations. You have heard Jon describe the consumer information business. That is really the life blood of our organisation, so we collect data on a volunteering basis from partners like HSBC. We then aggregate and store that information and then provide it back to the providers of that data in the first place to help them make better decisions about who to lend to, because we can tell them the existing commitments that an individual has and how they are maintaining them, so are they keeping them up-to-date, as well as the broad nature of all the relationships they have rather than just an individual's relationship with one institution. I would say that financial inclusion is at the core of what we do. We do a lot of work in corporate responsibility about education, but I also think that that is "a nice to have" rather than the purpose of what we believe financial inclusion is about. It is more about putting these things into practice. We have got some information that we can share with you about how we help educate the UK about financial services in general. It is not just about credit. It about how things work and we believe that needs to start from a very young age because the values that you attain and take through life are formed in primary school, particularly the relationships you have with family, friends and with the teachers at primary school. Equally, we know that education needs to happen right throughout your life. In particular right now there are many people who do not understand how things work. We spend a lot of time and effort and, in fact, this year we are spending more than we ever have before in trying to help people understand how a credit reference agency works, the importance of financial management and how to understand what a credit score is and how it should be treated and how you can impact it. On top of that, we do work with the Association of British

Credit Unions. We work with Pfeg on a much broader education programme trying to take the information we have out to people in shopping centres and conferences and roadshows. We are constantly trying to improve the volume and value of the data that we have to make sure more and more people can be helped through the process of applying for financial products or applying for credit products. We have got some information about rental data in particular for those people who have not got a mortgage and we believe should be treated as everyone else is.

Q. Chairman: When you say you support financial inclusion, so far as the UK is concerned you have what sounds like a laudable CSR programme, supporting education in schools, working with ABCUL, working with Pfeg, but I would like to ask you a little bit more about collecting data on people with thin credit files - and I live in Ealing - for example, the newly arrived Polish worker who is trying to get out an auto loan or whatever it may be. I am glad you do all that in terms of corporate social responsibility, but what I am really interested to know is what you think. You are a data mining/data collection organisation who exist as an essential part of the financial services industry and play a very important role, but you are not doing it just for the consumer. Of course it helps the consumer in the end, but it is all about making money, just as we are.

Mr Turner: I think that is important to us because it has to be sustainable.

Q. Chairman: Exactly and that is what we say in the bank. However, what I am really interested in is the picture you have particularly in the D segments of society, the people who are struggling on the margins, the people either out of work or with stagnant wages,

the people who are financially excluded. There are various estimates of 1.3 - 1.9 million adults in this country still without bank accounts. Half of them may have had bank accounts but the experience was so awful they decided to move back into the cash economy. Let's drill a bit deeper because you have a unique picture. In a way you are a financial equivalent of GCHQ.

Mr Turner: I would not characterise it in that way.

Mr Westley: I think there is a perception like that and I think we are trying to break down some of those barriers because one of the important things around data usage is transparency rather than being seen as 'Big Brother', which goes to the point which you were making, and it is one of the reasons why we have done a lot of the education work because it is the unknown that creates the perception of Big Brother.

Q. Chairman: Of course, but you are Big Brother. That is your success: the more data you mine, the clearer the picture you have, and it all needs to be clear, it is regulated, it is legitimate, you are not spying illegally and you are doing it in everyone's interests.

Mr Westley: And every consumer can see their own data.

Q. Chairman: Yes, if they want to. Most people do not quite know how to do it. What picture do you get of the state of financial inclusion? You talk a little bit about those people with thin or non-existent or ropey credit files.

Mr Westley: This is why we are doing some of the project work we are working on at the moment. Traditionally, if you looked at a credit reference agency, you would see a lot of financial products that are registered on a credit reference agency, and that therefore

perpetuates the problem: if I do not have a financial product then I have a thin file and I am invisible in the market-place. What we have been doing over the last six to seven years is gathering other data sources and that fleshes out what is effectively a thin file. Fundamentally, I probably would want to make the point that Experian does not make the financial decision. We provide data and every lender, whether it be a telecoms or an energy supplier or financial company, can make their own decisions.

Q. Chairman: GCHQ does not decide whether to launch the air strike. It just puts the data in front of the Prime Minister.

Mr Westley: Fair comment.

Q. Chairman: Do not keep going back to your CSR programme.

Mr Westley: It is not CSR either. This is our core business.

Q. Chairman: This is very interesting and we picked it up in other areas of the world, collecting and mining mobile phone data, rental data.

Mr Westley: Six or seven years ago we started to look at the energy suppliers, the water suppliers, telecoms and other data sources, and we have been gathering that information along the line. We have a number of those suppliers that provide monthly information back into us and most individuals have one of those elements that they register. To be seen on the credit report and to be classed as thin file/fat file depends upon the organisation. Some organisations say, "I need to see three electronic forms of payment." Some organisations say two or more. If I have only got electric or I have only got water

and then you are down to one, you are in the thin file category. We said how can we actually change that and that is what stimulated the rental exchange and the concept of the rental exchange. What we were seeing as well was a market shift where home ownership was starting to actually flatten out and more people were starting to go into rental. Rental just was not visible on any credit reference, yet you could pay more sometimes in rent than you would on a mortgage. It also opened up the door for social housing as well and all the payments there. That is a project we started about three years ago. It has been quite slow in getting up and running because growing an organic bureau and all the rules and the mechanisms that need to go in place to make sure that it is robust and the data that is being reported is accurate takes time to do, but we are starting to see live data come through. We hope that that will bring their payment data on to the bureau and move them from what is essentially one form of electronic ID, ie gas, electric or water, and take them to two and that then allows them to go through automated decision-making.

Q. Chairman: Jonathan, when you say electronic ID, if somebody is paying through a meter, cash or a token?

Mr Westley: A meter is a little harder.

Q. Chairman: There must an electronic data on that account.

Mr Westley: I do not know how that works. It is not classified as credit so it is, effectively, a cash transaction.

Q. Chairman: Even if somebody pays their electricity on a meter that cannot be collected?

Mr Westley: It is not a credit facility. It is not demonstrating that they then pay in arrears, effectively, and have the ability to manage money all the way through, so an up-front cash payment typically is not stored on the credit bureau. Typically, it will be organisations where you have got a monthly payment going through that would be registered on there, both for water and for electricity.

Q. Chairman: That is interesting because surely somebody could not pay their electricity or water through the meter and get into arrears and that would be a warning flag whereas if they never got into arrears that ought to be something that ought to be to that credit, as it were.

Mr Smith: If you do not put money in the meter you do not get electricity whereas if you are on a bill you get electricity anyway.

Q. Chairman: Can electricity be cut off legally?

Mr Westley: Yes. It just does not function.

Q. Chairman: I see. Then it is not credit.

Mr Westley: And actually people who have got into arrears on a “credit” facility, and I put credit in inverted commas here because it does not have interest and that type of thing but it is payment in arrears, if they happen to not pay their bill, then the electricity company will put in a payment meter and actually recover the arrears through increased

payment for the rate of electricity consumed.

Q. Chairman: I thought for people in distress it was not legal to cut off.

Mr Smith: That is only water.

Q. Chairman: Only water? Right.

Mr Smith: I think this touches on a couple of quite important areas for our work. Bringing new data sources in is quite a challenge. First of all, you have to assess is the data going to render value and the technical issues, is it the right format, and all those sorts of things. You have then got the Big Brother perception so you have got privacy and other regulation now that can be quite a stumbling block. You say an organisation like this has many compliance people and you have got to persuade the compliance people this is not over-intrusive and it is compliant with all the privacy and other regulation. Then you have to persuade the data controllers to let you have the data. The credit reference system in the UK is very largely a voluntary system. There are a couple of areas where data-sharing is mandated, but the vast majority is voluntary, so people have to see some interest in providing data to credit reference agencies, and that, again, can be quite a challenge. So a project like bringing the water industry in is a project of significant investment and significant time.

Q. Chairman: I understand. Do you collect mobile phone payment data or Sky Television data?

Mr Westley: Just to be clear, we do not collect pay-as-you-go because that is effectively

you pay to use and if you do not pay it you get cut off immediately, but we do collect where you pay in arrears because there is a form of credit there. On your media question, we do have a number of suppliers that are in that space, but not everyone supplies the data. Some organisations see some value in it. Some organisations have got enough information, they believe, to offer the service that they need to offer.

Mr Smith: You have to remember also people have a commercial reluctance to share this data because it is valuable; it is their customer database.

Q. Chairman: I understand. Is there yet enough data to show that certain forms of payment are better predictors of credit performance than others or do you not yet have enough data?

Mr Westley: We have plenty of data and the aim that we have is to provide that back to the lender because fundamentally they are the deciders as to whether something is predictive or not for their particular organisation. We tend not to just say that this data is more powerful than this type of data but that this is a consumer view of their payment performance on all of their credit facilities. We have a score and, typically, there are weightings within that score, but I personally do not know how that actually works through. Some organisations will value banking data more than other data, but when they are provided with that information they only know that it is a bank, they do not know which bank and they only know it is a current account or a credit card or a loan. They do not know what type of product it is. They just know high level each of the trade lines that go on in there.

Mr Smith: Another important factor is the information we provide will not be the only

factor in deciding whether someone is accepted. The organisation itself may have its own data from other sources and then obviously it is risk profiled.

Q. Chairman: Then there is the old CRB check which has now got some new name.

Mr Westley: I doubt they use the CRB as regularly as they use a credit reference but as you open a credit facility each organisation has to go through a level of verification that they are who they say they are and they have done all the various checks. One of those elements could be electronic ID, and the rental data moves electronic ID quite considerably for those who would typically have to then bring in passports or driving licences or bank statements.

Chairman: I would like to talk to you about that and your role as an identity provider on the part of the Government. I am dominating the questioning.

Mr Edmans: You are on a roll and you are the banker.

Q. Chairman: Just one last question and this is my ignorance: is there a standardised system across all the UK credit rating agencies of scores and weightings? Is there some protocol?

Mr Westley: Each organisation, so there is ourselves, Equifax and Core Credit, has different mechanisms for scoring their particular data. There are different interfaces, so banks have to go into each organisation in different ways and there is sometimes different data, because some organisations collect it and some organisations do not.

Q. Chairman: So you are competing?

Mr Westley: It is a commercial business.

Q. Chairman: I should know, so a bank like this will use all three of you or one of you?

Mr Westley: Some organisations will use one. More recently they have typically used more than one and sometimes that goes to three, sometimes that goes to two. The difficulty I think that organisations have is working out the differential that adding another one actually provides. I have still got to pay for that data to come through but the actual differential that it gives is quite minimal.

Q. Chairman: It is fascinating.

Mr Westley: And every organisation is different in how they use the data. Some organisations use three, some organisations use one, but it may be they are only lending to their own customers, in which case I want to know what else has gone out in front, but I probably know quite a lot about that customer already so I use more of my own data.

Mr Smith: On the point about scores, an organisation like HSBC will generate its own scores. It will certainly take credit reference agency data, it may take credit reference agency standard scores, but it will feed that into its own risk profiles and other data because if it has an established relationship with that consumer, it will know a lot about that consumer itself. The CRA score is an important indicator of where somebody stands in relation to a credit file but it is not in itself what determines the decision.

Q. Chairman: Does the same apply to mobile phone companies and other providers of credit like Brighthouse?

Mr Smith: Yes.

Mr Westley: Yes.

Q. Mr Edmans: I wonder if I could ask about the other end of the process because Sherard has concentrated on how people get credit. The thing that we have heard in a lot of the evidence in going round the country is about people where things have gone wrong and they have got into debt and they have got into trouble and have not been able to pay. Getting back into the system is a problem for them and one hears that if you have got a blot on your copy book it can mean three years, five years, six years before you can get back on and in that period of time you are vulnerable to all sorts of different things. I wonder if you could talk a bit about the way in which people who have had a default can get back in.

Mr Westley: It is quite a difficult one to answer because every organisation has a different lending policy so, if you happen to default, one organisation may turn around and say, "Whilst you may well apply, right now I am not prepared to take you on as a customer for however long that is going to be." We hold data for six years, but, typically, most organisations look at a three-year horizon. Some organisations do not care whether you have got a default and will trade with you, but you are a higher risk individual and they will typically price their product on that basis. But to go back into mainstream credit, the top six banks are making those decisions as to whether they want to accept you and take those products to you.

Mr Smith: If all you have is a piece of negative data, if that is all anybody knows about you, it is far harder for them to come to a balanced decision than if it is balanced. It will not be completely balanced, but if you have positive data from sources like rent and water bills and so forth they are getting a fuller picture and can take a more informed decision. They may still come to the same conclusion but it is a more balanced possibility if there is more data there.

Q. Mr Edmans: So you do not black list people as such?

Mr Turner: There is no black list.

Mr Westley: There is a record that you have defaulted, but you could have then got it back into a good state, at which point that record is there to say that that happened, but it is then up to the lender as to whether they want to carry on trading in those circumstances. If it is a blip, say you have a marriage breakdown (and typically these types of things happen on life events) you typically go and have a conversation with the organisation and they will then discuss with you the alternatives, but they typically offer alternatives.

Mr Turner: We do also provide people with the opportunity to add a note to their file so if there is a marriage breakdown, for example, that caused it, you can add something called a notice of correction to your file which lenders can then view and then make a decision based on that rather than just seeing negative data.

Mr Westley: There is a rule that every lender has to abide by which is if there is what we call an NOC (Notice of Correction) they cannot make a decision without reviewing the Notice of Correction. So they have to have absorbed that and read it before they make the

final decision.

Q. Ms Duncan: Is it free to add a notice of correction to your account?

Mr Westley: Yes.

Mr Smith: A couple of other points. This is not a hair-trigger in terms of negative data appearing, so if it has come from a lender and you have got to the stage where the relationship has broken down, it is not one missed payment. If it is a county court judgment, even after the judgment has been entered, I believe that you can still pay it off and discharge it and it does not appear, so there are protections for consumers and of course if the data is inaccurate, which we can talk more about, the consumer has a right to see and challenge and have that resolved.

Q. Mr Edmans: Would this cover a situation we have heard described in several places which is that the poor credit rating has been attached to an address as opposed to an individual, is something that has been asserted to us?

Mr Westley: It is typically attached to the individual. There used to be a situation many years ago where the household was considered. I am trying to remember the year in which that changed, but it was a number of years ago that it changed, and you now cannot take a household view; you have to be able to look at the individual.

Q. Mr Edmans: We have had people say to us that, for example, if somebody in the household moves in who has got a criminal record that could affect the creditworthiness or the ability to gain credit of the other people that were in that house. It is an assertion.

Mr Westley: Typically, only if there is a financial association that is created, ie, I have got some product linked with yourself, maybe a mobile phone or a bank account or telephone, where there is an association that could be taken into consideration, but otherwise it would not count.

Q. Mr Edmans: Well, that is reassuring because it sounds like people have been trading off history a bit.

Mr Westley: That definitely was the case. It is at least six or seven years ago. I think it was 2003 that it changed.

[..]

Q. Chairman: I can see that, but it ought to be that people, once they are aware their data is being collected, would make an effort to pay their rent on time?

Mr Westley: I think most people do anyway. I think there is a bit of a misconception that people are not paying their rent. So that helps with setting up bank accounts, offering credit and being considered for mainstream credit lines because you are who you say you are.

Q. Mr Pond: May I first of all apologise to all of you, colleagues and also yourselves who have travelled a long way for this, and I was the one who was late. I am really encouraged that the credit score you are saying also improves overall.

Mr Westley: It does.

Q. Mr Pond: Because one of the fears of this might be that people prioritise housing

over other elements of their expenditure, so that is really encouraging. You have focused up to now on the social housing sector. Plans in terms of roll-out to the private sector?

Mr Westley: We have a number of plans. It is a bit of a tough nut to crack that one because of the fragmentation of the market, so we are looking at multiple ways of trying to get that data in because the landlord has really got to see the benefit of it, but what we are also looking at is can we get tenants asking for it. We are also working with a number of organisations that supply landlord software so that when they deliver that software to the larger housing individuals then it is automatically in there and it just gets transferred automatically. There are about seven or eight different streams to try and crack that one. The easier one is definitely the social housing because we are not dealing with millions of mom and pop landlords, but that is going to take a little longer for us to get. My view is when we start to see the power of the social, then we will get the larger private landlords coming on board and that in itself will stimulate the letting agents, who will then notify the other landlords that they can offer a service as well.

Mr Edmans: You can see some kind of software package coming up somewhere down the line even for somebody who has just got one buy-to-let property.

Q. Chairman: Surely the way is for the letting agent to demand it of a potential tenant?

Mr Westley: I agree. The problem is the letting agent typically is only involved up to the time of signing them into the property. Then what happens if it is a managed contract is the letting agent will be able to do that and we will be able to go to those letting agents and work with them, but the vast majority of them get handed back to the landlord.

Q. Chairman: I meant when somebody is applying for a tenancy through a letting agency, the letting agent could say ---

Mr Westley: --- You should be asking for this.

Q. Mr Pond: The incentive must be that this is almost a rent guarantee scheme for buy-to-let landlords who find it very difficult. Once the agent has gone away it is quite difficult then to enforce the payment of rent on a regular basis. If people feel they have got you looking over their shoulder and if they do not continue to pay promptly then there will be other consequences, that must be an advantage to landlords.

Mr Westley: I prefer to look at it as they get benefits. As we start to see our economy change and people coming out of home ownership and going into rented, they will be used to having that payment being recorded so it will just flow straight in the rental market as well.

Q. Chairman: Could you separate out, Jonathan, the bespoke rental credit score that would be separate from the overall credit score and have a bespoke service for landlords?

Mr Westley: On the report we do call the data out separately, so you will be able to see the rental data separately, and what we will be able to do is in the score construction we will be able to have it so that it is included or excluded and you will be able to then see the differential between the two.

Q. Mr Edmans: I have to say this is really just not my sector so if the questions are

dumb, sorry, but one of the things we have listened to a lot is about the challenges that people in the sector we are talking about are facing as a result of changes to welfare reform with the advent of Universal Credit. Clearly, that is a big part of a lot of these people's lives. Are there any links between you guys and that system?

Mr Westley: There are not. We do not know what people get paid. That is not in the market-place. One of the things that has popped up in conversations with landlords is they are very concerned about direct payment of rent to the tenant and one of the things that we are able to supply to the organisations is whether they have got other commitments where the rent would typically go and service. So that helps the landlord on that basis and they may be able to then go to government and say, "Look, this is an example of a group of tenants that would be better to have it carried on paid directly to the landlord" and "This is a group of individuals that would be better to have the money paid directly to them as individuals." We are still working through that.

Q. Mr Edmans: What is in my mind is you kind of see if you know somebody has a solid income stream that should be a factor in their credit?

Mr Westley: Yes.

Q. Mr Edmans: And for a lot the people we are talking about their entitlement to benefits is a major proportion of their income stream.

Mr Westley: I suppose income is probably the hardest piece of data to gather.

Q. Mr Edmans: That is why I was wondering with Universal Credit going on-line and

becoming a bit more 21st century whether that possibility might be there.

Mr Westley: It is still not generally visible and neither are tax returns and some these things might actually help if they were more readily available.

Q. Chairman: My other question is: are you able to collect or exchange data within the European Union, so when a Polish accountant arrives and sets up shop in London and tries to rent a house in Willesden or wherever it may be?

Mr Westley: It is not typically all electronified so we do not have cross-border data transfers, but with consumer consent we have a number of relationships with the other credit bureaus around Europe and we are able to call those up and get a copy of their credit report and therefore ---

Q. Chairman: And you can do that in other developed countries as well?

Mr Westley: You can.

Q. Chairman: That is interesting. I want at the end to come on to digital identity but two members of the audience have sent in questions.

Mr Westley: Is that allowed?

Q. Chairman: You are allowed to phone a friend! I remember at a school not a million miles from here we were given a lecture on sex when we first started by an aged doctor and he said, "I am going to go out of the room at the end and you go write down whatever question you want and I guarantee to answer it."

Mr Westley: I do not know where this is going?

Q. Chairman: One of the questions was, “How often do you have sex with your wife?” He must have been in his 70s and he just said “About average”! The questions that the audience have sent in: is there scope to include forward-looking data such as on financial capability? They have started to do this in Malaysia.

Mr Westley: Forward capability?

Chairman: Maybe you did not quite understand the question.

Q. Ms Duncan: Sian Williams, who is one of our other Commissioners, had been in Malaysia at a conference, and there was a private enterprise that presented a proposition and it was basically a capability module and there was different levels and that consumer completed the different modules to increase their credit score and, by taking part in this education and capability process, you could then purchase that and once you had achieved it, it went towards improving your status with the credit bureau in Malaysia.

Mr Westley: That is probably because - and I do not know the details of Malaysia - the UK probably has the most advanced credit reference bureaus in the world, along with the United States. We have a lot of data flowing in. Other countries just do not have the level of data coming into them to be predictive, and so they have to resort to other mechanisms - and maybe this is one of them - that will try and be predictive. And maybe they have found a certain number of questions that actually if you answer in a certain way give a view and actually help.

Mr Smith: We do know in developing countries where thin files are a big problem, sometimes there is no data and no data available and people are starting to look at things like psychometric testing. Obviously, it is a very different cultural and regulatory environment. There is talk about them using social media data. The FCA have spoken about this. My personal view is that the privacy environment in the UK is not ready for that. That would be a big step.

Mr Pond: I just wonder if there is a simpler way through this. When I was at the FCA we used to run workplace sessions on financial capability, basically managing your money, and you could see a model whereby for people who have gone through that process that gets fed into their credit score. It is not a guarantee that they are going to be any better at managing their money, but they are likely to be better than somebody who has not gone on the course. I wonder if there is a core of something there to give people some incentive to participate.

Q. Chairman: Even if it is not reflected numerically it could be some sort of a flag.

Mr Westley: A flag to say they have attended a speed awareness course!

Mr Pond: Absolutely.

Q. Chairman: I would not go so far, I was once offered a job with a merchant bank called SG Warburg and Siegmund Warburg had a girlfriend in Switzerland, and all of our handwriting was analysed, and jobs were offered on the basis of a graphology test, which

to my surprise I passed! The second question sent in by the audience is: do prepaid cards contribute to credit scores?

Mr Westley: No, no. I think what you need to remember and always remember at the moment is that we are a credit reference agency so there needs to be a form of credit being offered in there and pre-pay is not a form of credit. If you have topped your prepaid card up using a bank account, a debit card, the debit card and bank account will have gone through a credit profile, but you will have had to do that transfer of cash. I know sometimes you have to go and put cash onto a card and if you are in a cash society it never then passes through a bank account so you never get to see that cash transaction.

Q. Ms Duncan: We have heard evidence from Steve Round, who is the founder of the Change Account. I do not know what you know about the Change Account, but it an alternative to a basic bank account. It is basically a prepaid card and platform, but it functions like a current account in that you have got direct debits and payments coming and outbound, so it is almost those two worlds merging. We have looked at that as an alternative to basic bank accounts for the demographic that Sherard talked about who opted to participate.

Mr Westley: Does the account ever allow you to go into an overdraft?

Ms Duncan: No, it does not.

Q. Ms Stidle: Rent is not technically credit because you always have to pay your rent in advance, so how does that work?

Mr Westley: Well, yes ---

Q. Ms Stidle: But you are using that data?

Mr Smith: You do not lose the supply of accommodation the moment you default. There is a possibility to go into arrears and protections whereas with prepay if I do not prepay my mobile phone I cannot use it.

Mr Westley: As an organisation, we would like to try and get savings information and bank account information because that is a fuller picture, at which point those prepay cards would come into the mix of that, but we have not gone down that route yet.

Q. Chairman: Eventually one can see that as society becomes more digitised you will be able to collect behaviour of the bank account analytics?

Mr Westley: Yes, you have got to imagine this is also a bumping up against the privacy element of it. Okay, I have committed to share my data when I take out credit, but I am not particularly happy you knowing my financial performance outside of that.

Q. Mr Edmans: Where that takes me to is wearing my Money Advice Service hat we have a budget planner on our website where something approaching 50,000 people a month are completing it now, which is a bigger achievement than some people seem to think, and one would have thought that there would be a logical progression from that budget planner to whether or not some people would be prepared to lend them money, if Mr Micawber's sixpence goes the right way as opposed to the wrong way.

Mr Westley: As I say, it would be lovely if we could get organisations to supply that data

and consumers' consent to sharing that data. That is the big question.

Mr Edmans: One of the thoughts in my mind is that one of the issues we have at the Money Advice Service is people use it but we cannot get them to register. What we are looking for is a hook to get people to register and actually if there was a hook into an improved credit rating, that might be useful. Could I just ask you on that sort of theme, the picture that I am getting is one of very substantial progress over really quite short numbers of years in the grand scheme of things, so playing back to you what I think I have heard: six to seven years ago essentially ratings were based just on financial products. We have now got to a position where utilities are your stock-in-trade. Coming up is rental data and the question in my mind is what is next? And if that progression is moving on, if we do not have to worry about those things, what should we be worrying about?

Q. Chairman: Can you collect data on payments to government - local government or central?

Mr Westley: We would like to collect some government data.

Chairman: I am sure you would!

Q. Mr Pond: TV licences, et cetera?

Mr Westley: There are all sorts of different things that you could go down the route of.

Q. Chairman: But at the moment you cannot collect that. People in default on council tax?

Mr Westley: We do not collect that.

Q. Chairman: And HMRC payments?

Mr Westley: No.

Mr Smith: We do not collect from individuals; we collect from organisations and if the organisation will not give it to us ---

Q. Chairman: That is what I mean, but in theory the Local Government Association ---

Mr Westley: If DWP or HM Treasury wanted to and see that as a benefit to the consumer and the consumer was prepared to share that information because fundamentally it is consumer consented. That is something to be remembered. On the rental thing we have had tenants that have said they do not want their data shared. It is 0.01% but there is still a collective of individuals that do not want their data shared, and they have the right to say that at that point.

Q. Mr Pond: I had a question that came spontaneously to me, Sherard, if I may, and it actually coincides with one that Jennifer has just given me! When we were up in Scotland last week we heard about their new mechanisms for dealing with debt resolution, the DAS approach, which is a much less judgmental approach to dealing with people's debts than the way we deal with it in England and Wales. I understand that the Scottish Government and the agency that operates this system has been looking to agencies such

as your own to see if there can be a slightly less judgmental approach in terms of people's credit scoring because what they are doing in this process is coming forward and saying, "I have got a problem." They have come out of denial, "I have got a problem. I do not want to run away from my debts." Mind you, it sounds very similar to Greece at the moment! "I do want to pay off the amount that is actually owing. I am not going allow the interest to build up but I want to pay it off." Have you had any discussions with the Scottish Government?

Mr Westley: I personally have not. I do not know whether we have as an organisation.

Mr Smith: We can come back to you on that.

Mr Westley: We could go and find that out.

Q. Chairman: If you could send us an email on that on as background and we will not attribute it. I do not know if anybody has got any other questions. I still feel sitting somewhere in a computer centre in Nottingham, just as there is sitting in Cheltenham, there is someone who could talk to us about more anecdotally about the picture you get of what is happening at the bottom end of society and the state of financial inclusion. It is obviously not data you collect for commercial purposes, but I just want to give you the opportunity. Is the gossip in the canteen that from what you see and your data analysts see the state of inclusion is getting worse or better? Are there trends that are being picked up? Clearly, there now, thanks to your efforts, more people now being captured.

Mr Westley: I personally do not hear any views as to whether inclusion is getting better. I think we are certainly seeing more people on our databases because we are broadening the net of the people that we capture. I certainly think that there are more financial

products available for different segments and that therefore brings them into financial inclusion.

Mr Turner: I have not seen anything. I know that we have provided some information both to Pfeg and also recently to the BBC to help them map where in the country there are areas of greater focus, maybe not financial inclusion but where there is excess debt at an individual level. I think it depends on what question you ask what answer you get. I think financial inclusion is quite a hard one to actually measure. It is something we could do depending on the question, but I have not seen anything.

Q. Chairman: It is very anecdotal and subjective.

Mr Smith: Somebody else would have been here today but he is away, I am afraid, James Jones, who you may have seen and who is our interface with the Money Advice Service and organisations like that. He is one of our presences in the media. His working life is spent on that sort of thing and we could arrange ---

Q. Chairman: Could you put him in touch with us as a Commission? I think I did meet him in my HSBC capacity.

Mr Smith: He is quite a visible person in the industry.

Q. Chairman: Again, we would not quote you but you are in a uniquely good position.

Mr Westley: We do try and work with a number of different organisations. Certainly we are working with the Cabinet Office on the Affordable Lending Steering Group. I think some of the difficulty is the visibility of alternative credit is muted in the sense that credit

unions offer affordable credit to a wide majority of UK population, but actually getting their presence seen by consumers has been quite difficult for the credit union movement. So we are trying to work out how do we promote that and how do we get that included in everyday assessments when an individual shops around for credit.

Q. Mr Pond: Just on the affordable credit thing, you may have answered this question so sincere apologies again if you have, on the whole issue about payday and high-cost short-term lending, there was this issue about visibility and that many of those providers said we do not have visibility about other people who have lent this individual money and therefore you can get to a situation where you have got three or four debts rolling up at the same time. Is there progress in that?

Mr Westley: There is quite a lot of progress on that front. We have developed something called real-time data-sharing because typically our service runs every 30 days and because it is a month in arrears you then get the information that comes back. To your point, with a payday, I can go down a high street and take out a number of loans, but because I do not know whether they have been successful or not I could rack quite a few up. What we have done there is a number of the payday loan companies now supply data in real time to us so the moment the individual walks out of the store or on-line and they have got the money with them then that loan is registered on our system immediately. Then when they go down to the next organisation and they apply for credit they will see the individual has just taken out some credit and they can either agree to lend it, but at least be aware of it rather than it being invisible.

Q. Mr Pond: That is encouraging.

Mr Westley: That has happened within the last year.

Q. Chairman: I really would be interested in what you think about digital identity because I think you are contracted to the Government as an identity supplier.

Mr Westley: That is right.

Q. Chairman: You may want to do this off the record, but how do you see the future of digital identity developing? I gather in countries like Estonia, perhaps particularly Estonia, they are far ahead of where we are, where everybody has a digital identity and, of course, in many it is like an identity card and this is really an electronic substitute for the identity card, in the way the UK driving licence has become a substitute for an identity card, if you have got them, but how do you see this evolving? This, in a way, will help promote inclusion.

Mr Westley: So there are things that probably we will go off the record here, but for now I think to create a digital identity is very difficult because you need lots of different transactions and accounts and that type of thing. Fundamentally, the point of having an identity is to prove that you are who you say you are and you are going to trade as that person. Fraudsters are constantly looking at ways of trying to break that down and whether it be a driving licence, a passport, or something else, they are fairly readily available to fraudsters to create if they want to. A digital identity is quite hard to create and it takes a lot of time to create and you need to have a number of different organisations all going the same way. So I do think a digital identity is quite strong and

quite powerful. Where it could go is probably where we need to step out and go off the record.

The next part of the hearing was held off the record

Q. Chairman: We are back on the record.

Mr Westley: You have to have a hook: what is in it for the consumer, fundamentally, what is the benefit that they are going to get, and in that they then will make the decision as to whether they share data or whether they want to interact and trade. We can say this is important but until they see the benefit themselves, and sometimes it can be too late, but then you are into education and trying to make them aware of why they need to make some decisions now.

Q. Mr Edmans: You might have a better chance because you can get things immediately if you have got the right digital record credit.

Mr Westley: That then takes us into the conversation of what else would we like to see and I think when that becomes more digital and you can include it on the file and people can say, "I did not realise I have that", they then start asking questions about things they did not really know that they had and they were ignorant of.

Q. Mr Edmans: Can I ask briefly about the elderly in this. As you say, this is a generational thing, but there are quite a lot of us oldies and we are going to be around for a while. Do you think about that group in particular and have you any thoughts?

Mr Westley: We see that segment growing. We see that segment continuing to take credit. It is much smaller than the traditional age range that you would expect credit to be transacting, but we are starting to see the age range expanding at the back end of the years. It is traditionally something that they as consumers vote not to do, i.e. take out credit. My father refuses to take out credit. He had a mortgage, he had a bank account, he had all sorts of other bits and pieces, but now he is in a world where he has got a pension, he has got assets that he relies upon and he would rather not use a credit facility.

Q. Mr Edmans: Maybe not so much in the kind of people that we are interested in.

Mr Westley: True, true, but they have some assets. They have a pension coming in. They have weekly payments going in. It is definitely a segment that I think lenders are looking at because it is an expanding segment, so if you wanted to grow your customer base that is definitely a segment that you would look at, but they will typically design products for that segment.

Chairman: Thank you very much.

Mr Pond: It has been very interesting.
