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THE FINANCIAL INCLUSION COMMISSION

CHEYNEYGATES ROOM, WESTMINSTER ABBEY, LONDON SW1P 3PA

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MS CATHERINE McGRATH and MS SARA WELLER

Oral Evidence

Taken before the Financial Inclusion Commission

on Monday 24 November 2014

Members present

Mr Chris Pond, in the Chair
Professor Sharon Collard
Mr Martin Coppack
Lord Kirkwood
Dame Mary Marsh

Sir Brian Pomeroy, in attendance

Witnesses: **Ms Catherine McGrath**, Managing Director, Transactional Banking, Insurance and Mass Market, Barclays; and **Ms Sara Weller** Independent Director, Lloyds Banking Group.

Q. Chairman: If we can get started again. Our apologies to Catherine and Sara and the team for starting a few minutes late. The last session, which was with Hector Sants, Anthony Browne and Caroline Rookes, was a very rich session and it did not end when it should have done. I am Chris Pond. I think you will be aware that the Financial Inclusion Commission has been established to try to push financial inclusion up the agenda of public and political debate over the next few months and to see if we can get each of the political parties to build something into their manifestos on financial inclusion. It would also build on some of work of Sir Brian Pomeroy's Treasury Task Force on Financial Inclusion. Brian has agreed to act as President of the Commission (though not to sit as a Commissioner himself) and I have no doubt that he will have some views to share with you or ask you questions on. We have Professor Sharon Collard whom you have probably come across in terms of her work on this; Archy Kirkwood; Martin Coppack, whom you know from the FCA; Dame Mary Marsh; and we have Lisa Stidle, Jennifer Duncan and Matthew Jervois supporting us in a secretariat role;; and Mary who is taking down a note of everything that is said but will not be held against you. Sara, could you say a few words first of all about your perception as to some of the challenges that are faced in increasing financial inclusion and indeed what we can do about it.

Ms Weller: Thank you for inviting me today. I am very pleased to be part of the Commission and be able to offer support today. I offer my support from the perspectives of both being a Lloyds Banking Group Non-Executive Director and also being a Non-Executive Director at the Department for Communities and Local Government, which has some relevance here,

My overall observation is that all of the sectors need to work together in partnership if we are to really tackle the issue of potential financial exclusion for customers across the board. At Lloyds Banking Group we are building a simple, efficient, UK-focused retail and commercial bank. Our goal to become the best bank for customers and to offer a wide range of simple and relevant products to all of those customers. We serve all customers, not just those who are enjoying relative prosperity but also those who are facing financial difficulties or coping with disabilities or striving to buy their first home or get their first job or start their own business. To be the best for customers we are committed to trying to help all of our customers and by doing that we hope to re-build trust in our brand and indeed in the sector as a whole.

During 2014 we launched our Helping Britain Prosper plan which was there to help address some of the big issues facing Britain today. One of the seven key commitments we made related to financial inclusion, to take the lead in financial inclusion, to enable individuals to access and benefit from the products and services they need to make the most of their money. Specifically we pledged to support credit unions by giving them an additional £4 million over the next four years. We pledged to support one in four social banking customers in the UK and to deliver financial education to community support workers so that they can support financial capability on the front-line in their communities. Those commitments all build on our existing support of the industry with agreed minimum standards and basic bank accounts where we have currently about a 28 per cent market share (so about 2 million active basic bank account customers).

To shape our financial inclusion priorities we have commissioned some independent research which we have fed back to our board in 2014 and that told us that a lot of customers at the risk of financial exclusion and on lower incomes were paying a poverty premium mainly due to the extra costs of cashing cheques and paying bills where they had not got a functioning bank account. That was exacerbated by a lack of confidence amongst those customers in using direct debits and having access to affordable credit, all of which raised their costs of living.

Feedback also centred on basic bank accounts and how we could, as a very big player in this market, prioritise for those customers what they needed in those accounts before we started to think about adding other services for those customers. From that research we developed a Group-wide financial inclusion strategy focused on using our scale to the advantage of - and not to the detriment of - customers. I am delighted to say we have already started to make significant progress. I thought I would take you through some of the highlights if I could.

We have established a dedicated financial inclusion team to lead the delivery of the strategy, and from July this year all of our basic bank account customers can use any of the 45,000 free Link ATM machines across the country and basic bank accounts can now be opened on-line.

I am sure we will talk about digital a bit later.

In quarter one next year we are going to open basic bank accounts in branches across all our brands and in the Halifax we are opening up the use of counters and access to colleagues in branches which we already have in Lloyds.

From quarter two next year, and annually thereafter, all colleagues within the Group will have financial inclusion training. We will make that part of broader training on how we help customers.

Finally, recognising that we cannot work with all customers and their requests, particularly on the funding of small loans for example, we have started to signpost customers to credit unions , the Money Advice Service and Citizens Advice Bureau, working in partnership with them so we can support them. We will be actively supporting 21 credit unions across the country with skilled volunteers to help them to help customers.

Beyond all of that in phase one, phase two of the strategy is still evolving, with support from some trusted external stakeholders. We had an external stakeholder advisory session in September that some of the Commissioners attended, which identified a number of themes for the next phase of our activity, particularly supporting customers on a pathway to greater participation. So helping them to get out of financial exclusion and into participation, a focus on mobile technology and multi-channel access for these customers, improving needs-led product design and making sure that financial exclusion remains a cross-industry issue of which today is obviously a key part.

In summary, Lloyds Banking Group is committed to becoming the best bank for customers and helping all of our customers to have access to the products and services they need to make the most of their money. In that context we very much support the aims of the Financial Inclusion Commission and welcome the chance to take part and play a role and work in partnership across industry to deliver a sustainable difference for customers who are at risk of financial exclusion.

Q. Chairman: Can we ask Catherine to say a few words in terms of what Barclays is doing in this field, and I know you have a commitment to dealing with it yourself.

Ms McGrath: I am Catherine McGrath. You can probably tell from my slightly dulcet Antipodean tones that I was not brought up in the UK but I have spent most of my working career here. I was reflecting why when I was in New Zealand for three years that financial inclusion is not a debate that is in the sector really at all. The only thing that I can point to, particularly given that bank accounts are paid for in New Zealand and there is not the equivalent of a basic bank account, is that financial education is at the heart of the education curriculum and has been for quite a considerable period of time. I was very amused by my niece ringing after a day at school to give me a rundown on what the man from the bank had told her that morning. The banks play a very critical part in New Zealand in terms of the outreach programme into the schools. It does not matter which piece of research I have looked at, education when you are young about money is the thing that helps drive financial inclusion. Whilst my remarks are predominantly around Barclays and what Barclays has done or is doing, I would encourage you, as you will be doing, to think about it within that broader context.

While the vast majority of people in the UK do have a bank account, provision has been mixed and those who provide basic bank accounts and the level of access to basic bank accounts has been mixed. Barclays has a very strong tradition of basic bank accounts and is the one that provides them most broadly in the UK market today. When thinking about what more and what should be different, I think one of the issues is you do not know any time that you go into any bank that you can get a basic bank account. I think having universal access irrespective of financial institution is important so it becomes a mainstreamed thing and not something that is confined to a small number of banks. The Government is doing, as you know, some excellent work in this area and we have been talking very closely with them and some of the consumer groups about it and would encourage you to have a conversation with HMT in particular about the work that they are doing.

One of the things we have thought about quite a bit as well is whilst we are doing quite a bit of work, are we doing it early enough. Even the work that the Government is doing at the moment about revised basic bank accounts is all about new customers and the basic bank account space. Actually the issue is more about customers who get a financial stress and in conversation with Gillian Guy, when I was talking to her about basic bank accounts, she said, "Catherine, for some people any amount of payment is problematic." The approach that we want to take to it is to say how do we look at customers who are getting themselves into financial difficulty and how do we use our banking services to support them and give them a breathing space to avoid it getting even worse. There are a number of things that across the industry we can do in that space recognising that it is not just a bank account opening issue to the provision of financial services. It is very much an existing customer issue and having the right triggers that enable you to do something about it even earlier than we do today becomes really important.

We have done some work over the last year where we have changed our overdraft pricing and I knew that in changing that overdraft pricing that whilst the majority of customers would be better off, some would be worse off. I took a very conscious decision being quite specific with customers about what the impact would be on them and then we put in place an outbound contact programme. Nothing bad had happened yet but we thought it was important to start to talk to customers two or three months before it was going to happen so that we could then assist them. What happened as a result was there was a group of our customers that had not shown the harder signs of financial difficulty but were showing the earlier signs that we started to talk to earlier. We will be doing a lot more of that because it had very good results for customers and learning for us. The flipside from some of that is did I get a lot more complaints than I might otherwise have got? Absolutely. Did I get more media coverage? Absolutely. Do I think it was the right thing to do? Yes.

Another anecdote in terms of customers and early intervention is a number of the banks have text alerts and if you are getting yourself into financial difficulty, the banks will send you a text, or if you are going to miss a payment, which tends to be an indication of financial difficulty. Normally what happens is customers have to opt into getting those alerts. We decided to do a 'test and control' to see what would happen if we just opted a group of customers in. We picked customers who were regularly getting themselves near the edge of their limits and some that were just doing it occasionally. Unsurprisingly for customers who are regularly getting into financial difficulty, their perception of us worsened upon sending those texts rather than improving because whilst it was helpful and it gave early warning notice, to some extent, when you speak to customers, it is like rubbing salt into the wound. "I knew it was going to happen. You telling me that it is happening actually hasn't made it any better for me if there is nothing I can do about it." For customers that can do something about it, it is very useful. We continue to try and work and calibrate to say what is the most helpful way of early intervention. Sometimes even if customers do not like it, it is the right thing to do but then how do you manage that appropriately.

I thought I would briefly touch on payday lenders because that is another thing that Gillian in particular had given me quite a hard time about. We have had quite a hard look at this, as have most of the other banks, and what you can see when you look at customers of ours who go into the payday lending space, the vast majority are customers where credit is not the solution because 40 per cent of them were already spending more than they were earning so had no ability to repay debt and a further almost 30 per cent had problems with their existing debt. Our view is that a strong credit union sector is certainly important but working out how to get debt advice early through the sector is very important because the solution often is not more debt because it cannot be serviced.

Another thought that we have had is that prevention is better than a cure. We have been quite strongly engaged in the work that Carol Sergeant has done through the Simple Products regime. I think it is very important that that gets real momentum in the market and probably a momentum that it has not quite got today. The reason we think it is important is financial services products, no matter how far you simplify them, can still be complicated, so having a process where a combination of industry experts, consumer groups and regulators look at a product, say it is fit for purpose and say we have got a process whereby we will continue to validate that is essential, so if there as a consumer you do not want to do something about it and you do not want to think about it yourself, somebody has done it for you. We think that is a very important thing to do. I think it is even more important with insurance than it is with banking products. When I was watching TV last night, one of the TV news people was doing a push for food banks and the woman who had attended that food bank had to attend it because she had a financial shock, her daughter went into hospital and she could not work. For very good reasons, the payment protection insurance industry is not something we do any more, but what do I worry about? I worry that there is a large number of people who have a risk to do with financial shocks that they are not able to deal with and do not have the savings for. I think if you take that consumer need and combine it with something like the Simple Products regime that is a recipe for good when you take all the lessons that we have learned and apply them in a useful way.

Obviously, technology is something that is unavoidable when you discuss this topic. Our view is that we are in the middle of a digital revolution and there is no turning back, but how do you make sure that nobody is left behind? There is the work that we have been doing with ‘Digital Eagles’ who are people in the branches who will help customers become digitally enabled. It is not just that they can use mobile banking apps. We can teach them about Skype and FaceTime and social media and a whole random raft of things. If you get up and go to work in the morning and think what is one of the things you are most proud of, the changes that we are making in customers’ lives through enabling them in the digital revolution is something that our staff are incredible proud of. Doing more work on that and how we get people digitally engaged becomes incredibly important because some of the ways that I have talked about where we can help assume and rely on the fact that people are starting to get more digitally engaged.

Our view is that financial services have a very important role to play. Across industry collectively we have a very important role to play. Doing things like helping people become digitally engaged, thinking very proactively and early so we can see early warning signs and ensure people as far as possible do not get into financial difficulty in the first place, we think that is a very powerful and proactive thing to do.

Q. Chairman: Thank you both very much. Could I start off with one question to both of you because both of you have talked about trust and perception. You also mentioned, Catherine, that you looked at your overdraft pricing and we know that many people who open bank accounts for the first time very quickly afterwards find that they are hit with charges they did not expect and as a result many of them withdraw again. My question would be to the extent you are both trying to do quite a lot to extend your services to people who are currently excluded, what can be done to try to encourage those who are excluding themselves who, as a result perhaps of lack of trust or lack of confidence or lack of capability do not feel that they want to engage with financial services?

Ms McGrath: I think the work HMT has been doing with banks on financial inclusion and basic bank accounts should go a long way towards that. Basic bank accounts have been used as a bit of a catch-all for a large group of consumers. When you get it down to the most financially vulnerable, is it important that those accounts are fee free and the customer knows if they open it they cannot get themselves into trouble? Yes, I think it is very important for those for whom any fee or any payment is a difficulty. When that happens, and particularly if it happens across industry and all banks do it, that is a big step change in terms of financial inclusion.

Ms Weller: I would also say that the conversations with the Treasury about the basic bank account and the conditions under which it should be offered and to whom it should be offered are very critical to making sure we have a platform into which we can introduce people. Catherine made a critical point earlier in her statement which is in a sense people who feel that they do not have the confidence or the knowledge to want to engage with the sector, or indeed do not have the mindset that says financial management is important for them, sometimes do not get as far as considering whether the product is right for them and whether it will work for them. I do think the question about financial education and the extent to which it is in everybody's interests for consumers across the country from an early age to be brought up with a level of confidence and capability and mindset about managing money that enables them to engage in an intelligent and considered way with good, well-designed, universally offered products that meet their needs is a critical component, so yes, we have got to get the product right obviously and that has got to be right for the industry and right for the customers, but we have also got to get customers coming to that decision with the right knowledge and confidence beforehand, otherwise they will not engage no matter what we do with the products we have for them.

Q. Mr Coppack: First of all, I would say that although I am from FCA I am here as an independent. Sara, you mentioned earlier, and I did not catch it all, that there was financial inclusion training for staff. I was wondering who gets that and what is in it.

Ms Weller: Over the next six months we will be rolling out to all colleagues across the bank training that will focus on a number of aspects of the way we deal with customers. About one-third of what we are rolling out to all the colleagues in that training will be about financial inclusion, so it will be about educating people to understand what the sources of financial exclusion are with customers to start with and what sorts of solutions we should be trying to offer the customers, because I think there is a recognition across the bank that in a sense as we learn to deal with customers fairly across all of our obligations that this subset of customers might suffer from particular unconscious bias or lack of confidence that needs a particular type of education. That will go to all colleagues. There will be a piece about how we interact with customers and about one-third of it will focus specifically on financial inclusion training to equip colleagues to help those customers.

Q. Lord Kirkwood: I wonder if I could ask a narrow question and then a broader question. The narrow question is do you have any opportunity to link into the existing loan provisions in the benefits system? We have got short-term benefit advances and as Universal Credit approaches this will become much more critical. Is there any way that the people who are doing face-to-face for the digital systems, for the people who have the knowledge and the confidence to come and ask you for support, to work with them to help them make an application for a short-term benefit application if that is appropriate? Is there any scope there? I know the Department hates it because they want to keep it quiet because they do not want to give anybody advances, but it seems to me in a grown up and sensible way it is a tool that could be developed to mutual advantage. The broad point is I am very nervous about the lack of urgency. The evidence that we are getting is all very reassuring except it is targeted at seven year olds. The next five years are going to be truly awful, no matter what Government is in power, and a lot of households are going to be in worse positions. Where is the urgency? Where is the buzz about what you are doing to make sure that this continuing scenario of debt that I think we may be facing is going to be addressed in time?

Ms McGrath: If it is helpful to be reassuring, I do not think either of us thinks that the solution is seven year olds. Both banks have a significant investment in terms of what we are doing with our customers on financial inclusion. The banks are very conscious and aware of interest rates going up and that will put more pressure on households than they already have today, and there is a lot of work happening across industry on that already. There is a significant amount of work. I have worked in the financial services industry in the UK for about 17 years and I have never seen the investment in financial inclusion that is happening, certainly at Barclays and from what I understand at Lloyds.

Ms Weller: On your narrow question, we have (and I am sure all the banks have) have been engaged in conversations with the Department for Work and Pensions around Universal Credit and the transition. I think there will be a very big issue as benefit recipients transition into the new regime because of the change of weekly to monthly and the post-dated payment of benefits. It is not yet, in DWP terms at least, clear quite how that roll-out is going to work and in regard to the bridging support that is going to be offered, and where is it best for that to be offered from? Is it best for that to be offered by local authorities to support people on housing benefit particularly, which is likely to be where a lot of the problem will hit, or is it best to go through Citizens Advice or the Money Advice Service, or should it come back through the banks. Certainly a core strand of our financial inclusion strategy has been about much better connecting ourselves into third party organisations who do have ongoing dialogue. We are a very big supporter of social housing in Lloyds. We fund a lot of social housing. A lot of our money for life training goes into social housing so they can support their residents who are likely to be facing these problems. As yet there is not a conclusion in answer to your first question, but I think there is a will and a recognition there is an issue and that there needs to be a collaborative solution between the various parties as to who is in the best place to make sure the recipients of benefits who are likely to be hit by the transition get the support they need. The primary responsibility should be with the government, with the banks there to support.

Q. Lord Kirkwood: Thank you for that, that is very helpful, but what practical steps in the short-term? Catherine makes the case, and I am sure she is right, that there is more activity in this area. The point I am making is that I think it is still not adequate to the task. What practical suggestions that are realistic do you think we could make to try and hold the Government’s feet to the fire. Holding feet to the fire in the area where I come from is actually a beneficial line because people are always so cold, and people should not use the metaphor so I will stop using it in future, but you get my point.

Ms McGrath: I think there are things that we are doing today that could be done on more scale. We have worked with Citizens Advice and StepChange and we have had budgeting advice sessions in the branches which are not booked. The reason they were keen to do it in our branches is because people come in anyway. They have small blow-up paddling pools with ducks in them to entertain the kids while the parents have a discussion about budgeting and financial advice. It is getting that budgeting and financial advice to the forefront of the debate and dialogue in a very accessible way, where people go, whether that is at the housing association or the bank branch.

I also think the introduction of Universal Credit is a great opportunity to do that. The last time I had a conversation with them about it, it was still being thought of predominantly as an IT programme as opposed to this is really driving significant change for how people are managing their money on an unprecedented scale. I think using the opportunity of a Universal Credit roll-out to say what are the things that we can put in place to help minimise the stress of that change (and that is about budgeting) is a very real and practical thing to do. Thinking hard about locations because we go to the supermarket, we go to the bank, where are the places that you would naturally get foot traffic and that is where you want to have that engaged conversation. I think the combination of the debt advice sector, government and financial services is a very good one to help deliver that.

Ms Weller: I might add a couple of things to that, which I totally support. I do think there is a risk of digital exclusion alongside financial exclusion. Recognising the Government is focused on digital by default and that itself is part of driving towards a digital economy, I think support for things like Go ON UK and making sure that people have digital access is important. I think that the work at Barclays on Digital Eagles is terrific. But I think there is a very big piece about digital inclusion in which the Government absolutely has a role to play. I do think in the development of minimum standards products for the industry there is absolutely a need to ensure, and Catherine alluded to it earlier, that there is real transparency about the extent to which participants across the industry are all pulling their weight to contribute to that, because I think it is entirely necessary that every bank, no matter how big or small, providing bank accounts to customers is in a position to provide a basic bank account and should do that willingly and with confidence and with proper support for customers. I think that is something that we could definitely ask for. I watched Government campaigns from the days of drinking and driving to wearing your seatbelt, to 'Fire kills', which one of my current Department's campaigns, and I think about the importance of communicating to people the availability of financial advice. I think there are many places out there that provide good financial advice and many of them ask that we do more to help customers to understand that those sources of advice are there. Of course we do, and that is part of our signposting but, as you say, it is only then the people who come to us and are willing to ask for advice that we can direct to the much bigger audience for that and, arguably, there is much bigger job to communicate the availability of advice. I do think the debt management and consolidation industry has a very big role to play and I think we need to ensure that that industry is providing the right products and the best advice to customers, and even where the individual organisation does not have all the products needed, that they are in a position to make sure customers are aware of the products that are available not simply the ones that they have. I think there are a number of things that could be done that would be very practical and would not rely on seven year olds growing up or indeed the burning platform of Universal Credit, which still looks to be a little way off on the horizon. I think in the meantime there are definitely some really tangible things that we could ask people to do to help.

Q. Chairman: It seems to me that the idea of the use of bank premises is a win-win situation, both for the financial services sector and for the organisations who are able to partner with you in that. When I was across the road in the House of Commons I used to do my surgeries on occasion in Barclays Bank in Gravesend. I am not so sure nowadays that a partnership between politicians and financial services is something that would inspire trust, but I think a partnership with the voluntary sector is something that is well worthwhile.

Q. Sir Brian Pomeroy: Probably like Martin I ought to say that I am not speaking here with an FCA hat on at all, but one of the things one has observed, and you are right to say, is over the years the banks have done quite bit of financial inclusion work, Barclays particularly, but the others too. What one has also observed is that it has often been done under the banner of corporate social responsibility, so if one asked to meet somebody you met the corporate affairs people, the public affairs people and the community affairs people rather than the mainstream bankers. We welcome that always but one of our concerns is this has not been mainstreamed. In other words, it is seen as something added on to the mainstream. Here is a group of customers; we are going to serve them because there is an environment in which we ought to serve them (and there was some political pressure certainly at times in the past) but actually they are not really our mainstream clientele. We are doing it as a bit of an add-on. I wonder if you could say whether that is moving or not? If I was a counter clerk in either of these banks, would I know that people on low incomes who come for a basic bank account is now a mainstream desired group or am I still doing this because I have been told we ought to do this as well as serving the profitable customers?

Ms Weller: I guess I would point to two things one of which is within our Helping Britain Prosper plan where we made seven commitments, and financial inclusion is one of them, alongside first-time buyers and small business start-ups, so to the extent the organisation is made up of a number of different strands of activity, financial inclusion is a strand of activity, so it is a discrete activity but it is under the overall banner and we do have specific committees and teams that are focused on financial inclusion but then we have specific committees and teams that focus on small business lending, that focus on disability, that focus on all sorts of things. That is simply the way to get stuff done. That is one thing.

The other thing I would say is that we have over the last year and a half as we have been putting our current strategy into place and listening to the feedback made some changes to the way that colleagues in the branches are remunerated and rewarded in relation to these customers because I think it is true to say that two or three years ago it would have been the case that colleagues would have felt they were not asked to deal with these customers in the same way. That is work as we roll out the extension to the access in branches from next year where we are changing the reward system. We have already made some changes and we will finish those off next year which will mean that these customers will be as valid as any other customers and selling this product, the basic bank account, will be as valid as selling any other product in the overall banking spectrum. I think you are right to say that there have been some barriers historically that have created a subtext for colleagues to say that this customer is not quite as important as others, and part of our stepping up to the plate over the last 12 or 18 months and making this part of our commitments is to take some of that away and try to make it a level playing field so everybody knows these are customers like every other customer and they have a level of service and value to the bank as every other customer would have.

Ms McGrath: If you asked a front-line colleague at Barclays they would say access to financial services is very important. Financial inclusion is a component of that so they would point as much to we have changed personalised debit cards and you can have the high visibility one. There is a lot of work the bank is doing on access to financial services, whether it is because you have a mental health difficulty or financially you feel a bit excluded, and so they would say it is part of the agenda. In terms of the mainstream bit, my job is about current accounts for all Barclays customers and all Barclays retail customers, so it is very much core for us, and I was the right person to talk about it, as opposed to someone who saw it as part of the citizenship agenda because it is not. It is part of what we do.

Back to the trust comment you made before, I think a lot of the industry is very thoughtful about the fact that we have got serious trust to earn back, and part of that is about the contribution we make to the community, so things that were previously done under a citizenship banner are core to our business now because we have got a job to serve all customers.

Professor Collard: You talked earlier both of you about the whole issue of digital access and interesting initiatives to try and help that so that will not be a barrier. What about the whole pace that banking is facing of the shift of the bulk of your customers to digital, which is absolutely one of the big drivers around branch closures. What do you think the impact of branch closures is going to be on this particular group that we are talking about?

Ms Weller: We have obviously over the last two or three months announced the latest phase of the Group Strategic Review for Lloyds. We have completed 2011-14 and have just launched the phase that will start at the beginning of next year. Within that we talked about a net 150 branch closures across the whole country, across three years, starting in 2015, on a base of about 2,200 or 2,300 branches. In a world where everybody talks about how everything is going digital, it is a very small proportion of branches over time and often these are branches where we have more than one branch in a location. So I think I would say firstly the branch is not dead by any means, and I think we are very conscious actually of the value that branches bring to customers, and therefore to the bank, and we expect that our share of the branch network in the UK will stay stable or possibly grow over that three-year period because we believe in the presence of branches. But I do think it is right to say not only is it about physical branches but it is about products and services that are available through physical means as opposed to on-line. Increasingly, more and more actively, not just in banking but everywhere products and services are being moved on-line. Even though branches are there physically, people may not be going into the high streets any more, they may not be as convenient as they once were, they do still need to do stuff on-line and so we need to find a way of delivering better services on-line and better products, easier to understand products, more tools for people, simpler terms and conditions that can be read and understood on-line, so for people who either do not want to come into a branch or are not coming into the high street and therefore branches are not convenient we do both. I definitely would see the shift to digital as not being the death of the branch network in quite the way that some commentators have played it, certainly not in our lives.

Ms McGrath: I think those comments about the scale of the branch network are very fair and there will still be many thousands of branches in the UK. I think there is also an inevitable consequence that says there will be some communities for whom a physical branch will not necessarily be there any more and so the question we keep looking at is what is important that is left behind. Are the banks good enough at talking about how much access to your bank account you can get through the post office? No, I do not think we are. I think the post office is an incredibly good place to do over-the-counter transactions. The ‘what you leave behind’ issue also becomes interesting because with the days of digital it is a lot easier to get a personal banker to be sitting in the library and arguably doing some of the banking things they used to do before, or in a community hall, in a way that is more successful than it was before.

I think there is more that we can do to encourage the use of the post office network which will probably help the finances of the post office, which means that you have got for over-the-counter transactions a physical presence there. Actually I think we all need to think about how we continue to use new technology to continue to have that depth of relationship but maybe not entangled with a branch that not many people are coming into in that particular location any more.

Q. Chairman: Archy would be the first to say this would vary from one part of the United Kingdom to another. In Northern Ireland we have 40 per cent of households without access to the internet. You have to have a different model, do you not? I wonder if there is a way of having a foot in both camps. You talked about helping people use Skype. Is Skype a mechanism for providing face-to-face and digital delivery of advice on the provision of financial services?

Ms McGrath: We think it will be. The bank I worked in in New Zealand was one of the first to do it. New Zealand, a bit like Scotland I guess, is quite physically disparate and if you have a specialist you cannot have them in the branch all the time, so we started instead of calling someone in the context, you videoed someone in the context and that context was from the branch. It was good particularly if you get a split screen and you can see the forms being filled out and the person at the same time and it is quite similar to a face-to-face experience. It starts to get a little bit more challenging if you want to replicate exactly that same thing but from home because it is not necessarily a secure environment. Do I think in the future it will have a big part to play? Yes, absolutely. When and how and that degree of security and whether it six months or 18 months or three years, I think is an interesting question.

Ms Weller: We have to acknowledge that just over 75 per cent of people currently have access to broadband, which is what you need to do those sorts of transactions, so I think, realistically, it will be a little while before it comes in. We need to replicate what customers do in branches through other channels for example if they want to access expertise, they can do this through Skype, as more economic to run this access to specialist services. We also need to talk about multi-channel, and customers ability and right to access products and services where and when they want to.

Certainly the branch reconfigeration in the Lloyds Banking Group, which has not only focused on thinking about where at the edges might we have branches that are redundant, is also thinking about what we do in branches, to Catherine’s point, and it is very much expecting to put down a type of branch in the future that has much more ability for people from the branch to access expertise, possibly through Skype or other forms of video link, that will enable us to provide levels of expert input into branches which will not be economic to provide in every one of the 2,000 branches across the country, but we can provide small groups of people where customers can be supported by colleagues to access specialist services. So I think when we talk about multi-channel, this whole thing about branches, digital, post offices, 11,500 of them, these are very important places that customers can go and how we make sure that all of these pieces fit together so the customer can put themselves together a way of working with the bank that suits them and their situation.

Q. Professor Collard: I wanted to pick up on the Universal Credit issue because there is a model that has come out of the DWP about people moving to Universal Credit being paid on a monthly basis and paying bills by direct debit which just does not fit with the way that people budget. That is not to say that people on low incomes do not budget, because they do and they budget very successfully, and that is why the transition is not worrying. One of the issues that comes up very often in research and is very well documented is around direct debits and the fact that monthly direct debits do not work very well if you do not always have a lot of money in your account. Part of that problem lies with the bill originators.

Ms Weller: Yes, absolutely.

Q Professor Collard: There are examples of CDFIs having weekly direct debits, and that is helping people, and text alerts for people, which is quite intensive. I just wondered from a bank perspective whether you feel there is a role for you in terms of helping people better manage direct debits by having more flexibility about how they work?

Ms Weller: I have to say, Sharon, I am very struck by the extent to which direct debits in the way that they are currently conceived are not a particularly effective tool for many of the customers who sit in this bucket of at risk of financial exclusion. I am struck by the degree of flexibility and person-to-person payments that does not exist through the direct debit mechanism. I would love to see a situation where my electricity bill gets sent to my mobile on the basis that says, "You owe £29.73; text 1 if you want to pay the bill; text 2 if you want to pay £10 of the bill; text 3 if you want to talk to somebody about your bill". I think there should be much more flexibility because, as you rightly say, a monthly direct debit for you and me that comes out on the day after we are paid is terrific. It is not terrific if your income goes up and down on a variable basis and you do not know from one month to the next if you are going to have the money on that day or at all. This is one of those areas that needs not simply banks but banks and payments systems and the originators, primarily, to come together to recognise the issue and to come up with some solutions. Technology is there to provide the solutions. It is a question of will. I think it is one of the fundamental things at the real micro level for these customers that could make a difference between them being in control of their money and not falling over the edge into difficulty or not being in control and being pushed by the system into a place where they are in more difficulty than they need to be.

Q. Lord Kirkwood: Do you need to use primary legislation to require that to make sure it happens?

Ms Weller: You may well be right and I think one of the purposes of the Commission is to put financial inclusion, its issues and its potential solutions sufficiently on the radar that political parties across the spectrum commit to make this a priority.

Q. Lord Kirkwood: It would not cost Government anything at all, would it?

Ms Weller: Time, I guess.

Q. Lord Kirkwood: I have never heard the idea before. Who would suffer if you required providers to act in that way? Would there be an on-cost to the people who are providing the system? Would it be a lot? I would just like to know.

Ms Weller: My sense is yes.

Ms McGrath: There are two ways that you could do it. One is the financial services industry broadly has a system called PayM (in Barclays is it is called Pingit) that can literally make person-to-person payments, but the next natural development is that a corporate sends a request for a payment and you can say 'yes' and it the goes out of your account. We will continue to see evolution in that space via that route. The more traditional way of doing it would be rather than paying by direct debit pay by standing order and you agree a fixed monthly price. The risk for the utilities in particular is that that fixed monthly price does not tally up to what the usage is at the end of the year and how do you manage and mitigate through that financial exposure. I think in the same way the banks have a responsibility and can help through the provision of basic bank accounts and those accounts are loss-making to the banks, it is a useful question to ask what are the other sectors where there should be financial inclusion policies and yes, it might cost money but that is part of doing business in our country. I think it is a useful conversation to have that says if we think this would make a big difference in terms of budgeting then let's do it. The only way we can do it at the moment is to encourage customers to open another account and say as soon as your money comes in sweep your bill money out so you do not see it. In some countries you can have those accounts hidden so when you see your balance you cannot see you have money sitting somewhere else that is in your bills account. There is a number of budgeting tools that can help.

Q. Chairman: You could have a single jam jar account, could you not?
Ms McGrath: Yes.

Professor Collard: But the other side of it is that the bill originators could accept weekly or they could even accept daily direct debits if they were minded to do so. Some water companies do offer those options, but they are not very well advertised because there is a cost to administering more frequent payments. Arguably, that cost is offset by the fact that the do not have somebody missing a payment and themselves incurring a charge which reduces their ability to then meet their ongoing payments.

Q. Chairman: In the next session we are taking evidence from VocaLink.
Ms Weller: It will be interesting to talk to them about the tools.

Q. Chairman: And Sara, you used the phrase 'being in control'. Archy and I together with some other people sat and listened to Toynbee Hall, who said that she had insisted now on paying her fuel bills with a pre-payment meter because for her it was cheaper than doing it through direct debit. We reacted by saying you are paying more for your fuel as a result and she said, No, not when I take account of the charges and the fact that if the money has gone out of my account the direct debit goes out but the money does not come in. So for her she wanted to be in control. It is absolutely about being in control.

Ms Weller: The fundamental message that we hear from these customers is when you do not have much money and you are not sure from one day to another whether or not you are going to have the money to be able to pay the food bill, the last thing you want is to find somebody has taken it out to pay the electricity and then when you go to Sainsbury's (or Asda or Lidl) you have not got any money, so that sense of checking your numbers every day and sometimes several times a day to make sure you know where your balance is so you can buy things in a shop or pay bills is absolutely fundamental to them feeling they are in control of a difficult situation versus in a situation in which all control has been taken away and they are simply a victim of other people doing stuff to their money which is getting in the way of them being able to take any ownership of it. I think it is a massive issue.

Q. Professor Collard: I think it is an issue point because there is a bit of tension between that need for control and the tangibility of the money that you have and what the digital solutions might be to it because it is allowing people possibly to use additional means to manage their money but in a way that maintains control. I think that is the trick really.

Ms Weller: Yes.

Q. Mr Coppack: You have talked a lot about the things that you are doing to help the situation. I was just wondering if you had a magic wand and you could wish for something that would enable you or remove barriers for you to do more, is there anything?

Ms Weller: I have got two things that crop up in my mind, one of which is quite big and the other one might seem quite small. For me the issue of minimum standards on basic bank accounts is fundamental and having an industry that plays by the rules to the spirit of the rules not just to the letter of the rules is absolutely fundamental because I do think for these customers who lack confidence to start with, the experience of walking into a bank and effectively being told no, they cannot really have an account and that they do not really want to deal with them is unlikely to engender in them a desire to engage with the sector. I think they need to be able to walk into any place offering a bank account and get the of service they need. I do not think that is the case at the moment. That would be my first big magic wand and I think there are moves afoot but we also have the European Payment Accounts Directive 2016 coming down the line and we need to make sure that what happens now in the UK is consistent with the direction that we need to travel towards going to 2016, so I think there is a big prize hanging over getting the basic standards right and getting them implemented across the industry.

The small thing I would love to wave my wand over is terms and conditions. I think banks genuinely struggle to find the right balance between terms and conditions that any customer, not simply potentially financially excluded customers, will read and properly understand and therefore will feel bound by, and are terms and conditions that meet the requirements of regulation to have said everything you need to have said. Personally I would love to write much more straightforward terms and conditions that the normal man in the street would understand and feel bound by and feel confident they had bought the right thing because they understood what the terms and conditions were. Actually finding a path through that I would not say is impossible, but it is very difficult, and it is not for want of trying, but I do not think what we have at the moment in terms and conditions any of us would feel particularly did the job of getting the message across to customers about what it is they are buying. If I had a wand I would find a way through that particular issue.

Ms McGrath: My first would be the same. The number of times I hear a member of staff saying that a customer said that they did take those accounts in the bank down the road and to go to Barclays. If I had a pound for every time that happened, I would be wealthy.

I guess the second is slightly different and it builds on the point really. It is about education and confidence and I think there are a couple of reasons. Claims management companies now exist and I think the banks did things that meant that they exist. It is the behaviours that they now engender that become quite interesting. The behaviour that it engenders is as an individual I am not accountable for any decisions that I make about my financial services because somebody is ringing and saying, "You had it, and surely it must be bad and I will take £250 to claim it back for you so you need to submit a complaint." I was listening to a couple of customer calls in this space last week and a member of staff was doing a great job at saying, "Did the bank give you the documentation? Yes. Did you read any of it or the first summary page? No." There was such a lack of 'I need to take any responsibility for myself'. I think if you get the banks feeling confident about having terms and conditions that are easy to understand but do not have to be 20 pages long because 10 pages of European Directives do not have to be reflected in them, plus a consumer that is just a bit more confident in feeling accountable and responsible, then that combination is when you get a great financial services industry that is working really well for all segments of customers. I absolutely think there is more that we can do, but I also think that there is more that more broadly as a society we need to do to get people educated and comfortable about dealing with stuff, whether it is banks or utilities or anything.

Q. Chairman: There is a danger, is there not, that customers tend to think that they must be protected somehow by consumer legislation or regulator - forgive me Martin - or somebody else and therefore feel they do not need to read the T&Cs. One institution recently embedded in their T&Cs that if the loan was not repaid within 30 days then they would take charge of the first-born child. There it was in black and white and nobody read it. I think there is a challenge there. We are out of time now. Before thanking you I just wanted to ask one other question which I think Sara you have answered and I think Catherine I know what your answer is going to be, but to put it on the record. We have said that we want the political parties to state that they are making a commitment to move forward on financial inclusion. There are those who might say this is nothing to do with politicians or government; this is for financial services to deal with. Which of those positions would you find yourselves in?

Ms Weller: I am clearly of the view that this is a collective obligation and you cannot simply as a politician wash your hands of it and say the industry will fix it. There are many things in here that require all sorts of parties to come together to solve and one of those parties is politicians and policy makers. We think there are things that they can do that only they can do and there are things that the banks can do that only the banks can do. We all need to be part of a solution where we all do the things that we need to do. I think that includes politicians and if you do not have financial inclusion you do not have an inclusive and fair society. I think that is the thing that politicians and not banks are primarily worried about.

Ms McGrath: I completely agree. The financial services industry has a very real obligation and I think we are making very good progress on that obligation. The problem is far more complex than one that the financial services industry can solve by themselves and a lot of the issues emanate from people not having the information to be able to make informed decisions which is based on what they understand, not necessarily what we are saying to them. So that piece about education not just for seven year olds but for adults to ensure that, at the very least, budgeting, thinking about the future and protecting yourself from shocks and that very basic level of care is quite important.

Chairman: Thank you very much. Thank you for all the work that goes into this. It is very clear your commitment to moving forward on this agenda so thank you for giving up your time. Thank you also to the team whom I know have been working with you on these issues. We very much appreciate it.