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FINANCIAL INCLUSION COMMISSION

CHEYNEYGATES ROOM, WESTMINSTER ABBEY, LONDON SW1P 3PA

TUESDAY 13 JANUARY 2015

MS CLARE SPOTTISWOODE CBE, MS HELEN DOYLE,
MR JOHN HOWELLS and MR GRAHAM MOTT

Oral Evidence

Taken before the Financial Inclusion Commission

on Tuesday 13 January 2015

Members present

Sir Sherard Cowper-Coles
Professor Sharon Collard
Mr Laurie Edmans
Dame Mary Marsh
Mr Chris Pond
Ms Sian Williams

Witnesses: **Ms Clare Spottiswoode CBE** and **Ms Helen Doyle**, Payments Council; and
Mr John Howells and **Mr Graham Mott**, LINK.

Q. Chairman: Thank you very much indeed for coming along this morning. I think the Financial Inclusion Commission was really Chris Pond's idea, it certainly was not mine, but the idea was to take stock of the state of financial inclusion in the United Kingdom five years after Brian Pomeroy's Task Force stopped. It did not formally end until 2011 but in the run-up to the next Election we wanted to look at the state of financial inclusion. We hope certainly by March to be producing a very short report which will include recommendations to all the major political parties on things they should be, we think, addressing in their manifestoes. One of those of course is the payments system and we are very grateful to have representatives from LINK and from the Payments Council with us this morning. What I might do is just get the Commissioners to introduce themselves very briefly and then I would ask each of you, I do not know if you are going to make one or two statements on behalf of each of you.

Ms Spottiswoode: We are very separate organisations.

Chairman: But presumably one on behalf of the Payments Council and one on behalf of LINK and then we will go into questions. I am Sherard Cowper-Coles. I work for HSBC Holdings leading the work the Group is doing on financial inclusion around the world, both the outward-facing work of talking to the regulators and those who regulate the regulators, the politicians, an environment which often leads to the unintended consequence of financial exclusion, but perhaps equally interesting looking at what we inside the Group should be doing in terms of our products and our policies to promote inclusion.

Mr Pond: I am Chris Pond acting as Vice Chair of the Commission. My day job is at an organisation called Kraeb Gavin Anderson, which is an international communications agency. Most of my time is spent chairing the Money Charity and the Standards Board on Equity Release. For eight years I was across the road in the Palace of Westminster representing a place called Gravesham and working in the Department for Work and Pensions.

Mr Edmans: I am Laurie Edmans. My background is entirely in pensions, life assurance and employee benefits. At the moment I am non-exec-ing. I chair a small life company. I chair the Trinity Mirror Pension Plan and I was also one of the founding trustees of NEST. The other thing I am up to at the moment is I am a non-executive director of the Money Advice Service

Dame Mary Marsh: I am Mary Marsh. I am currently fairly active in the charity sector and have a background in education previously. I am a non-executive director of HSBC in Europe amongst other things.

Professor Collard: I am Sharon Collard. I work at the Open University Business School in the Centre for Public Understanding of Finance.

Chairman: We have Jennifer and Lisa and Deven.

Mr Ghelani: I am Deven Ghelani, Director of Policy and Practice. We bridge the gap between policy development and its implementation.

Q. Chairman: Who wants to go first?

Ms Spottiswoode: I am Clare Spottiswoode. I am one of the four independent Directors of the Payments Council. We also have an independent Chair. Helen Doyle, who is with me, is probably going to answer all the detailed questions particularly on policy where she works. She is Head of Policy & Markets for the Payments Council.

You did say we could do an introductory statement so I thought it would be useful to put the Payments Council in context. We are obviously in a changing world but payments is pretty obviously a network because you have people who are making payments from all sorts of different places going to payments from all sorts of different places and unless

you have a place where you have collaborative co-ordination that can be a complete mess and would be very expensive, so it is kind of obvious that in this kind of industry you need to have a central core which collaborates to ensure that that infrastructure works, it works perfectly every time, is always there, it is reliable and secure. We do that and we should also be able to provide a platform that encourages innovation not only for the incumbents, where clearly we have had very little innovation in the past with newcomers, but I think that is going to accelerate and we really can help that by making it much easier for people to access the payment systems through the central network and by thinking through exactly what it means to people. That includes not just organisations but also people and that includes financial inclusion.

Historically, we have spent quite a lot of time looking at financial inclusion. Personally I have been involved, as Helen has and many others in the Payments Council, in looking at specific examples, so for example the elderly, their specific requirements, the disabled with specific different physical disabilities, those who would like to get involved with electronic payments and do not for whatever reason. There is a wide variety of different issues that we have been involved in. As a result of that, we have had various initiatives. There has been the chip and signature campaign to raise awareness of the signature cards for people who cannot deal with PINs. At the end of this month we are going to be announcing work on ensuring that, for example, for people who go into hospital, people who are house-bound or for people who for whatever reason want to delegate the payments to someone else to ensure that there is best practice about how that works to ensure that works for people whatever their circumstances. We are getting a Payments

Regulator and that is very good news as far as I am concerned because what it means is that we will have extra power to get the right things done on behalf of the UK. We are working very closely with the PSR [Payment Systems Regulator], but precisely what that means for the payments industry has not yet fully been worked out. Clearly the Payments Council is going to be a different organisation. It will be named differently and there will be a successor organisation to us. Exactly what form that takes has not yet been fully decided but what is clear is we are going to have a wide variety of different members. We are going to very much match what the PSR does in terms of having people that are not just from the banks and related organisations but are from the cards and from new challengers, so we expect to have a much broader membership, but what we will be doing is putting a lot of work into thought leadership because it is important from the centre that we can create an innovative way of payments which will work with the regulator for the new world. We are doing quite a big initiative called the World-Class Payments system where we are putting a lot of work into working out what we need for the future. We have got a lot of experience obviously in talking to customers, including the disadvantaged and the financially excluded, and we are putting all that together to ensure that we provide a specification which will work for all customers and for government and for companies with the requirements of our customers, whoever they are on both sides of the fence, payment providers and customers, and having a vision for what that might look like in five or ten years. The way to that vision there are clearly a lot of short-term steps that we can take which I think we will come through over the discussions this morning.

That is probably everything I was going to talk about at this stage. Just to say this World-

Class Payments system will make a really significant difference because we want it to be on 24/7. Most importantly, our aim is that customers will be able to see what they have in their bank accounts at all times. I was involved in some of the discussions about people who had trouble with direct debits, for example, and people are remarkably astute; they make very sensible decisions. They decide to use cash because they do not want to go overdrawn and if they cannot control when the payments are going out and they have irregular payments coming in, it means that it is a sensible decision to use cash even though they know it is more expensive. Clearly there are people who are not as savvy as that, but one of the big things about the new payments will be that people will know always what they have got in their accounts and they will have much more control about when money goes out of their accounts. All that is to be worked out and it is very much part of what we are doing to ensure that that is the world that will be there in a few years' time and also to ensure that those who never want to be involved in electronic means for whatever reason will still have access to cash but also to cheques. The cheques will become part of the digital world because they will be imaged. That means because they are imaged they can remain relatively cheap to administer (which they are not at the moment) and they can continue forever, so it gives the life of cheques a forever status, but it means they also become part of the electronic world, so lots of changes are happening.

Q. Chairman: Very exciting. Would you like to give evidence from LINK?

Mr Howells: My name is John Howells and I am the Chief Executive of LINK. This is my colleague Graham Mott, who is the Head of Development and External Affairs and

on my senior management team. LINK is one of the eight payment organisations who are going to be designated by the new PSR. What I would like to go through is first of all why cash is important for consumers because there are a few myths floating around about that; secondly, what LINK is because we have a very specific role in what is a very complicated industry; and, finally, Graham will take us through our approach to financial inclusion. Financial inclusion is very important to LINK not just because it is a good thing but, as I will explain later, we are a competitive organisation. We operate in a competitive market against firms like Visa and MasterCard. Our experience is that financial exclusion is not just a good thing to have for the country but actually makes LINK successful in terms of how we succeed in the market, so we will go through the things we do for financial inclusion and the reason we do it is because we think it is good for our organisation.

Let me first of all talk about why cash is important to consumers because it is a complete myth that digital has taken over and no-one uses it any more. The facts are that over half the payments in the country by everybody are still made in cash. You have got over 7 million consumers who only use cash for their day-to-day payments. Just dwell on that figure for a moment. Seven million is a huge number of consumers that only use cash. The evidence is that that is skewed towards lower income more elderly people in receipt of welfare, so cash is a very important access issue because it is what very large parts of the community use to make their payments. The evidence is that they do that because they do not find that the other available mechanisms suit their needs, so cash is very important.

Over 70% of cash currently is acquired through ATMs so ATMs, by inference, are also an important part of cash access. I think the key message I would leave here is 7 million consumers. That is a huge amount and it is easy for busy government departments when they are considering important policy matters, like Universal Credit for example, to forget you have got to make sure you look at the access to the payment and what the benefit is paid into as well as what the amount is, and cash is a very important part of that at the moment.

Let me turn to what LINK is. LINK is the network which allows ATM operators and organisations who provide ATM cards to join up. We do not own and run ATMs. There are about 37 different companies out there that provide ATMs and ATM cards. What LINK does is join it all together and provide a mechanism for universal access to cash. It is competitive. There is no reason for it to exist. There is no regulation which says LINK should be here. There is no central government body deciding where the ATMs go. It is a competitive entity. It does not exist in many other markets and actually the UK is in a relatively good position in terms of people's access to cash with a large number of ATMs and at the moment pretty much any card can be used in any ATM around the country, and although we offer free and pay, we support both of those within our rules, the reality is that 97% of withdrawals are made on free-to-use machines and you have a very large number and a very big network of that across the country. No doubt there will be some questions about pay-to-use later so it is worth saying now because I will come back to the detail later: we support pay-to-use within our rules on the basis that we have an extensive

free-to-use network. My key evidence for that is more than 97% of withdrawals are made on a free-to-use basis. There is often a lot of emotion about pay-to-use and it is maybe not evidence-backed. At the moment we support pay-to-use on the basis they provide extra convenience when there is a good free-to-use network. I think it would be different if there was not a good free-to-use network, but we work hard to ensure there is a good free-to-use network. When Graham talks about some of the tools around financial inclusion, they are all designed to make sure that that free-to-use network is completely ubiquitous across the UK and is focused not only in busy and wealthy areas but also in places where there are high levels of deprivation to make sure our universal access to cash mandate is met. That is what LINK is. We do not have a particular angle to promote. We are not a profit-making organisation. We are a not-for-profit organisation so I am not lobbying for or against cash. Our job is to provide access to cash for as long as consumers need it. That may be a long time, it may not be and the job of the scheme is to balance and provide that for our various members across the UK. I will let Graham go through the tools and reasons that we support financial inclusion.

Mr Mott: Going back to 2006, LINK did a big survey across the whole of the UK and looked at financial inclusion and access to cash through free-to-use ATMs and what we did at that point was identify around 1,700 areas which are relatively deprived from the lower quartile of deprivation which either did not have an ATM within them or an ATM within one kilometre. What we did was put a programme in place to subsidise ATMs in those areas. That programme has been running since and continues to run at the moment. What that does is provide a premium of around 10 pence for every cash withdrawal that takes place at these ATMs. So effectively, all LINK members who issue cards, so banks

and building societies, are paying for this because they are paying the additional premium at these sites. Of the 1,700 sites which were originally identified, just over 1,400 have now been resolved and that has taken about 900 free-to-use cash machines. Some of these areas are adjacent so in some cases an ATM can cover multiple areas. Originally we looked at areas which were in the lower quartile of the Index of Multiple Deprivation and what that meant or what was realised as time went on was that some rural areas which did have pockets of deprivation were not falling within our target areas because the deprivation was masked by more affluent people nearby. We found there was an issue with rural areas some of which had access to cash problems, so we expanded the rules which were already flexible and we always had complete flexibility so we could allow for physical obstacles, railway lines and rivers, so it was not a 1 km straight line; we tried to work on a 1 km reasonable distance. So we had a bit of flexibility and this enabled us to look at a wider range of areas and they will receive the same subsidy.

The most recent piece of work we have done with Toynbee Hall was to look at a further range of areas, so we changed the criteria slightly to look at areas where there were a large number of benefit recipients. We also looked at smaller areas, those output areas which were really quite small, localised areas, and again we went through the same process (or Toynbee Hall did) to identify areas that did not have easy, free-to-use access and they have now been incorporated into our programme, so as we move forward and the programme is ongoing these ATMs installed in these areas will receive the subsidy. In addition we have a couple of features on our website which enable anybody to identify a free-to-use ATM site, so if a member of the public or an MP or consumer group or

whoever thinks an area would be suitable for an ATM, they can provide that information on-line and we will forward that on to ATM operators. We are always very keen to work with local authorities, MPs or consumer groups. Anybody who feels there is an issue with access to cash, then we will work with them to try and identify a solution.

Q. Chairman: Thank you very much. Can I welcome Sian Williams right on cue from Toynbee Hall, one of our Commissioners. Before I invite my fellow Commissioners to ask questions, just for the record, and I think you have both said it more or less explicitly, we are asking all witnesses to confirm that they support the idea which underlies the Commission doing more to promote financial inclusion in the United Kingdom, that it is unfinished business and that our purpose should be to continue to develop the work on financial inclusion. We have said in the language you probably heard that we would like to make the UK already as a global leader in financial services a global leader in financial inclusion as well.

Ms Spottiswoode: I think that is absolutely essential and it is work that is never done because systems are always changing and people are changing and the way in which benefits works will be changing, so, absolutely, it is a forever project.

Mr Howells: Indeed, and because I have been told I must always repeat my key point, my key point on financial inclusion is 7 million consumers who only use cash and to make sure that when government departments think about financial inclusion it is not just about mobile phones and exciting digital things; it is about what real people are using at the moment.

Chairman: Thank you all very much for some very interesting evidence. I have certainly got questions but I am going to ask fellow Commissioners to go first.

Q. Mr Pond: Especially since Sian is now sitting next to me, I had to smile, David, you were talking about those interesting new developments of making sure at least people know when the payments are going out and hopefully they will have more control about payments going out because when Sian hosted us to take evidence at Toynbee Hall we had a couple of people there who had done the money mentors course who said one of the things they had learned was that they must get a pre-payment meter installed because that was going to save them money in relation to paying by direct debit. Archy Kirkwood and I were slightly surprised and said, “But you are paying more for your energy costs,” and, as you will know Clare given your previous background as well, they said “No, no, if you take account of the penalty charges we pay because the direct debit has gone out and there is nothing in the account, we would rather have control.” My question specifically on that is it is really encouraging what you are doing in terms of giving people better sight on when the payments are going out. On the other side, are the recipients of those payments also going to play ball in terms of allowing people the flexibility around the date on which the payments enter their accounts, never mind about when it leaves the payer?

Ms Spottiswoode: There are lots of things that people could do better and they do not do at the moment, so there is no question that pressure exists because of course we are on the infrastructure side and it is up to the utilities and other people who take these direct debits to have much more innovation about how they accept payments. For example, there are

no restrictions in the system on how frequently a company can collect a direct debit, it could be done weekly, monthly or anybody can choose a date, but for many people their money comes in on an uneven basis and it doesn't help. We have been looking at whether you give customers different choices about precisely Friday to Monday and it is pretty complicated. Certainly in the new world (which is probably going to be a while away) all that will be entirely possible and feasible. At the moment people do not know what they have got precisely because sometimes money has gone out and it is not yet recorded as gone out and sometimes money is coming in that is not yet fully recorded as coming in. So making sure that people know exactly what they have got is important and giving them some flexibility because of uneven payments that come into their accounts is very important. I know BACS is doing some work at the moment to see whether they can bring something in in the shorter-term to allow greater flexibility, and certainly we are designing what we do in the future is definitely to have that in, but it is not in place today. There are lots of things people could do today but it is mainly on the utilities, on the other side where people need to provide greater flexibility from their perspective. We can only respond to what their demands are on the direct debit system.

Mr Howells: I think that is an interesting example. The Payment Systems Regulator has been brought in to stimulate innovation and competition in payments. As an example of something which could be possible, and I am talking about the future not about today because today I am running an ATM business which does cash withdrawals and balance enquiries, but in many other markets around the world you can pay, for example, utility bills at ATMs, so there is no technical reason why that could not be done in the UK and there are a large number of ATMs out in the UK. It is interesting question when it comes

to what could competition and innovation mean to consumers. It is not just dry technical stuff. There are different propositions which in theory when you look at other markets could be developed in the UK and that would include in the ATM market-place as well.

Q. Mr Edmans: It is fascinating stuff but not my area of expertise so excuse me. Two things really and I will put them together. First of all, I would be really interested to understand who those 7 million people are, if that is a reasonable question? Are they a set of people or is it a cross-section of the community or what does the segmentation look like? Secondly, one of the themes that has come through as we have been taking evidence here and around the country is the issue about culture. One of the people here earlier said that there is a massive culture of people not liking to talk about money, which is one of the problems with people being included and acting sensibly. I found myself fascinated when you were describing the way in which the facilities were going to improve and, for example, to get people able to understand exactly where their money is. I wonder whether if one of the big problems is getting people engaged with their cash, is it in your plans at all to go beyond mere payments to the point where you think about getting people more engaged with their own finances? I am not expecting to get an answer “Yes, in the next five minutes”, but I am just wondering if it is in your minds at all.

Mr Mott: LINK itself has relatively little information about ATM users because any information which flows across us involves your card number, so your personal details, your address for example, are not included. The work which identified these 7 million people was done through Payments Council research and that identified they were

generally lower income groups so people who are disabled, people who are unemployed, people who are older were all very high usage, so it is perhaps as you would expect that those in higher income and socio-demographic groups were less inclined to rely on cash, they generally get paid for example into their accounts whereas those on benefits, the older, disabled or jobseekers tended to be those who rely on cash entirely.

Ms Doyle: Two-thirds of people who are dependent on benefits tend to manage their money either primarily or wholly in cash and half of people on low incomes do so, the definition being £27,165 pa or less.

Q. Mr Edmans: So it is very directly related?

Ms Doyle: There will always be some people who want to manage their money primarily in cash for all sorts of reasons, but if you look at the stats it is that sort of scale in terms of income. Other demographic factors, older people and so on also have a bearing.

Mr Howells: The briefing we give to Work and Pensions, because there is a huge overlap between the Universal Credit recipient community and those 7 million, is that access to cash should be a policy consideration when thinking about the development of Universal Credit because it is not just about how much you pay but what you pay into. Because at the moment that cash access is primarily through the ATM network, it means that access to LINK is a policy question as well, so we will typically get involved in discussions around, for example, basic bank accounts. If that were to be the mechanism where Universal Credit recipients were to receive their credit then I think there is an argument for making sure that the basic bank accounts have access to the LINK network to be able to do that. It is always complicated once you get past the consumer issue by

the very extensive commercial considerations because all of these things cost billions and billions of pounds. My starting point is always for the 7 million users at the moment it may or may not be a good thing but it is the reality and therefore the access to cash issue is a policy consideration.

To your education point however, I do think education is an important area. We have always had initiatives in the case of LINK on things like how do you safely use an ATM, protect your PIN and all that type of activity, but I think your broader question about should there be an increase in education in, for example, how could you budget through cash, that kind of activity, is something we are looking at within LINK, and I will be looking potentially to expand our investment into that area because I think the ability for consumers to understand how to budget in cash, and I think there are similar arguments in other payment areas as well, is something that is not particularly done at the moment and we can see benefits there.

Q. Chairman: I want to tease out this point on cash and, Helen, you may have a point. That is a snapshot of where things are now but what is the trend? Are you saying that we should just accept the position that people in the lower quartile of income or the elderly or whatever are going to use cash whatever, or should it be a matter of public policy that they should be helped and encouraged to move away from cash? Talk a bit about (a) what is happening and (b) what do you think should be happening?

Mr Howells: Let me do (a) first of all; (b) I am going to end up passing over to Graham. Cash withdrawals at LINK ATMs are increasing at the moment very gently and they

fluctuate. There is a long-term decline. I cannot remember the exact details but they had undoubtedly seen cash usage drop although it is not the drop-off-a-cliff forecast you typically see. I believe that is a myth. I think some organisations can get over-excited about the potential for a migration. I am not saying it is a good thing or a bad thing but cash usage is very high still, particularly in that group, and therefore it is a public policy issue. Our internal forecasts are that we are not assuming LINK is going to disappear over the next decade because of a drop-off in cash volumes. I think we are expecting probably a very gentle and steady decline. Whether that is a public policy issue or not is something we consciously do not get involved with. I am there to provide universal access to cash for so long as the general public needs it. I can see and hear very good arguments why you should do one thing or the other and you can find those arguments translated into active policy in many countries around the world. There are examples of successful countries who are driving down cash access. There are examples of successful countries who are saying it is up to the consumer, and that tends to mean you have got a more persistent usage of cash. I am categorically not going to say whether it is a good or bad thing, but Clare, may have a view.

Ms Spottiswoode: We are completely agnostic, as you are. Cash is quite extensive so there are reasons why people want people not to use cash and particularly why the Government wants us to pay electronically rather than through cheques or other means because it is expensive. However, we ourselves are agnostic. What we have got to make sure is that people can have access. We do not want people excluded from the digital world because of things that the payments industry does. We have to make sure it is as easy as possible for people to access the digital economy when they are ready and when

they want to. We have also got to make sure if they do not want to for whatever reason that they have access to other forms of payment. We have done quite a lot of work looking at why people who would like to access the digital economy are not doing so. We are looking at ways in which we can improve that access. A lot of this is about knowing what is in your account and having control over when money goes out. Once we have solved that problem, which we have not solved yet, I think many people who currently need to use cash because it is their only way of control will then start to move more happily and less expensively. It is absolutely true that it is a financially savvy thing to do right now to use cash and not electronic payments for many people. That is not right but we cannot change that overnight so it is a big, complex, difficult process.

Q. Chairman: Helen, do you want to comment including from your background at the Centre for Research on Ageing and Gender?

Ms Doyle: I am interested at the Payments Council in all different customer types but I do have a particular interest in older people from my background. I think it is a real challenge for people who are disadvantaged in some way about how we can engage them with non-cash forms of payment because they can provide ways of helping people have control over their money in a new way, even if it is just as simple as being able to keep a closer eye on their account balance and having a better understanding of where they are. I do not think we have managed to solve any enigmas in those spaces yet. What we have done is add to the evidence base so far in terms of really getting a good understanding of what the challenges are for people and making sure we have a clear view that choice is key and that all forms of payment method need to be there for people to use and choose

however they want. I think the challenge for us now is finding ways that we can engage people with that and still does so in a way that protects them from risks where they might lose control - coming back to this point about the risk of charging if you go into overdraft or you miss a direct debit payment for example.

In terms of older people specifically, I think it can be quite a confusing world out there for some older people although our research has shown that there are obviously examples of lots of people who are older who do choose to engage. I think it is very important to try and make sure that choice still remains for people and that we try and use all our education opportunities. We do quite a lot in the space of pushing out messages on payments and trying to make sure people understand how they work, to make sure that we cut through some of that confusion and to reassure people as well.

Q. Dame Mary Marsh: This issue about the cash economy, I am wondering, it is away perhaps from some of the financial inclusion issues but it might challenge the way we deal with it, because there are parts of the economy where it is a black economy because it is a cash economy and then when you get into automated transactions you get into financial crime challenges about it. Are those areas that you have had to confront in thinking about this cash economy because we have talked mostly about people using it and people who need to use it. Some people need to use it for not necessarily proper purposes to avoid the mainstream system.

Mr Howells: I have never seen any evidence that cash is fuelling criminal activity or is in some way disreputable. I have heard that argument made by a number of

organisations, including some very large electronic-based organisations, who I might observe would argue that, wouldn't they. My data, which is why we are taking the action that we have, is there are 7 million people who are using it for things they need literally to live so therefore there is an issue there. I am not in any way convinced there is evidence that cash is in some way supporting some sort of massive black market and if it could be removed there would be a public benefit although obviously that would be interesting evidence. I hear it said quite a lot but I hear a lot of things said about electronic payments which upon further examination I find are not backed up.

Ms Spottiswoode: There is fraud everywhere and big frauds will tend to happen electronically. It is a major part of our work within the industry clearly to try and stop as much fraud as possible. One of the questions about Paym (which is mobile payments) is what that does is create an electronic record of what might have been a cash payment and often would have been a cash payment to your cleaner or whatever. I do not know what the evidence is at all but there is some question mark about whether people will be reluctant to make an electronic record of it rather than cash because they are worried about Big Brother some time having a look at it. I think this is all really small-scale compared to big frauds which are probably not using cash.

Mr Howells: Graham, have you a view about whether fraud happens across different payment mechanisms?

Mr Mott: As I say, LINK's main focus in terms of fraud and ATM crime is to prevent crime at ATMs or people breaking into ATMs and stealing the cash from it. That is our main focus. As you say, electronic fraud in terms of the losses is probably the biggest area, people capturing customers' card data and things like that. It is not involved with

secondary fraud once somebody has got the cash spending it on drugs or money laundering and things like that.

Mr Howells: We have not got the latest data but I believe electronic fraud is orders of magnitude higher than fraud around cash.

Ms Doyle: Our focus and what we have researched has always been about how people use cash. I am not sure people would admit to fraud in a research setting anyway.

Q. Dame Mary Marsh: In terms of these ATMs, you are spreading where you are putting them so the reach is greater. Is there a tension with some reluctance of people to host them? The Co-op Bank is removing all of theirs out of their Co-op shops for example.

Mr Howells: Graham, if you do the Co-op in a second because I do not believe that is the case.

Q. Dame Mary Marsh: It certainly was announced that they were thinking of doing that.

Mr Howells: The reason we invest commercially in providing inclusion is because when an operator or a card user looks at which ATM scheme they want to connect to, I think we are more attractive because of our financial inclusion pattern, firstly, because we reach more of their customers, and that is primarily why they are paying us. Why HSBC joins is it wants to offer its customer broad access and I think we offer broader access than other schemes and also there is no doubt that particularly the larger clearing banks are under public pressure to deal with inclusion issues so we provide a mechanism to

address that. As I said earlier, inclusion for LINK is not just a good thing philosophically, it is a very important part of our business model because we think we are more attractive to our ATM card issuers and employers because we offer that inclusion footprint. On the specifics of the Co-op I think that probably just needs correcting factually.

Mr Mott: What the Co-op is an example of is a factor we have seen over the last few years that banks and building societies have generally been moving away from operating ATMs in non-branch locations and those ATMs have been replaced by independent ATM operators so they are still free-to-use. What we are seeing now, in fact we have just passed a recent milestone, is independent ATM operators now operate more than half the free-to-use ATMs in the country at non-branch locations. So it is not in every case but in some cases, banks and building societies are withdrawing ATM provision from remote sites because they see it as not a core activity: “We are a bank; why should I sit and run ATMs?” What would be better to do is an independent ATM operator will operate those estates. The number of ATMs is at an all-time high and the number of free-to-use ATMs is at an all-time high. Going back to your question about why would people want an ATM in their premises, I think financial inclusion is an important element for the consumer: they can get cash and they can spend it, but it is an important asset for a host - a convenience store, retailer, supermarket or whatever - because what it does is it makes their store attractive, people come into it to collect cash and also it puts cash into the local economy. There is quite a lot of evidence that if you put an ATM in your store you will see spend go up because people having taken out their cash are more likely to make spontaneous purchases. There is a mental element which is important, but financial

inclusion not just for the consumer but improving areas and helping to maintain economic activity in areas is a very important part of that as well. Some people do not want ATMs because they have not got the space or whatever but people are generally very enthusiastic for ATMs. We get an email a day from convenience stores saying, “Can I have an ATM on my premises?” and we pass them on to ATM operators. At Co-ops, it is not that those ATMs will disappear; they are just being operated by somebody else now.

Q. Professor Collard: I suppose two things. From LINK’s perspective, what are the main challenges in terms of ensuring that we continue to have good coverage of free ATMs? What have the challenges been in achieving that and what do you think those challenges will be going forward? I suppose the other question is for the Payments Council in relation to things like Paym, what sort of take-up have you seen of those services and who has taken them up and what does it look like?

Mr Howells: For LINK I think the position is broadly positive in the UK at the moment, so we are more in a defend and improve mode rather than a big problem, is my personal view. I think it is a very complicated network, as often is the case with payments, so this phrase “unintended consequences” which you have heard thrown around, the reason it is thrown around so much, and it equally applies to ATMs, is it is very easy to pull a lever and find something fundamental unravels and LINK is susceptible to that because it is a competitive company. There is no central body. We are not part of the Payments Council. There is no central machine deciding how it works, so it would be easy for a big player, particularly a government department, to do something which looked sensible but

has a hugely disruptive effect on the network. An example of what could do that is I work with the Bank of England (because we work closely with the banks) and introducing something like polymer bank notes on the face of it sounds great but if it is done wrongly it would require the replacement of most of the ATMs in the country, which would not happen because it is too expensive, so you would end up closing half or three-quarters of the network over the space of a few years and those would inevitably be in lower footfall more deprived areas. The potential for disaster is great. Our need is to work very closely with government departments. For some like the Bank of England because of where they are coming from, that is a good and intimate relationship. Others which I will not name here tend to be the ones who are not so intimately involved in the world of finance but where their decisions because of their scale will have a very major impact on the payments system, we need to work closely to make sure they are briefed and provided with the evidence so they can understand what the impact of their decisions is on policy. That is not always an easy task because civil servant teams change and government ministers change. Policy usually does not have payments on the top of the list and so it is easy to drop down as things get difficult and so something like this Commission helping government departments to understand what they need to find out so that they can make informed policy decisions that is where we are coming from on that.

Mr Mott: On polymer we are working very closely with the Bank of England so there is not going to be a problem. That is just an example of something that is not going wrong in case you got the wrong message there. We are working very closely with them.

Ms Doyle: On Paym, it is probably worth saying something about what it is. It was introduced last April and it is a new service that enables me to pay you knowing just your

mobile number. Using my banking app on my smart phone or tablet I can enter your mobile number and it will come up and say “Do you want to pay, for example, Mr Chris Pond?” so I get confirmation of the name and I can click ‘ok’ and the payment will go through by Faster Payments and some banks provide a confirmation text message to say that I have paid you, which is my mum’s favourite feature!. You have to register for the service and if you have not registered yet then do. 1.85 million people have registered to receive payments at the last count. By definition, these are people who have smart phone apps for their bank so they are typically more affluent, technology savvy, early adopters of this type of technology, but its user base is growing and over 90% of current accounts are now addressable through the service to receive payments so it will provide the foundation for this service to really grow over time. It is mainly a person-to-person payment method, so paying friends and family, but we know that small businesses are using it increasingly as well and a number of small businesses have registered to receive payments and make payments on it.

Ms Spottiswoode: Over time we think there is going to be quite a lot of innovation. You will find that charities find it is an easy way to get paid. You will find that some people start to use it as an alternative to credit cards because it is a lot cheaper. This is not something that is going to be instantaneous. It will take a while for to adopt and get the technology in place to do this.

Q. Ms Williams: I have got two questions. To start with, I am really concerned how long it has taken the evidence that we have from customers that for example low-income customer do not like direct debits to actually lead to change. I have been working in this

sector for not very long compared to many people, only five and a bit years, but I knew almost on day one that customers had expressed this preference in different forms, not least in voting with their feet. You are both membership organisations and you both look at the payments sector and bring them together in different ways. How do you make sure that going forward we move more quickly so what customers say is actually expressed in what you provide as an industry? What does that look like?

Ms Spottiswoode: The problem is when you are on the inside you realise that it is an easy thing to say and an incredibly difficult and expensive thing to implement. There are some really basic things. For example, if you have got credit cards, it takes over a day so you cannot see precisely what is in your account, and certainly at the moment direct debit is called for by whoever it is who asks for the direct debit so they dictate when they take it, which does mean for certain customers there are problems. Solving it, there are some things one could do relatively quickly but it does depend, for example, on the utilities providing greater flexibility and calling for payments once a week, say, or giving people more choice about how often payments are taken, but the fundamental flexibility is not in direct debits right now and it is not easy to change. BACS is doing an initiative right now. Quite where they are at I am not sure, but for us to change it in the Payments Council at the core is really complicated and difficult and is part of the World-Class Payments project but it is going to take some time. It is surprisingly difficult.

Q. Ms Williams: That is not my question. My question is the Payments Council knew about this five years ago and it is only this year we are seeing it on the agenda and the Payments Council has it on the agenda as part of your World Class Payments System, so

my question is how do you as a sector instead of just knowing that customers have an issue move more quickly to be customer-needs led?

Mr Howells: Shall I answer for LINK while you gather your thoughts? The new Payment Systems Regulator's brief is competition, innovation and focus on consumers, which I think is a very useful focus. They are obviously going through a consultation and they do not start operation until 1 April, but I note that the areas of focus are around governance, ownership and structure of the payments system, so I think it is an interesting question to ask about whether things like the rate of innovation could be improved by looking at different ways of owning, structuring and configuring the payments system. That is what the Payments Regulator is looking. I think Hannah Nixon is looking at it thoroughly with no sacred cows and certainly in the case of LINK - and I do not want to speak for any other organisations - that has triggered a review of our own structure and organisation, where the test is not what is the commercial benefit to different membership groups; the test is what is going to optimise innovation and competition for consumer benefit. I think that is a healthy thing to do and it may or may not lead to improvements in the rate of innovation, where I think many observers across the industry including ATMs think has not been fast enough.

Ms Spottiswoode: I know I cannot talk about the past but I am very pleased and was very keen to have a Payments Regulator because one of the issues is that we do not have the power to dictate how people spend a great deal of money. What you are talking about is sensible but very expensive. I certainly think within my time at the Payments Council we have concentrated on that. I think the independents have been a real focus for getting innovation moving. I think we have been moving quite slowly in the past but a lot of it is

to do with money and making these changes you cannot do overnight because it requires overhauls of every system within the banks which is a huge task. Part of the World-Class Payments initiative is to ensure we have a vision to make sure that these changes happen and also to look at whether we could do things more short-term, so all I can talk about is what has happened in my time. You cannot move fast. This is an industry where you have got to make sure things are done properly. You might have one bank competitively providing greater services, but if you are going to make sure that it works for payments, which is a network with all the nodes, you have got to bring everyone along together. People are at different stages of their software systems. Some people have legacy systems which are really archaic. In effect, the World-Class Payments project will need to have all that written from scratch and that takes a long time and a lot of money, but having done that we will do all these things that you want, but it is not going to happen overnight. There is nothing on earth that could make this happen overnight. Maybe five years ago if we had started World-Class Payments we might have got it going, but I do not think we would have got the backing of all the banks to spend all that money. Maybe one or two of them might have done but the others would not have done. It is really difficult.

Q. Ms Williams: I absolutely agree but I think we are talking about different things because you are talking about the speed of change once you have begun to change; I am talking about how long it took to even begin to recognise the needs. Thank you, that is really helpful. The second question I have links into what you saying there, Clare, which is around the fact that for too long we have been trying to fix problems through looking at

either one company or one sector, but actually - and you have both described this in different ways really clearly - many of the problems come for people in the complexity of the network of payments, so, for example, LINK provides one service where you can get money out but another company will provide the service where someone can go and pay the money in to pay their electricity bill, for example. Obviously the PSR has a role in this, but I still have a question around how do we move forward so that we have a more integrated solution attempt or solution approach or framework which gets away from “banks will sort that out” or “the banks are stopping it” or “such-and-such is stopping it”. What does that look like in the future? How do we move there? What does the new Government need to do to make that happen?

Mr Howells: Philosophically I believe that competition, if you can make it work, and it is a big ‘if’ when you have got network effects, if you can get competition working, as with many other sectors, you see a very strong focus on consumers and therefore you see the improvements that consumers need, with the caveat that I think network organisations like payments are very complex to get working competitively. There are some, and I would include LINK as one of them, which have worked out how to get the consumer and what the consumer wants at the heart of what we do because otherwise they will go bust and get sacked, and that is the driver that makes it work; that is the magic. So philosophically I am against big, centralised “Let’s have a committee to decide where to put the ATMs”. I think if you can get the market to work you have got something which is much more exciting, but I do not under-estimate how hard it is to work that out and to sustain it, which is why I think the PSR’s brief of innovation and competition is the right one for them to have because their job is to try and work it out across the whole industry

and also to improve LINK's position.

Ms Spottiswoode: I probably have a slightly different perspective in that I really do believe that if you have a core infrastructure that is designed well from the start that you really can encourage innovation in all those third parties and competition in all those third parties, but it is the case that we have legacy systems all over the place that are creaking, and changing them is incredibly difficult, so we took the decision recently that we really needed to re-think this from scratch and really needed to have a straightforward vision that meant that all of those systems would be rewritten and be in a much better place to provide everything we wanted. However, this is going to take a lot of time and a lot of money and it cannot be done overnight, but it can be done in stages. This is a huge initiative which we have got quite a lot of enthusiasm for between all the major players and obviously we are involving the PSR. I think if the PSR did not exist it might have been much more difficult to get the banks behind all this. I think they are saying we have seen what is coming, we want to get ahead on this and actually do the right thing. We as a Payments Council could not be as effective as we can be now because of the existence of the PSR. It is partly that that has created the impetus to get the big change happening. It will cost a lot of money and it will take quite a lot of time. We are in the short-term looking at what can we do to resolve some of these problems better than we do now, which is the BACS initiative. They can do it; we cannot. When it comes to the big changes which will take a long time and cost a lot of money that is about rewriting everyone's systems and making sure they interlink with this new system and making things much simpler because we do not need the complexity that we currently have, which is an historical accident.

Q. Mr Edmans: Having spent eight years on the regulatory board of the Pensions Regulator in its various forms I am really pleased that you are pleased that you are getting this regulator! The difficulty is even if you set off with the best intentions in the world as a regulator, and you know this, you do not always get what you want. You might have a brief which says competition and innovation and focus on customers but actually you end up with a bloody great committee that you have just described yourself not wanting. The Pensions Regulator was set up to defend final salary schemes. What has happened to final salary schemes? We heard this morning in one of our other evidence sessions that the effect of the Retail Distribution Review has been to almost remove regulated financial advice from the high street. Is there nothing that you are worried about as a result of getting a regulator?

Ms Spottiswoode: I am not surprised that you feel very strongly about this subject. What I was very pleased about is that the regulator has a competition and innovation remit. The problem is that the FSA (now the FCA), although it has had it all the way through in its remit, has never acted as a competition regulator. It acts as a conduct regulator which means it is ruled-based. Competition and rules-based regulation do not work. The FCA now has a Chairman and basically an FCA Board. How on earth that poor regulator in that system is going to become a competition and innovation regulator, I do not know. Thankfully they have a head who has come from Ofgem. She is good and she understands the competition remit, but to exist in that framework is really tough, so I am concerned about the future. If she does what Parliament intended, then I think it will be really helpful and we really will get good stuff going forward but I am worried that she

will be squashed.

Q. Mr Edmans: This is particularly pertinent to the inclusion point because people who are excluded in pensions and excluded in the advice sector tend to be the people who are at the lower end of the earnings scale. Higher net worth people are not going to have any problems with pension provision or with access to advice.

Ms Spottiswoode: I have to say again I have been watching this. The Regional Distribution Review was absolutely obvious - this is not an unintended consequence - all the way through that the consequence of the RDR was going to be that over half the population could not get advice. The FSA must have understood that but they did nothing about it, so where they have put in the RDR it helps in some ways but absolutely has not solved that problem.

Q. Mr Edmans: As I say, I appreciate your optimism but how is that going to be avoided in the field of payments?

Ms Spottiswoode: I think part of the avoidance is making sure that we do the proactive stuff. One of the reasons we have this co-operation with the industry is that they see that if we are seen to create a very vibrant, innovative, competitive-based infrastructure then the PSR with some luck may stop being the overarching conduct regulator of the FSA and we might get a PSR as it was intended.

Q. Mr Edmans: I sincerely wish them well.

Ms Spottiswoode: So do we. I shall personally be making a lot of noise if they do not.

Mr Howells: I agree it is a risk. I believe it is in our top four on our risk register. We invest a lot of time therefore in endeavouring to brief the PSR on the workings of the market-place so they can take informed decisions. I do think it is a risk but it is a risk that can only be countered through clear evidence into that entity and other government departments so they can try and reach a consumer-based discussion.

Chairman: We are out of time. Chris, did you have a question?

Q. Mr Pond: First of all, to say that, Helen, the payment still has not come through but I am sure it will! I will ask a brief and helpful question. Ten years ago I was involved in another PM, which was payment modernisation at the DWP. At the time there was great criticism and concern that there were groups in the population who could not remember a PIN number. They could always remember their National Insurance number but a PIN number was a challenge. Chip and sign is one step forward but is contactless another way of overcoming this? I know some of the disability charities, particularly the RNIB have been arguing strongly for talking ATMs to allow people with visual impairment to get access. It is not only about the number of ATMs; it is about how people use them. Are we moving forward on those two fronts?

Ms Doyle: Chip and signature cards or other alternatives such as chip and rubber stamp have been around since chip and PIN was introduced as an alternative for people who cannot use PIN numbers for whatever reason, and we did some work with the campaign to raise awareness amongst people and retailers that those exist. Contactless cards in theory are a great alternative but you may be asked to enter a PIN. That is there as a

fraud protection measure, so contactless does not really provide an alternative. Chip and signature is the best alternative for people who cannot use a PIN.

Mr Mott: Just very quickly in terms of the talking ATMs, we work very closely with the RNIB and our members did as well to ensure that where possible new ATMs would have audio assistance and certainly on our website we have the ability for people to identify and find audio assistance ATMs. In terms of contactless at ATMs, there are a few which are contactless but they would still require a PIN for the security features, so although it would work for point of sale, it would not work for ATMs.

Q. Chairman: Thank you very much. If I may say so, I find your evidence unnervingly reassuring. The LINK system seems to be in excellent hands and you gave very persuasive evidence and similarly the prospects for the Payments Council and the World-Class Payments system also sound very good. If as you get the bus or tube home you reflect that looking five years ahead there are things that you would want Government to do and if you wanted in a personal capacity or any other capacity to suggest things that we could signal to the next British Government that should be done, please do, because I just have a nagging feeling, you are obviously extremely able and extremely competent, and World-Class Payments when it arrives will enable the sort of two-way signalling of payments that is essential, but are there things that in the real world the Government ought to be doing that would not distort the market and prevent the competition to which you have so persuasively referred, John, that this Commission could flag up in its conclusions?

Mr Howell: I think one of the big things is the PSR does what it says it is going to do

and does not become a conduct regulator which becomes a rules-based stiffler of innovation.

Chairman: That may be something we should flag up in our conclusions, that making sure that this World-Class Payments system delivers for everybody is very important. I am not clear what more the LINK system should be doing that it is not already doing on the ATM network, but the future of the ATM is something we have not had time to examine now, how you see it, taking off your present hat and as somebody with your background, John, how you see the ATM evolving in an inclusive way so it is not just speech but also vision. In a way it is a rather dumb terminal at the moment. We have not got time now, but thank you for an exceptionally rich and impressive session.