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[redacted]

barclays.com

The Commissioners
Financial Inclusion Commission

Re: Written evidence to Financial Inclusion Commission, December 2014

12 December 2014

Dear Commissioners,

Barclays welcomes the opportunity to submit written evidence to the Financial Inclusion Commission. We have a proud history of supporting financial inclusion in the UK and remain committed to doing so. We have responded to questions where we feel we have most expertise and would like to highlight a few key points of our submission:

- All providers should sign up to HM Treasury's undertaking on minimum standards for basic bank accounts;
- To help address the UK's protection gap, the simple products agenda could be expedited to ensure a suite of "simple financial products" are available on a non-advised basis;
- A key challenge for financial services firms is to enable earlier intervention to support customers when they show initial signs of getting into financial difficulty;
- Technology provides exciting opportunities to support financial inclusion. As the world changes, the solution cannot be to resist change but to help people adapt to it, including the hardest to reach;
- Our research indicates that people who take out payday loans are already indebted - more credit is not the answer, and debt advice would be of greater assistance;
- Attention needs to be paid to organisations whose activity is causing detriment to consumers, including those on low incomes. For example:
    - We would like to see Claims Management Companies regulated by the FCA to deliver more effective action against bad practice (misleading information, unfair fee structures, lack of transparency etc.).
    - Regulators should focus on companies that use continuous payment authorities irresponsibly, reducing customers' control of their finances (e.g. payday loan brokers).

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We would be happy to discuss any aspect of this submission with you in further detail. Please contact Laura Tough [redacted] if this would be of interest.

Yours sincerely,

Catherine McGrath

General questions

1. What policy change would most support increased financial inclusion?

- All current account providers should sign up to HM Treasury's undertaking on minimum standards for basic bank accounts so that vulnerable consumers get a consistently fit-for-purpose basic bank account, whichever bank they choose to go to. This should be seen as a cost of doing business in the UK - participating in the undertaking should be a requirement for all providers above c.1% market share (or thereabouts).
- Parliament should prioritise time to make the necessary legislative changes to ensure other banks provide basic bank accounts to bankrupts (the Deregulation Bill). Barclays is currently the only bank to offer accounts to this group most at risk of financial exclusion.
- To address the protection gap in the UK, the simple products agenda could be expedited to ensure a suite of "simple financial products" are available for consumers on a non-advised basis.
- We advocate greater regulatory focus on organisations whose activity is causing detriment to consumers, including those on low incomes. We would like to see Claims Management Companies regulated by the FCA to deliver more effective action against bad practice (misleading information, unfair fee structures, lack of transparency etc.), and regulators to focus on companies that use continuous payment authorities irresponsibly (e.g. payday loan brokers).

2. What do you see as the role of the regulator, government and financial services in promoting inclusion?

- The successful promotion of financial inclusion requires government, the regulator, the financial services industry and the third sector to work together.
- The financial services industry should provide products that meet customers' needs, work with customers and community partners to ensure they are accessible, and support customers showing signs of financial difficulty.
- The regulator and government should create the right legislative and regulatory environment to support financial inclusion, which would include the changes referenced in Q1.
- There may also be a financial inclusion role for companies outside of financial services in sectors with a 'utility' function - i.e. a product or service a consumer has to have in order to live in the UK. In our view, banks have a citizenship responsibility to consumers which is fulfilled through the provision of basic bank accounts (provided even though they can be loss-making to the bank) and money management support. It may be useful to ask whether there are the other sectors where there should be financial inclusion policies, as part of doing business in the UK.

3. Do you have any practical examples of financial inclusion initiatives that have been successful?

- At the macro level, basic bank accounts have been phenomenally successful in bringing previously excluded people into banking. The Financial Inclusion Taskforce's goal to halve the number of unbanked in the UK was easily surpassed.
- At a more micro level, Unlock's work to facilitate account-opening relationships between every prison in the country and a basic bank account provider has been very successful in helping pre-release prisoners open bank accounts. There is evidence showing how access to a transactional bank account whilst managing the transition back to life in the community significantly reduces reoffending rates.
- Credit unions do fantastic work in local communities to help people access banking products and services and educate them on money management and budgeting.
- The members of Toynbee Hall's Transact network and many other similar local charities provide intensive one-to-one support to some of the most vulnerable in society to tackle all aspects of their social exclusion, including access to transactional banking services.

Digitisation, squeezed budgets and welfare reform

4. What impact, positive or negative, does the increasingly digital delivery of financial services (e.g. prepaid cards, online banking) have on financial inclusion?

- We are in a period of revolution driven by the evolving digital world. It is changing all aspects of society - how people communicate, shop, manufacture, learn and receive healthcare. Against this backdrop, technology must be an enabler to financial inclusion.
- Control is key to money management for many on low incomes, and the increasingly digital delivery of financial services is a fantastic opportunity to keep on top of their spending and balance. For example, our free 'Money Tools' service (average 100,000 users over a three-month period) helps customers track income and expenditure; identify opportunities for savings; and set budgets to meet savings goals. Other important examples so far include text alerts, mobile and online banking, budgeting tools, and most recently video banking (launched by Barclays on 8th December).
- There are always people who find change difficult and will find adapting to the digital revolution challenging. It is clearly important not to leave anyone behind. Part of Barclays' answer to this is 8,000 Digital Eagles - specially trained members of staff in all Barclays' branches to provide free technology advice to customers and non-customers. They run 'tea and teach' sessions which are free opportunities for people to build confidence in digital skills (not just managing finances but helping to set up Skype, email or upload photos). In 18 months, the Digital Eagles have supported over 1 million people achieve their digital goals. This includes cohorts who are typically difficult to reach.

5. What opportunities are there to use technology to facilitate financial inclusion?

We would highlight three key areas:

- Over the coming years, we expect technology to increasingly support early intervention which will help break the cycle of over indebtedness. For example, building on existing work to monitor current accounts for signs of impending financial difficulty so customers at risk can be proactively and sensitively contacted.
- Technology enables banks to make their services available in a wider range of locations than the traditional bank branch. We are currently trialling the provision of branch banking facilities in eight ASDA supermarkets, whilst self-service kiosks and Essentials branches enable us to retain a presence in communities where branch footfall is reducing. This week we launched a new Video Banking service which enables customers to speak to us face to face through smartphones and computers. This is a technology first for UK financial services, and will further broaden our relationships with customers.
- Technology facilitates better and more inclusive solutions for those with disabilities. For example, talking ATMs and high-visibility debit cards for visually impaired customers, and SignVideo interpreter services to enable users of British Sign Language to access telephone banking.

6. How has the financial downturn changed the nature of financial exclusion?

- When financial inclusion first became a recognised term over a decade ago, the focus was on people who were excluded because they were unable to access a transactional bank account. The creation of basic bank accounts and work across government, the financial services industry and the third sector, meant great progress was made and targets to reduce the unbanked achieved.
- The economic downturn shifted the focus to those who fall out of financial inclusion due to bad debt or who struggle to access affordable credit. Our conversations with consumer groups indicate that before the downturn their caseload predominantly focused on people who were over-spending, whereas now it comprises people who simply do not have enough money to live on.

7. What is the impact of welfare reform on financial inclusion and what support should be available to people as a result?

- Basic bank accounts are a very appropriate vehicle for unbanked recipients, subject to all UK banks signing up to the undertaking on minimum standards.
- To ensure appropriate support is available to recipients, strong relationships between all relevant local agencies, including banks, will be required. Barclays has found a constructive relationship with the Department for Work and Pensions nationally and locally to be very helpful in the roll out of Universal Credit thus far.
- We believe financial services firms can do more over the coming years to support early intervention for customers showing signs of financial difficulty.

Transactional banking services

9. What improvements are needed to make basic banking fit for purpose?

- All current account providers should sign up to the upcoming undertaking on basic bank accounts to facilitate choice and universal access for the most vulnerable.
- Changes to Insolvency Act are still required to remove the legal uncertainty regarding undischarged bankrupts that prevents other bank account providers from offering basic accounts to this group. Barclays is currently the only provider to make accounts available.

10. Can technology help deliver better transactional banking services for people on low or unpredictable incomes?

- As above, technology helps customers to stay in touch with their bank and in control of their finances - and we expect provision of these tools to grow over time. We believe there is scope for more early intervention facilitated by technology in the coming years.
- Building on the verbal evidence session, we recognise that some consumers are not comfortable using direct debits because they feel the originator controls the process. We believe there may be potential to explore an alternative form of payment which would give consumers more control. For example, we understand that certain other countries, like the Nordics, have a request for payment proposition which means a bill appears in online banking and the consumer can clearly see it arrive, knows the amount that is proposed to be taken, and has control about which date it goes out on.

Affordable and fair credit

11. Is there scope to bring people into mainstream credit who are currently excluded, while also ensuring that this does not risk financial difficulty?

- It is very challenging to do in a responsible way that does not risk financial difficulty.
- There are very sound reasons why we should not lend to these customers as they are in a position where they would be unable to pay us back. A more responsible and sustainable solution for these people would be free, independent debt advice and a debt management plan to bring their repayments down to affordable levels.

12. For people who are unlikely to qualify for mainstream credit, what might affordable alternatives be? Should banks, building societies and others play a role in provision?

- Credit unions and credit builder products (such as Barclaycard Initial) can help people with limited or poor credit histories build a credit score that would enable them in time to qualify for mainstream credit if managed appropriately. Barclaycard Initial gives customers with no or a slightly impaired credit history access to a small credit limit at a moderate rate of interest to enable them to demonstrate good credit management behaviours without the scope to get into serious difficulty. The customer's account is reviewed periodically and if the credit limit has not been exceed and repayments made on time, then the limit will be increased in a controlled way until they have built up sufficient credit history to qualify for a mainstream product.

- However, for those who do not qualify for mainstream credit because they are in financial difficulty, more credit is likely to exacerbate their situation and is not the right answer.

14. What reforms could be considered to ensure consumers getting into financial difficulty are protected, including those who become insolvent?

- Banking creditors generally have a range of tools to help customers get back on track, including short term forbearance and longer term workout plans. This can be supported by engagement with the free debt advice sector - for example, we work with Step Change, Money Advice Trust and Citizens Advice, and find the relationship constructive and helpful.
- The key challenge moving forward is for the financial services industry to support customers at risk of falling into financial difficulty. This could mean monitoring current account activity to identify warning signs perhaps even before customers do, so that proactive assistance and advice can be offered.

Insurance

15. What role should the state and the insurance sector play in providing a financial safety net in the event of an unexpected life event? e.g. bereavement, family breakdown, unemployment and illness

16. Is the insurance market functioning appropriately and competitively?

17. How can we ensure that people on low incomes, especially private tenants, have access to appropriate and attractive insurance products for their possessions and property?

- The insurance sector has an important role in providing a safety net in the event of unexpected life events, but there remains a significant 'protection gap' in the UK, with many consumers inadequately protected against unexpected events. For example, just 11% of the labour force holds any form of income protection to protect against sickness/ incapacity.
- The Sergeant Review concluded that lack of transparency, complexity of products and difficulties making comparisons undermine confidence and trust in the market. Too many people are saving too little and do not have enough protection. In August this year we launched a simple fixed-term life insurance product, independently assessed and accredited against the 9 Sergeant principles for product development and sale. It is important to expedite the simple products agenda to ensure a suite of "simple financial products" can enter the market.
- We believe there is a need for greater transparency in insurance products, so consumers can make empowered decisions. Research indicates that there is room for improvement on issues such as under-insurance, over-insurance and levels of excess deterring claims.

Savings products

19. Should policymakers enable and encourage people on low incomes to save, particularly in the economic downturn?
20. To what extent can savings act as a preventative measure, helping people to avoid debt?
21. What incentives to save work best for people on low incomes, and how might the costs of these incentives be met?
22. What practical steps could be taken to foster a savings culture in the UK?

- We see saving as beneficial in principle for all, regardless of their level of income. A savings buffer (ideally equivalent to three months' pay) is the best protection against an unexpected income shock in helping people to avoid debt.
- It is important to have realistic expectations about what can be achieved against a background of average incomes not keeping pace with inflation and interest rates at a record low. Research from the SMF and TSIP

shows that interest rates and tax relief are the biggest factors in encouraging saving and investment. Workplace saving and financial education are also key opportunities for improving levels of cash saving.

- We would urge caution on the use of incentives; e.g. such as those envisaged previously under the Savings Gateway. Several sources of research confirm that an attractive interest rate is the primary motivator.
- We see scope for workplace saving schemes to play a very positive practical role in encouraging saving. Barclays has some practical experience of this, having established a successful workplace savings scheme for Anglian Water.