



Date: 29 January, 2015

The Commissioners
Financial Inclusion Commission

Consumer and Community
Affairs



www.rbs.com

By e-mail to 

Dear Financial Inclusion Commission team

Financial Inclusion Commission

The Royal Bank of Scotland (RBS) welcomes the opportunity to respond to the Financial Inclusion Commission call for evidence issued on the 8th January 2015.

RBS supports the Commission's aims to make financial inclusion a priority ahead of the 2015 General Election, as we believe an inclusive financial system is essential for anyone wanting to participate fairly and fully in society. RBS is committed to becoming the number one bank for customer service, trust and advocacy by 2020, and the provision of products and services that are simple, clear, fair and accessible to all, regardless of their circumstances is key to the achievement of this ambition.

RBS' position on the questions that the Commission asked us to respond to are detailed overleaf, and we will be happy to provide further assistance should the Commission have additional questions or require clarity at any point. Going forward RBS would appreciate the opportunity to participate in any future discussions or stakeholder working groups on this important issue and we look forward to seeing a copy of the report in due course.

Please address any questions or comments to Jamie Black who can be contacted 

Yours sincerely,

Fiona Turner
Head of Consumer and Community Affairs

2. What do you see as the role of the regulator, government, and financial services in promoting inclusion? [Specifically, what does RBS see as its current role in promoting inclusion? Would a statutory duty on financial services and/or the regulator be appropriate?]

RBS believes that Financial Inclusion is best achieved through all key stakeholders working together to reduce financial exclusion and find innovative and practical solutions to emerging problems. The key stakeholders are as follows:

Government and the Regulator: should work to establish a common framework that allows financial inclusion to succeed. This requires agreeing the strategic objective (ensuring it meets with existing UK and EU legislation) and defining key performance indicators e.g. the number of unbanked individuals.

Trade Associations such as the British Bankers Association have a role to play facilitating pan-industry discussion and agreement on issues through working groups such as the Financial Inclusion and Advisory Panel (FICAP). They also act as an important conduit through which industry wide data can be collated.

The banking sector have for a long time recognised their ability and responsibility to address financial education, inclusion and to support organisations which provide debt solutions and money advice to customers in vulnerable situations e.g. financial hardship. RBS takes these responsibilities very seriously and has undertaken a number of initiatives to increase inclusion within the financial system, (for details refer Question 3).

In addition to the stakeholders outlined in the question we believe two further sectors have a role to play:

- Third Sector organisations and Specialist Charities: work at a local level providing support and advice to excluded groups. Through their work 'at the coal face', these organisations are in a unique position to raise awareness of emerging issues and RBS has been privileged to form open and honest relationships with a diverse range of these organisations, enabling us to work in partnership on the issues that matter to our customers and wider society.
- The final sector that has a role to play is the Utility Companies. Unbanked individuals are often unable to take advantage of cheaper utility tariffs if they are unable to pay by Direct Debit. Given the advancements in payments services perhaps more can be done to consider ways in which individuals that do not wish to be banked can pay for essential services.

With regards the need for a Statutory Duty, whilst we understand that on occasion it may be necessary to table amendments to existing legislation to remove barriers to Financial Inclusion, as in the case of the proposed amendments to the Deregulation Bill (which will close the existing legal loophole, enabling all Banks to open basic bank accounts for Un-discharged Bankrupts), it is our view that the introduction of a Statutory Duty could restrict advancements in financial inclusion.

Legislation takes time to enact and can restrict the ability for key stakeholders to adapt quickly to changing circumstances. In addition it may lead to market participants striving to achieve the minimum standards set by the regulatory framework rather than exceeding it.

It is our view that better customer outcomes will be achieved outside a statutory framework. The bank takes its responsibility to our customers very seriously and we do not feel that there is any requirement to introduce further statutory duty. We recommend further advancements are pursued through industry wide collaboration, drawing on existing FCA requirements to treat customers appropriately as documented in the Consumer Credit (CONC) and Mortgage Conduct of Business (MCOB) Source Books.

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

At industry level, there have been a number of initiatives that have been implemented successfully:

- The Financial Inclusion Task Force established in 2005, was responsible for promoting financial inclusion in three priority areas: access to banking, access to affordable credit and access to free face to face debt advice.
- The introduction of Basic Bank Accounts, designed to halve the number of unbanked households has had a significant impact and is enabling initiatives such as Welfare Reform to be rolled out. The industry agreement reached in December 2014 with Her Majesty's Treasury (HMT) will ensure that all Basic Bank Account Holders will not be charged any fees and will have access to a minimum level of service.
- Significant advancements have also been made in the field of debt advice and it is encouraging to see organisations such as Money Advice Trust, Citizens Advice and StepChange working together to standardise service delivery tools such as the Common Financial Statement.

For RBS specifically, the focus of our activity has been in the following four areas:

Access to Banking Services:

- In February 2014, Ross McEwan announced a number of [customer commitments](#) which would sit at the heart of strategy to make our products and services simple, clear and fair. As a result new and existing RBS and NatWest customers receive the same rate irrespective of which channel they choose to use (online/branch/telephony) ensuring those without digital access are not penalised. And RBS has broken the mould in [banning 0% balance transfer deals](#) on credit card, as research showed that two thirds of the market do not switch their card before they hit a payment wall and often do not pay down their debt.
- We have simplified our product range and associated fees and charges, making it easier for customers to understand their options and make more informed choices. For example we have simplified our savings range, reducing the number of products from 23 accounts to 5. In doing so we have removed all 'zombie rates' ensuring all new and existing customers get the same deal, and improved the clarity in our communications by removing jargon.
- We have developed interactive tools such as the [Mortgage rate Rise Calculator](#), the [Credit Card Repayment Calculator](#) and the [Overdraft Calculator](#) to enable customers to understand how products work and plan ahead.
- RBS/NatWest has 6m online and 3m mobile customers carrying out 280m transactions every year, enabling customers to access their account at a time and location convenient to them. However, we recognise that the vulnerable customer segment is, potentially, the least likely to have access to or use mobile/internet banking.
- RBS and the Post Office have an agreement for our personal and business customers to access c11,500 Post Office outlets. Our services with the Post Office now include cash and cheque deposit, cash withdrawal, balance enquiry and coin exchange for business customers. This allows customers who can't access online services or prefer to bank in person an alternative option. 99% of the UK population live within 3 miles of a Post Office.
- We provide basic bank accounts to over 1 million individuals that have difficulty accessing mainstream banking services and we will launch a new Basic Bank Account later this year in response to the HMT announcement.
- Working with Unlock we have enabled pre-release prisoners in England and Wales to open a bank account. Unlike other Banks, RBS has not placed any time or volume restrictions on the number of accounts being opened and in the period April 2013 - May 2014, 753 accounts were opened, which according to the Unlock Report¹ ranks us 2nd largest provider to this segment of society.
- RBS has over 8500 free to use ATMs available in the UK providing full access to the UK LINK system for all customers and our 24 Mobile Banks which were awarded an RNIB Exemplar Award, drive 8000 miles every week to provide essential services to 539 communities.

¹ Unlocking Banking Impact Report 2014: <http://www.unlock.org.uk/wp-content/uploads/2014-Banking-Impact-Report-final-full.pdf>

Supporting customers to manage their money/debt:

- Our Act Now text alert service prompts registered customers to pay in to ensure payments (e.g. Direct Debits) can be made without incurring charges. c26,000 text alerts were issued daily in 2013 and it is estimated that customers that had registered for this service saved £23m in overdraft charges compared to those that had not chosen to do so;
- We understand that we can't support all customers with borrowing requests and where we can't, we advise customers to contact the Money Advice Service or their local Citizens Advice to source information on alternative lending schemes such as credit unions. RBS has provided vital financial support to the debt advice sector for many years and in 2014 funding totalled £12 million.
- By working closely with partners such as the StepChange Debt charity and Business Debt Line we ensure that customers in vulnerable circumstances have the opportunity to access fee free debt advice, this is achieved through referrals and hot keying. We have also appointed an Industry Liaison Manager to work closely with the money advice sector at an operational level to improve and simplify our customers' experience. In 2013, the 1700 staff in specialised areas provided assistance to more than 1 million customers experiencing financial difficulty.
- By working in partnership with Mind and the Royal College of Psychiatrists we trained our collections and complaints staff to better help customers manage their debt and complaints while better understanding the implications of their mental health. This helped with customer retention, account improvement, and employee understanding and we are looking to build on this training this year working with other organisations.

Supporting Customers in Vulnerable Situations:

- RBS understands that it has a duty of care towards customers that find themselves in vulnerable situations and we have policies and processes in place to support customers who are experiencing short and long term challenges.
- In direct response to concerns raised at a Scottish Government Financial Harm Workshop in September 2013, RBS worked closely with Police Scotland to raise staff awareness of Financial Harm. This led to the creation of a unique RBS Community Protection Officer Role, the purpose of which is to respond immediately and thoughtfully to branch staff concerns regarding the welfare or risk of financial harm to a customer. Working together with the Office of Public Guardian Scotland, Trading Standards, Police Scotland and Scottish Business Resilience Centre, we have been able to ensure that these vulnerable individuals get the support they need quickly. Due to the real impact this role is having, RBS has taken the decision to roll the initiative out to England and Wales with the addition of a further four Community Protection Officers.
- RBS were the first bank to identify and take action to block over £1m of hidden [pay day brokers](#) fees from being taken from our customer accounts. This intervention helped save customers from emotional distress and financial loss as well as helping our customers have money for the things that matter;
- Last year we were actively involved in the development on the Dementia Friendly Financial Services Charter, which we have committed to upholding. Additionally by working with organisations such as RNIB, Action on Hearing Loss and Age UK to consider and address issues such as cheque removal, availability of hearing loops and Talking ATM access, we have been able to address issues which could otherwise leave sections of society financially excluded.

Increasing Financial Capability

- RBS supported Macmillan to establish a dedicated help line for people whose finances are impacted as a result of cancer. Through this mechanism RBS cases were passed directly to our executive customer relations team for immediate resolution. This partnership has led to a better understanding of issues that can be faced and discussions are continuing in light of the publication of the Macmillan 9 Point Plan.
- Finally, RBS is a longstanding advocate of financial education for children and adults, delivering a variety of programmes over the past 20 years via our financial education programmes MoneySense and Pocket Money. These programmes are designed to support the creation of a generation of financially capable adults and the [MoneySense research panel independent report](#) (based on 5 years of data) provides unique insights into young people, their fears, ambitions and knowledge of money.

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

With data and devices becoming cheaper, alongside the proliferation of Android devices in the market, gaining access to online banking via app or browser is becoming easier. Whilst there will always be a need for offline banking (branch/telephone/post), digital options will only enhance financial inclusion.

However, through our work with Gingerbread (supporting lone parent families to increase their financial budgeting and online skills) it was highlighted that digital inclusion is not just access to online banking, but money saving deals, increased networks of offers, experts and peers which are exclusive to the internet and hold high social and financial rewards.

As a result, financial providers need to be cautious when making assumptions about the digital capability of consumers and provide support in upskilling them as more services move online. For example not all young people are 'digital natives' as this will depend upon access at home and location.

Beyond customers' transactional needs, financial inclusion also includes access to information that can inform consumer choices about products and services. With the advent of technology and consumer websites (such as Money Saving Expert and Money Supermarket) consumers have become more aware of their options as retail markets have become more competitive, leading to price led deals rather than staying with one retailer/supplier. However, RBS believes this focus on 'best buys' /teaser rates which result in short term savings does not necessarily translate into the best product for the customer in the long run e.g. 0% deals leaving customers worse off if they fail to switch and has a negative impact on personal finances.

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

The use of digital contact media is changing people's expectations regarding communication, especially in relation to the speed of access and response by financial providers. To facilitate and manage this, providers need to ensure mobile banking apps have parity with online and offline banking. Enabling mobile banking apps to provide access to the same services that are available via alternative channels, will in turn reduce the need for customers to buy or access more expensive equipment.

Behaviour change is complex and it happens over time. Technology can drive behaviour change in how customers interact with banking services, manage their accounts and plan ahead. Our range of tools on our customer facing websites (Our Savings Goals, soft search for credit cards without impact credit ratings, and our overdraft and mortgage rate rise calculators) are all designed to be simple to use and accessible for all ages, including digital non-natives.

The provision of financial education is a core component of financial inclusion and many financial providers now offer online education tools. RBS' MoneySense and Pocket Money programmes are available online, accessible to all and free to use.

Our [Life Moments portal](#) available on our customer facing websites, is designed to support customers through life's important journeys. It is organised by life stages and provides information to customers on starting a family, retirement and other similar issues. This is all aimed at supporting financial capability and by working with charities and consumer groups, we ensure our products and services meet the varied needs of consumers.

8. What transactional services do households on low or unpredictable incomes, or who have experienced a life shock, need and want? [More specifically, does RBS have any evidence on how payment mechanisms work for people who are, or are at risk of being, excluded? We have heard from many witnesses that Direct Debits are problematic for people on low and unpredictable incomes. Is there a viable alternative that will give individuals more control while still being acceptable to bill originators?]

RBS believes that electronic payments help many people on low incomes to manage their finances better. Debit cards have enabled online shopping and access to lower prices. Online and mobile banking are becoming increasingly popular across all income groups, as they offer flexibility and control. Direct Debits (DDs) allow access to lower prices for utilities. They are used by some 63% of the lowest 50% of households by income. DDs also allow a degree of predictability in budgeting which many people welcome – helping to ensure that essential bills are paid on time. Some 65% of low paid workers say that DDs are their preferred way to pay bills. (Source: Payments Council)

However, RBS also recognises that a further group of people on low incomes do not find DDs easy to work with. Difficulties might occur when a DD coincides with other household costs or disruption to income - potentially resulting in the DD being refused, with charges being incurred as a result. This risk leads some people to prefer cash or other payment methods which, although flexible, could be more expensive. These issues need not necessarily rule out the use of DDs. For example companies may be able to offer a choice of dates when DDs are presented, enabling customers to choose a date which coincides with receipt of income.

Alternatively, customers who want more control over when and how much to pay towards their bills, might choose to use debit cards or Faster Payments in online/mobile banking. These avoid the premium that might be associated with some cash based payment methods but may not attract the discounts associated with DD.

There has been some discussion of the potential to develop an electronic payment type that would leave the consumer more discretion than DDs. This would in effect be an electronic request to pay which would provide all the details to enable payment, but leave the consumer to decide when and how much to pay. This concept is likely to be considered as part of the Payments Council's work on World Class Payments. RBS supports research in this area to assess the feasibility and potential market, while noting that for many on low incomes conventional DDs are likely to continue to be a very positive option.

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

Technology can play a key part in helping all customers manage their finances. However, the technology needs to be widely available for customers to take advantage of the benefits. Mobile phone applications to monitor account, online banking to transfer money or act now alerts to remind customers to pay in funds provide support which is welcomed by customers. However, caution is required in the use of balance alerts as they have occasionally proven to cause distress to some low income and customers in vulnerable situations who have little means to adjust their balances. Our use of these alerts is based upon in depth knowledge of our customer situations and needs.

For customers on lower or more unpredictable incomes technology can play a specific part by being adaptable to more frequent payment arrangements or take averages over the month for profiling metrics, to ensure that the customer's full position is taken into account.

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

We continue to lend to customers whose credit histories demonstrate we can do so responsibly with a good probability they will be able to sustain their debt and ultimately pay it back.

RBS is continuing to look for ways we can lend responsibly to more customers within the mainstream bank objectives and restrictions we have. We have identified c.450,000 customers who we can offer small overdraft limits to, based on their history with us, despite poorer credit history elsewhere. We will be actively contacting these customers to have a conversation regarding their options.

It is important to understand the difference between customers needing more funds and those who need independent financial advice. These customers need forbearance and advice on re-organising their finances and budgeting - not extra lending. If customers are experiencing financial difficulties we

would urge them to come in and have a financial review with us or alternatively seek independent advice from an organisation such as Citizens Advice.

In addition to the direct support RBS provides customers in need of short term credit, we have through the RBS Social and Community Capital charity (established in 1999) provided c£3m social finance to personal community finance institutions (CDFIs). These organisations provide an affordable, community-led alternative to payday loans and we estimate (based on data supplied by the CDFA) that RBS has indirectly lent to c6,600 individuals, of which c. 2,700 have avoided high cost credit and in turn saved approx £631,000 in interest payments.

18. Will pension reforms enable inclusion and what further improvements could be made?

Pension reform can be seen as an enabler to financial inclusion by stimulating interest and encouraging individuals to seek out more information or guidance on how it affects them personally. Whilst this support will be available through services such as the Money Advice Service Guidance Guarantee, we anticipate that many individuals will wish to seek independent advice to assess what is right for their individual circumstances.

However, recent changes have resulted in the industry charging for financial advice, and the cost (which may prove to be prohibitively expensive for some individuals) coupled with their willingness to pay and perceived complexity of the changes, may mean advice is not sought and individuals either do nothing or make choices which may not be best for them longer term.

Pension reform has the opportunity to be a catalyst for wider financial education, achieved through the collaborative efforts of government sponsored organisations, Banks and other financial services institutions. Development of an industry wide guidelines/standard practice coupled with a common, set of user friendly messages, could enable all parties to raise awareness and deliver a consistent and trusted message.

19. Should policymakers enable and encourage people on low incomes to save, particularly in the economic downturn?

We believe policy makers should encourage customers to have appropriate levels of savings regardless of the economic environment we are in and organisations such as Which? are calling for a National Savings Strategy. Households today are faced with numerous financial challenges; historically high levels of indebtedness (whether secured or unsecured), increased education costs for young people, increased life expectancy meaning a longer retirement and higher long term care costs in later life. At the same time as these costs are increasing, it is anticipated that this will be coupled with a decline in the levels of support provided by Government and employer pension schemes (particularly with the demise of defined benefit pension schemes). Against this backdrop, we believe it is essential to develop a savings culture and encourage all low and middle income households to save regularly regardless of the amount.

It is recommended that households have an 'emergency fund' put aside equating to 3 months essential spend, enabling them to cover their outgoings at least in the short term, if their circumstances change. However, TISA noted in 2014 that a third of all households have no money left at the end of the month and have less than £250 set aside as savings which has a detrimental impact on their financial resilience. By encouraging individuals to save small amounts regularly, they will begin to build a 'rainy day fund' and also create a 'habit' that encourages saving for the long term.

The RBS Our Savings Tool introduced in 2009, supports customers to set savings goals, and enables them to track their progress (for more information refer Q21).

20. To what extent can savings act as a preventative measure, helping people to avoid debt?

Having even a small amount of savings can help people avoid going into debt when they get an unexpected bill or have an unexpected expense and may enable those on low incomes away avoid

needing to seek support from pay day lenders. Everyone should have a 'Rainy Day Savings Pot' and policymakers need to make clear what this should look like and support Financial Services firms in how this is communicated and promoted to customers.

In the current economic environment with low inflation and forecast real wage growth it could be argued this is the ideal time for consumers to start saving, however savings levels are declining. A cultural change is needed whereby customers save for the things they want and don't rely on debt to obtain goods and services that create pressure on household finances.

TISA also noted last year that over half of households are struggling with living costs and debt commitments which could be reduced in the future if customers start the savings habit earlier in life and discipline themselves to save in order to finance items they wish to purchase.

21. What incentives to save work best for people on low incomes, and how might the costs of these incentives be met?

RBS is committed to offering simple, clear and fair products, tools and services which support savers to save for the things that matter to them e.g. deposit for a house. In line with our customer commitments, our simplified savings range does not offer complex 'teaser rates' where a bonus rate is given for typically 6-12 months and then removed. RBS & NatWest savings accounts have a [Savings Goal tool](#) which is the only UK tool to have been rated 5* by the Fairbanking Foundation for 2013/2014.

The tool allows customers to set savings goals and track progress. These tools have interactive functions such as letting people know if they go off track so they can easily get back on track. The customer website also has a simple budget calculator that suggests a sum of money to be saved each month once outgoings & income are entered. Having a goal to save towards regularly can be the difference between customers financing a holiday or car rather than using a personal loan or finance agreement. We have found that customers that use the tool save on average, £160 more per month than those without a savings goal.

Policymakers/banks can take action to incentivise savings by encouraging people to pre-commit to saving in a similar way to auto-enrolment for pensions. We believe behaviourally pre-committing customers to start saving is potentially more effective than direct incentivisation. The "Save for tomorrow" scheme where employees commit to saving a proportion of their future salary increases is a simple example.

We believe using behavioural economics is important in designing incentives to save as people will save more when it's made easy, attractive & social. Policymakers/banks should aim to make saving effortless.

22. What practical steps could be taken to foster a savings culture in the UK?

Policymakers need to give clear direction on the level of appropriate savings for individuals and also the level of state support an individual can expect in the future. This could then be incorporated into Financial Education Programmes provided by the Financial Service Sector.

It would also be helpful if there was greater collaboration amongst financial services providers in the provision of financial education programmes. Currently the existing range of programmes provided by Financial Services, targets different audiences and covers a range of subjects and issues. However there is no central co-ordination or agreed approach to identify gaps, eliminate duplication and ensure coverage is widespread.

Making savings products simpler to understand and service will help but having the ability to see a consolidated view of savings across providers, including savings, ISAs, pensions to allow individuals a holistic view of their savings position would be beneficial. A cultural change needs to be enacted to distance customers from using debt to finance a lifestyle that an individual can not actually afford.

Supplementary question.

RBS has joined other high street banks in signing an agreement with HMT to provide fee-free basic bank accounts. Why was this important to RBS? How will RBS compensate for the loss in revenue?

RBS believes it is important to both support our customers who may be experiencing financial difficulties and to seek to extend banking services in the UK to reduce the 'un-banked' population – particularly supporting vulnerable customers. RBS has offered a basic current account since 1999 (RBS Key Account launched in 1999, and NatWest Step Account launched in 2002) to new and existing UK customers who are not eligible for a full service account. RBS has c.1m basic bank account customers in the UK – an estimated 13% market share.

RBS is fully engaged and supportive of the government initiative to make a basic bank account available to all UK adults. We have agreed to launch a revised basic proposition by end of 2015.

Basic bank accounts are loss making financially and require considerable effort to develop and maintain. However, they provide an important social function in removing financial exclusion and RBS believes that all banks should make such services available. We are not seeking to recoup this specific lost revenue from other sources.