

Santander UK submission to the Financial Inclusion Commission

21st January 2015

About Santander

- Santander is a major financial services provider in the United Kingdom, offering a wide range of personal financial products and services, and is a growing participant in the corporate and commercial banking market.
- Santander occupies a unique position in the UK banking sector. While being smaller than the four large incumbent banks we are a scale challenger with a sizeable customer base and branch network larger than any other challenger.
- Our central purpose is to help people and businesses prosper and we aim to become the best bank in the UK for our people, customers, shareholders and communities. To achieve that, everything we do will be simple, personal and fair. In practical terms this means Santander will:
 - Offer our customers a service that is convenient and products that are easy to understand, however and whenever they choose to bank with us.
 - Make our processes better every day, so they are easy and clear for our customers and our people.
 - Treat our customers as valued individuals, providing a professional, personal service they can trust.
- Santander welcomes the creation of the Financial Inclusion Commission and hopes it can make a valuable contribution to promoting financial inclusion in the UK. This submission sets out Santander's views on some of the questions we can most relevantly answer.

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

- Having the ability and the opportunity to use financial services effectively is fundamental to a person's wellbeing and participation in everyday life. Accordingly, driving up financial inclusion and capability must be of central importance to regulators, government, financial services providers and money advice providers and charities.
- Given the number of actors involved in this space and the plethora of policies and laws which cut across it, it is important for these actors to work together in a partnership model to pursue a coherent national strategy to drive up financial inclusion. Santander notes that the Money Advice Service is developing a new UK Financial Capability Strategy to build on the first Financial Capability in the UK strategy published in 2006. Some form of national framework and coordinating agency is important to coordinate the different strategies designed to promote financial inclusion and to provide an empirical understanding of the barriers to financial inclusion in 2015 and how these can best be tackled.

- Many of the pressures which cause financial difficulty can be unexpected and uncontrollable e.g. unemployment or bereavement. The effect of these pressures can lead to financial exclusion as the customer's risk profile deteriorates. There is a real need for financial services providers to reassess how the industry treats these customers to take a much more forward-thinking and intelligent approach which helps customers regain control of their finances. We have explored this point in greater detail in response to question 8.
- Santander sees its role in promoting financial inclusion from the perspective of a nationwide bank which measures its performance against its aim of being the best bank in the UK for *all* its people, customers, shareholders and communities. As a mainstream mass market bank we have a duty to provide a service which is open to *all* customers. We also have a duty to be the best bank for our communities. It is these two duties which underpin our role in promoting financial inclusion.
- Santander focuses its current efforts in promoting financial inclusion in the following three areas:
 - Access to financial services
 - Helping our customers manage their monies
 - Promoting financial capability in the community

Access to financial services

Basic bank accounts

- Opening up access to appropriate financial products is one of the most effective ways a bank can promote financial inclusion. We believe all customers should have access to simple, personal and fair financial products appropriate to their needs. To this end, Santander has been making a series of improvements to its basic bank account which provides a fee-free account for customers who do not already have an account or cannot use their existing one due to financial difficulty.
- In October 2013, Santander took the decision to remove all charges for basic bank account customers, both new and existing. Santander has been working closely with HM Treasury and other banks on an industry wide upgrade for basic bank accounts. In late 2014 we agreed to a new set of minimum standards for basic bank accounts. These safeguards will guarantee that un-banked customers or customers experiencing financial difficulties can access an account with a range of payment features without the risk of incurring fees or charges.
- These new standards will take effect from the end of 2015 and will help bring un-banked customers into mainstream financial services, this is particularly important in the context of Universal Credit.

Community access to banking services

- A further dimension of Santander's role in promoting financial inclusion is protecting access to banking services for vulnerable or geographically remote customer groups; particularly in the context of changes to how consumers choose to bank. As with

other major banks, Santander has seen far-reaching changes in how customers choose to bank, with a significantly increased demand for online and mobile banking. We recognise that not all customers choose to bank through these channels and will prefer face to face branch based banking.

- To help drive up access to branch based banking Santander is working with the Post Office to allow more of its customers to access banking services via the Post Office's national network. Under an agreement which will take effect shortly, all Santander UK retail and business customers will be able to undertake a range of banking services through the Post Office. We see this as an important step to widen access to banking services.

Helping our customers manage their monies

- Financial capability should go hand in hand with inclusion and access to financial services. Financial capability is determined by a number of factors including skills, knowledge, opportunities and mind-set, some of which banks have limited influence over. Santander sees its role as to provide the information, tools and support necessary to help people make informed and effective decisions about their money and to deal with financial difficulties. We strive to play this role by providing customers with the following:

Text and email alerts

- Free text and email alerts to help customers stay up to date with and manage their accounts. These can be set up to cover a range of scenarios such as; if an account balance is close to its overdraft limit; if an available balance will not be enough to cover a Standing Order, Direct Debit or forthcoming payment or if a payment has not been paid due to insufficient funds.

Debt remedy and budgeting tools

- Santander has a range of measures in place to help customers who may be experiencing financial difficulties to regain control of their finances. This includes an online debt advice tool from StepChange, information on prioritising debts, a budget planner and extensive signposting to free and impartial sources of debt advice including a 'hot key' referral service to StepChange.
- Santander also has a dedicated team which provides intensive financial support for customers in financial difficulties. This provides a telephone consultation to assess and diagnose the source of a customer's financial problems and provide tailored solutions.

Promoting financial capability in the community

- The Santander MoneyWise financial education programme aims to ensure that the basic skills of money management are promoted in society, particularly for young and disadvantaged groups. We partner with national charities, provide funding for local charities and share the expertise of our staff through the programme, including:

- Funding for the Pfeg (Personal Finance Education Group) Centres of Excellence initiative which supports secondary schools in delivering the highest standards of financial education.
 - Working with The Money Charity Santander support's their Student Money Manual which is the essential guide to student finance and managing money at university.
 - Santander employees deliver money workshops in schools across the UK, helping secondary school students to understand the basics of good money management.
 - Through the Santander Foundation we provide funding for local charities to help disadvantaged people improve their financial abilities through Money Skills grants.
- Learning the skills and knowledge to make effective financial decisions early on in life is the surest way to equip people to manage the financial pressures of adult life and our 123 Mini Zone is a micro-site of information for children and parents with hints, advice and tips on the basics of money.
 - Santander is also a major funder of the Money Advice Trust which helps people tackle their debts and manage their money wisely.

8. What transactional services do households on low or unpredictable incomes, or who have experienced a life shock, need and want? [More specifically, does Santander 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?]

The customer groups covered in this question can be quite distinct and the services and solutions they require will inevitably vary. Many low income households show high levels of financial capability and make effective use of the account management tools. For customers with an unpredictable income the challenges can be quite different from customers with a low but regular income.

Many customers with unpredictable incomes value the text alert services we provide, which enables them to keep a close eye on their account without having to repeatedly check their balance. For example, customers can set up an alert to notify them when their balance falls below an amount which they specify or is close to the overdraft limit. This service also notifies a customer if they do not have sufficient funds to cover a Standing Order or Direct Debit, or if this fails. In this instance, banks have a 'retry' process which reprocesses the payment later the same day, giving customers the opportunity to pay cleared funds into their account to avoid any late payment charges.

In response to the Commission's question on the suitability of Direct Debits, Santander notes that a Standing Order provides an alternative means for regular payments which puts the customer in control. However, companies tend to prefer Direct Debits and the associated guarantee for regular payments. We believe there is a broader question for the banking sector to consider, which is whether banks should provide all relevant customers with an interest and fee-free buffer zone. This service can help customers with unexpected payments, but we know it can also be run close to its limit as a regular overdraft facility, thus removing the cushion from unexpected payments.

Customers who have experienced a life shock will sometimes be in quite a different position to a customer with an irregular income. The banking sector needs to be more intelligent and forward thinking in how it deals with these customers so that it works together to provide a better outcome than can often be the case under the current situation. If a customer suffers a common life shock, such as unemployment, illness or the bereavement of a spouse/partner, their problems can sometimes be made more acute by the actions of a bank which may recall a loan, levy charges and or reduce an overdraft facility due to the customer's worsening financial circumstances. This will often exacerbate the problems and pressures the customer is experiencing and lead to further deterioration of their credit file, causing financial exclusion.

We also know that the underlying cause of the life shock will in many cases be temporary, as the customer finds another job or financial support. In light of this, Santander believes the banking sector could explore an industry wide voluntary protocol which would provide a 'recovery space' for a set time e.g. one year. This recovery space would protect the customer from further indebtedness and harm to their credit file. It would also try to alleviate a further source of pressure to help the customer 'get back on their feet'. At the end of this recovery space the outcome for the customer would be a return to the mainstream credit sector, with more manageable borrowing, or structured debt relief i.e. an IVA.

Under this protocol, banks should agree not to recall an overdraft facility or to apply interest or charges, or take further action against a customer. Alongside this, lenders would agree a moratorium on providing further credit to the consumer. Crucially, during this period the customer's credit file should be protected from any further changes to minimise the risk of further financial marginalisation. For many customers this would provide some welcome breathing space where they could receive detailed budgetary help and signposting to impartial money advice, as well as trying to respond to the life shock e.g. applying for jobs. This approach would be a more compassionate way of treating customers and a more effective solution to the problem, particularly if it keeps customers in the financial mainstream.

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

Banking has seen great technological advances which give customers more ways to bank than ever before. These innovations reflect some clear shifts in how customers want to interact with their bank. Online and mobile banking provide customers, including those on low and unpredictable incomes, with the ability to control their finances from the palm of their hand. Text and email alerts have also made it easier to keep tabs on accounts, without having to repeatedly check a balance – they have also helped customer budget better.

There are other innovations in train which will make it much easier for customer to save money and check they are getting the best deal from their current account. For example, the Midata initiative which Santander and other banks will introduce shortly will allow customers to download their last year's transaction history in a simple standardised format. This data file can then be used with a price comparison website which will analyse the customer's account usage to help them make an informed decision on whether there are better accounts for them to switch to. For a customer on a low or unpredictable income the benefits of this switch could be significant, in terms of cheaper borrowing or cash back.

Santander is alert to the fact that not all customers have the desire or proficiency to use these innovations. For these customers branch based face to face banking will be their preferred method of interaction. Santander is committed to maintaining a high quality national branch network to serve these customers and to protect access to banking services. Santander is concluding an agreement with the Post Office to give all Santander UK personal and business current account customers access to banking services through the Post Office national branch network.

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? [Specifically, we have heard from credit unions and CDFIs that their main barrier is access to capital. We have also heard that Santander has been supportive of the CDFI Fair Finance, providing them commercial capital. Why has Santander made this decision, and what do you think is holding other banks back from doing the same?]

We believe in the value of a diverse financial services sector where affordable sources of alternative finance, such as credit unions and CDFIs, help people who do not qualify for mainstream credit. We believe there is potential for these organisations to play a bigger role in the UK, as they do in the US and Canada for example. We note that the Government has taken action to remove some of the legislative impediments to their growth and allocated funding to its Credit Union Expansion Project

We see our support for Fair Finance as an example of where banks can play an indirect yet valuable role in helping customers who are excluded from mainstream credit. Santander has had a commercial relationship with Fair Finance since 2010. Fair Finance is a social enterprise based in London which offers a range of affordable financial products and advice services designed to meet the needs of people who are financially excluded. Since it opened its doors in 2005, the organisation has strived to revolutionise personal finance for customers who are not well served by mainstream providers. At the heart of Fair Finance's approach is the belief that:

- Customers deserve a fair deal
- Products and services should be simple and accessible
- Financial advice should be honest and trustworthy
- Credit should be affordable for all
- Profits should be reinvested for the benefit of customers

Fair Finance serves a section of the market which Santander and other mainstream banks do not generally serve, due to their risk appetite. Furthermore, we take the view that organisations like Fair Finance can be better placed to meet the needs of these customers. Organisations which focus solely on this particular market typically have a stronger understanding of the customer base and a strong local brand presence.

From Santander's perspective, Fair Finance's business model clearly worked and the loan finance we provide can be effectively deployed through the organisation to provide more customers with a fair and sustainable source of borrowing to payday lending. The quality of loans Fair Finance originates provides the basis for external leverage which accelerates their growth. Under this model they have access to loan finance (from Santander and others) in addition their own capital generation.

Unlike the payday lending sector, which often keeps customers at the financial margins and derives large amounts of revenue from rollovers and loan refinancing, Fair Finance helps customers return to the financial mainstream and improve their borrowing record and credit score. The cost of borrowing with Fair Finance is significantly cheaper than the payday or doorstep lending sector, as such customers can free up more of their income to cover their expenditure, thus reducing the need for additional borrowing. Whilst this is a positive example of how a bank can fuel the expansion of fair alternative finance, it is also a relatively isolated one. Organisations like Fair Finance can, by necessity, have unconventional business models and risk profiles. Often banks will have limited experience of this and find it difficult to support them. From Santander's experience it was crucial to have a relationship-led model. Under this model both the Relationship Director and credit team will invest the time to visit the client, in this case Fair Finance, to build a deep understanding of their needs and risks.

21. What incentives to save work best for people on low incomes, and how might the costs of these incentives be met? [For example, what take up has Santander seen to save small amounts? Has Santander tried incentives schemes other than offering interest on savings?]

Santander shares the Commission's concern to increase savings for people on low income and indeed for the country as a whole. The Government's decision to abolish the 10% rate of tax on savings, due to take effect from April 2015, will help to create a financial incentive to save for people on low incomes as will a return to a higher interest rate environment.

In our analysis the decline in the UK savings ratio over past two decades reflects some fundamental shifts. The increased availability of credit pre-2007, the positive wealth effect of rising house prices and the influence this has on customers' proclivity to purchase can all impact savings ratios. The end results of these trends are not easily altered by financial incentives to save. To engender a long term culture of savings amongst people on low incomes, policymakers, regulators and financial services providers need to consider how to develop a habit of savings from an early age. The inclusion of financial education in the curriculum is a positive step in this regard.

Alongside this long term solution, initiatives like simple financial products which provide a simple savings account can help improve access to these products.