

Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Post Office Banking Consultation
Shareholder Executive
Department for Business, Innovation and Skills
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Dear Sirs

Consultation Paper: Post Office Banking

This is the Financial Services Consumer Panel's response to the BIS Consultation Paper Post Office Banking: A consultation on developing the banking and financial services available at the Post Office.

Overview

The Panel believes that the Post Office network provides a valuable set of services for consumers. There is scope for these services to be expanded and there is a great deal in the Consultation Paper which the Panel supports in principle. We welcome the intention to ensure that the Post Office can reach all groups of consumers and provide products that really meet consumer needs. We do, however, have concerns about some aspects of the Paper.

The Post Office 'brand'

While much emphasis is placed in the Paper on the credibility of the Post Office name, very few financial products and services available through the Post Office are actually provided by the Post Office itself. We are concerned that the Post Office brand could be seen as an assurance that the products sold are the best in the market and provide value for money. This may indeed be so, but aside from the reference in the Paper to the Post Office priding itself on making sure that its products are straightforward, offer good value and have no catches, there is no reference to the extent of research that the Post Office has undertaken into these key areas and the level to which its staff are trained and qualified to assist customers in making informed decisions about the products on offer. It is important that the public's confidence in the Post Office is not mis-placed.

Transparency

We believe that it is of paramount importance that consumers are advised of the identity of the firm providing the product or service being sold to them by the Post Office, before they are committed to it. Many may be completely unaware that, for example, their Post Office Cash ISA is actually held by Bank of Ireland – a non-UK

bank that is not covered by the UK Financial Services Compensation Scheme. It is possible that unless or until 100% compensation is guaranteed in the event of the failure of a financial services firm, an individual who, say, already has accounts with the same financial firm, could find their overall position compromised. Although there is insufficient detailed evidence within the Paper for the Panel to take a view on whether the Post Office should be a bank in its own right, there are strong arguments in favour of the Post Office actually providing and taking responsibility for the products and services they sell.

The business case

The Panel is concerned that the Consultation Paper focuses on what consumers can do to keep the Post Office in operation, rather than what the Post Office can do for consumers. There are questions to be answered too about the extent to which the Post Office, as a State-sponsored/subsidised provider - a situation we would expect to continue, given the social importance of the Post Office - should be expected to compete with the private sector. It is difficult however to take a view on where the Post Office should sit in relation to banking without looking at the banking sector as a whole.

An expanded Post Office financial services function, however structured, would have to be financially viable, taking into account State sponsorship. Market developments over the past couple of years and the questions being raised over many bank operating models, mean that there needs to be good evidence that the Post Office could really deliver an inclusive range of products and services that give people what they really need. The Panel would like to see comprehensive research showing the level of consumer appetite for the development of the Post Office on the basis outlined in this Paper, together with evidence that there is a sound financial footing on which it could be delivered. We would like this research to consider the general case for “narrow banks” that meet consumers’ needs and the extent to which the proposed development of the Post Office provides a good example of this different approach to retail banking.

Questions

Question 1: What do you value about the Post Office’s existing financial, banking and payment services and what determines whether you use them?

The Panel has not itself undertaken any research into consumers’ opinions of the financial services available through the Post Office. Empirical evidence suggests that consumers do indeed trust the Post Office name and, although curtailed of late, the extent of the branch network is very much valued at a local level. For those without easy access to their bank, the facility to withdraw money via the Post Office is clearly a great help. More could be done however to improve existing banking services and make them far more useful to customers. For example, by providing debit card facilities on Post Office Card Accounts and ensuring that the facility of paying household bills over the Post Office counter is re-instated.

Question 2: Do the products or services offered by Post Banks around the world provide any opportunities for the development of banking or financial services at the Post Office in the UK?

It is helpful to consider the types of Post Bank in operation elsewhere, although the Panel would like to see more detailed research into the banking services offered, particularly in other EU Member states, including information on product take-up by consumers and the nature of any disadvantages or difficulties that Post Banks had experienced. Currently there is insufficient evidence on which to base a judgement on whether there would be any advantage in the Post Office becoming a fully-fledged bank in its own right. There seems to be no evidence in the Paper to suggest that the Post Office would be able to deliver better outcomes for consumers in this way and no indication that a business model could be created that would be both financially viable (even with State subsidy) and provide the breadth of services and products envisaged in the Paper. Nevertheless in many ways it would be entirely appropriate for the Post Office to take full responsibility for the products and services it provides. We do think it interesting, that Kiwibank focuses on “popular products” and is “positioned as a consumer champion”. This has parallels with the positive view of the Post Office ‘brand’ in the UK and, we believe, what consumers are entitled to expect. It is important that that level of trust and confidence enjoyed by the Post Office is matched by the quality and value of products that it sells.

Question 3: Do you agree that these are the right values for banking at the Post Office ie universal, accessible, trusted and sustainable?

We agree that these values form a solid basis for banking at the Post Office, but they are simply an academic starting point. All of the products and services to be delivered will have to be seen to live up to these values. It is also important that there is greater clarity and transparency in terms of the product providers (if it is not to be the Post Office itself) and the extent to which the products on offer represent the ‘best in market’ or at least value for money. In addition, in our view it is not always clear at the outset which provider is responsible for the numerous products currently on offer through the Post Office which carry the Post Office ‘label’. Those attracted (and reassured) by the name “Post Office Growth Bond” might be surprised to learn that their savings would actually be invested with the Bank of Ireland. This could be important too in the context of compensation in the event of a financial failure – the customer may already have accounts with the product provider concerned and would need to consider their overall position in terms of the limit on compensation available.

Question 4: Do you think these are the right areas and products to focus on?

Question 5: What new financial services would you like to see available at your local Post Office?

We agree that it could be appropriate to focus on the areas identified in the Paper, including meeting the banking needs of consumers on state benefits and low

incomes, but a truly inclusive service would see the Post Office going further and offering products and services that appeal to all sectors of the community, including individuals and businesses with money to invest. The FSA's shake up of the retail distribution market could provide opportunities for the provision of financial advice and the sale of a range of both simple and more complex investment products through Post Offices. This would of course involve ensuring that Post Office staff had the necessary levels of qualifications and training to deliver a professional service that was consistent with the ethics of the expanded Post Office role. Access to the Money Guidance service would be valuable too.

We would also like to see all bank and credit union accounts being accessible through Post Offices. This would be of huge benefit to those whose nearest bank branch is not easily accessible. But this should not be just a convenient distribution outlet for banks closing their own branches, but rather a new proposition that would genuinely add value for consumers. It would be helpful too if the current POCA service could be extended to include debit card facilities. Given its current purpose this would require the co-operation of the DWP. This will enable POCA holders to take advantage of online discounts and point of sale card payments.

Conversely, it may be that it may be possible to work with existing local partnerships and, in particular, credit unions. For example, I understand that the Pollok Credit Union recently took over a local Post Office threatened with closure.

Question 6: The Government already offers and supports substantial credit services for people on low incomes, such as Social Fund loans and credit unions; what other range of services could the Post Office offer to support those on low incomes and address financial exclusion, and how could these best be made to work together?

We believe there needs to be a wide-ranging review of the products and services that are already available. The correct approach will be to identify any areas of unsatisfied consumer need before giving further consideration to how best to achieve the right result.

In addition, one of the key factors in addressing financial exclusion will be a distribution network that does in a real sense reach vulnerable communities. This will involve a detailed assessment of community needs and existing services.

Yours faithfully

Adam Phillips
Chairman

Financial Services Consumer Panel