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Keeping Britain posted

How post office banking could save the network and combat financial exclusion

BRIEFING: FINANCIAL INCLUSION 1

FUTURE ECONOMY

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nef (the new economics foundation) is a registered charity founded in 1986 by the leaders of The Other Economic Summit (TOES), which forced issues such as international debt onto the agenda of the G7/G8 summit meetings. It has taken a lead in helping establish new coalitions and organisations such as the Jubilee 2000 debt campaign; the Ethical Trading Initiative; the UK Social Investment Forum; and new ways to measure social and economic well-being.

Summary

Evidence of substantial increases in the cost of living for families across the UK has brought renewed urgency to the need to tackle the plight of people without access to bank accounts. The costs of financial exclusion are also increasing as, for example, utility providers impose punitive charges for those unable to pay by direct debit. And, compounding the problem, as the cost of financial exclusion rises, it is becoming even more difficult for the financially excluded to access core financial services.

Three worrying trends look set to have serious consequences for the financially excluded:

- Firstly, Post Office and bank branch closures have had serious implications for people living in some of the most disadvantaged communities in the UK, and a second round of post office closures is well underway.
- Secondly, the government's current tender for the Post Office Card Account (POCA) gives no indication of increasing its very limited functionality – as this briefing argues – a missed opportunity for combating financial exclusion.
- Thirdly, the 'credit crunch' is leading to a new phase of risk aversion and reduced outreach by the banks.

However, as this briefing argues, there is another way. By increasing the functionality of the Post Office Card Account the government could save the post office network and combat financial exclusion.

The closure of post offices considered to be economically unviable has been the subject of intense debate since the first round of closures was announced in 2002. By continuing to close post offices across the country, the government has failed to recognise the opportunities for promoting financial inclusion that the extensive and trusted post office network provides.

The lackadaisical approach to reforming the Post Office Card Account (POCA) has been, to date, another missed opportunity. Originally envisaged as a temporary measure until 2010 – after which it is assumed that all people will have migrated to basic bank accounts voluntarily offered by commercial banks. POCAs replaced the paper-based system of benefit and pension payment with an electronic card that can only be used at post offices to withdraw money deposited by the Government.

Despite this very limited functionality, the popularity of the POCAs has led to a renewed tender to continue the account, albeit with no specific time-frame.

It is clear that the in the long term, the Government still intends to shift all benefit payments from the post office to the banking sector, but reliance on voluntary commitments from the banks to increase access for the poor has demonstrably failed. Continuing bank branch closures in less affluent areas highlights the fundamental flaw in this voluntary approach.

As this briefing argues, it does not have to be like this: the Government could take this opportunity to make post offices a central part of its commitment to greater financial inclusion. Rather than orchestrating the slow decline of their role in the heart of communities across the UK, the Government should take steps to increase post offices' ability to act as intermediaries and the delivery agent of financial inclusion strategies.

The funds set aside for financial advice and other measures to increase financial inclusion would be most efficiently spent by using an already existing and trusted network, rather than building a new one from scratch. The Post Office is an obvious solution. As **nef** (the new economics foundation) has already revealed,[1] voluntary initiatives from the financial services sector designed to combat financial exclusion have not been effective. And, the continued closure of post offices across the UK has severe consequences:

- **The current version of basic bank accounts have failed to significantly increase financial inclusion.** Banks have no incentive to dedicate resources to develop or market products for the low-income segment of the market. For the banks, this activity is not sufficiently profitable, and as a result has been approached in a piecemeal fashion as part of voluntary Corporate Social Responsibility initiatives.[2]

- **Efforts to target interventions for the financially excluded – such as the provision of community finance, for example – are made virtually impossible because banks do not disclose their lending patterns.**[3] This prevents analysis of the data to identify areas of acute need either geographically of demographically.

- **The problem is compounded by the closure of local post offices, which have significant social and economic impacts on local business and communities**, as demonstrated in **nef**'s report *The Last Post*.[4] For example, one post office in the Manchester area alone was estimated to add £310,546 per year to the local economy.

Commercial banks have consistently failed to voluntarily meet the needs of the poor and disadvantaged on the grounds that it is not sufficiently profitable to do so. If left solely to the market, financial exclusion is likely to worsen, increasing the gap between the haves and the have-nots and condemning many people to disadvantage and marginalisation.

A serious lack of joined-up thinking threatens to undermine government's stated efforts to increase financial inclusion. There are still two million people without bank accounts in the UK.[5] Without a drastic change in policy, these people will remain financially excluded and the poor will continue to pay more for essential services than people with access to bank accounts. However, by increasing the functionality of the Post Office Card Account the Government could save the Post Office network and combat financial exclusion.

The Poverty Premium: why the poor pay more for basic services

Financial exclusion is blighting the lives of people across the UK. People without bank accounts pay more for services that people with bank accounts receive for free, or at reduced cost. One estimate sets the amount of extra money spent by financially excluded and low-income households at £1,000 per year,[6] resulting from punitive fees and higher charge rates for customers who do not pay via direct debit. BT for example has introduced a fee of £1.50 per month for customers who don't use direct debit, making the service more expensive for people without bank accounts. Charges for fuel pre-pay meters are also higher than for people who pay by direct debit.[7] The real costs of financial exclusion and their impact are very clear.

Network under threat: how post office closures exacerbate financial exclusion

By pushing ahead with further post office closures, the Government continues to judge the viability of 'Post Office Ltd' solely on its profitability. The broader social and economic value of the Post Office network is not considered in these profit and loss calculations. But while on one hand insisting on commercial viability, on the other, the government is reducing the amount of services delivered through the Post Office network. This decreases branches' ability to raise revenue while they are still required to provide unprofitable but essential services, such as help with filling in forms and applications.

Crucially, the closure programme also fails to value the trust that people have in the Post Office and its extensive network of branches located in the heart of communities across the UK. This trust can and should be harnessed to promote financial inclusion, particularly as financially excluded people often have little trust in mainstream financial institutions, and many banks have no experience of dealing with the financially excluded.

Banks cannot create the same atmosphere of trust as a local post office. The government fails to recognise that although many post offices will never be commercially viable in a narrow sense, they bring broad social and economic benefits to local communities. If these benefits could be provided on straight commercial terms – which they clearly cannot – there would be no need for public provision in the first place.

Exacerbating disadvantage: the impact of post office closures

Disadvantaged communities are frequently on a downward spiral. Deteriorating housing stock, low and falling house prices and the closing of local shops and pubs are already a drain on these communities. As research by **nef**[8] has shown, the loss of a post office branch may contribute to a further drop in the quality of life in the community, and lead to a decrease in local spend and local economic activity.

The irony is that there is strong demand for financial products in these areas. HM Treasury research acknowledges that there is a real need for credit and financial inclusion activities, such as debt advice,[9] especially among those segments of the population the banks refuse to lend to. The Financial Inclusion Taskforce has shown that demand for third sector lending, such as from Community Development Finance Institutions (CDFIs) and Credit Unions outstrips supply.[10] It is thus counter-intuitive that the Government continues to close down a network that could act as a potential hub and partner for the provision of these services.[11] The Post Office, with its proven role as a social meeting point and trusted brand, is uniquely positioned to work with third sector lenders to combat this shortfall by providing credit and bank accounts.

Without access to affordable credit, people will continue to borrow from sub-prime lenders such as pawnbrokers, doorstep lenders, and even illegal loan sharks with usurious interest rates. These exorbitant payments are a serious drain on poor people's budgets and deprive local economies of money that could be spent on local goods and services. Research carried out by Leeds City Council provides estimates of the extra costs of borrowing from these lenders. The lower-end estimate, assuming that 21,000 people borrow an average of £100 from doorstep lenders at an APR of 177%, shows extra costs of nearly £500,000 per year.[12]

How post office banking could save the network and combat financial exclusion
The Government could demonstrate its commitment to genuine financial inclusion by re-assessing the Post Office closure programme and recognising the potential role post offices have to play in combating financial exclusion at a critical juncture.

To prevent the entrenchment and even exacerbation of current levels of financial exclusion, **nef** recommends that the Government:

- Issues an immediate moratorium on further Post Office closures in deprived areas, especially those with low bank branch densities.
- Harnesses public trust in the Post Office network to increase access to finance by expanding the Post Office Card Account (POCA) into a fully functional Basic Bank Account (BBA).
- Increases the functionality of the BBA to ensure a minimum standard for all banks, including a debit card, the possibility to withdraw cash from any free ATM, and pay by direct debit and standing orders. Currently, not all BBAs offer these services (see Table 3 in the appendix)
- Expands the services offered by post offices, with a view to introducing a Post Bank, following the example of New Zealand, both to increase revenue, and outreach.
- Introduces a Universal Service Obligation for banks to increase choice and competition.

1. Government strategy and reality – the POCA and the BBA

A major objective of the Government's financial inclusion policy is to reduce the number of people without a bank account. This move was not solely driven by the desire to increase financial inclusion, but also by the desire to reduce costs to the public purse. Paying benefits by cheques or payment books is costly. A direct electronic transfer brings down these costs substantially. The unspoken aim of cost saving became evident when the Government introduced the POCA in 2003, phasing out the paper-based payment of benefits and pensions. At the same time, it promoted the use of BBAs for the payment of benefits. The assumption was that people would open BBAs and have their benefits paid into these accounts. However, far fewer people have opened BBAs than POCAs – 1.97 million BBAs since their introduction in 2003 compared to five million POCAs as of April 2006[13] – and many people with a BBA also have a POCA, indicating that their main trust still remains with the post office.[14] The POCA in its current form was set to be phased out in 2010, but as the transition to BBAs has not taken place as expected, the government is currently tendering for a POCA successor.

Financial exclusion: A complex issue

Combating financial exclusion clearly requires a more comprehensive solution than access to a card that can be used to withdraw money. The POCA in its current form is effectively no more than an electronic cheque book. As a result, the poor still pay more for services that are cheaper when paid by direct debit or standing order, which cannot be set up with a POCA. By increasing the POCA's functionality to include services provided by a normal current account, the Post Office could contribute to greater financial inclusion.

The Post Office, with the commitment of its staff to assist customers, is uniquely positioned to help people increase financial literacy. Combating financial exclusion requires an understanding of people's financial knowledge and situation. Post office staff, long used to dealing with the financially excluded, have this understanding. In addition, the value of the trust that people place in The Post Office should not be underestimated.

The POCA's functionality is extremely limited – it can only be used to receive benefit payments, and withdrawals can only be made at post offices. It cannot be used for payment in shops or to set up direct debits or standing orders. It does not have overdraft facilities, and no other deposits can be made to it.

The Government failed to effectively compensate post offices for the withdrawal of the paper-based payment of benefits, while the phasing out of the direct payment of benefits greatly reduced direct transaction costs for the Government. It also meant that the Post Office was deprived of a substantial source of income. A survey carried out by Ipsos Mori on behalf of the National Federation of Subpostmasters found that post offices earned an average of £656 per month through the paper based system, which dropped to an average of £249 following the introduction of the POCA, a reduction of more than 60 per cent.[15]

Ensuring that the successor to the POCA is a fully functional bank account would provide the Post Office with the opportunity to recoup these losses. This also has the potential to play a significant role in government efforts to combat financial exclusion.

Before the switch to electronic POCAs, the high transaction costs of benefit payments in essence subsidised the advice given by staff. Without this subsidy, and the reduction in the range of services provided, this source of information is drying up.

It is the value of this vital service to the financially excluded that the Government appears not to recognise. If post office staff are to continue to provide this advice, the Post Office must be adequately remunerated, either through a direct subsidy, or through the ability to compete with banks to provide financial services for the financially excluded. Banks have demonstrated a clear reluctance to provide these services, and many of the financially excluded do not trust banks.

While the current solution offered by banks, the BBA, provides access to very basic finance, there is no standard 'package'. None have credit or overdraft facilities of any kind, but all allow deposits and direct debits. Many also allow standing orders, and a few have debit cards. Table 3 in the appendix shows that the functionality of the BBA varies greatly, which suggests that customers should shop around for the best deal. However, this ability to choose a bank is severely restricted by the limited branch network, resulting in little or no choice for many people.

Recommendation

As a bare minimum, the government should Increase the functionality of the BBA to ensure a minimum standard for all banks, including a debit card, the possibility to withdraw cash from any free ATM, and pay by direct debit and standing orders. Currently, not all BBAs offer these services (see Table 3 in the appendix)

The efficiency fallacy

It is a widespread perception that technological innovation will bring down prices and increase efficiency. This argument has been frequently used to point out that physical access to post offices or bank branches will not be necessary, as transactions can be conducted on the telephone, via the internet, or banking terminals. Innovation would reduce cost, not only for clients, but also for service providers, such as banks, or the Government. For certain client groups, this may well be true: booking and buying products on the internet saves money, mobile phone contracts are cheaper than pre-pay, online and telephone banking all enable people to access services out of hours and independent of location. The companies, in turn, save money on staff and premises costs.

This perception neglects several factors though, especially from the clients' side.

- There is a need to buy equipment (computers, modems, mobile phones).
- For many of these services, a bank account is required.
- Technological and financial literacy is required.
- For some services, access is an issue, for example, banking terminals in branches.
- Some remote or automated services are not free, costs are incurred (telephone and internet bills, fee-charging ATMs, fees for credit card transactions over the internet).

The introduction of additional fees to traditional services serves as an incentive for customers to switch to automated/remote services. While this does not represent a problem for people who can afford the technical equipment and who have access to a bank account, it penalises the poor and the unbanked.

In short, increased 'efficiency' increases transaction costs for those who lack access to the equipment and knowledge needed.

There are several examples of this:

- Research by the Citizens' Advice Bureau (CAB) suggests that fee-charging ATMs are starting to concentrate in certain areas, especially in those with no free ATMs, and in deprived areas.[19]
- In some deprived areas, closure of bank branches and Post Office branches coincide. This results in people having to travel to access banking services. This makes a dent in vulnerable customers' budgets.
- The CAB report also points out that use of cash is actually increasing as cheque payments are phased out in many shops (for example, Morrisons and Tesco). Combined with the increase of fee-charging ATMs, this means that using cash becomes more expensive.[20]
- Prepay utility services, such as gas, mobile phones, and electricity cost more than having metered services that are paid via a bank account.

To cite technology as a panacea for solving access problems thus is a rather short-sighted perspective and neglects the barriers that increased Post Office branch closure present.

Table 1: Ghost Town Britain: bank branch comparisons across Europe (per million inhabitants).

Country	No. of branches per million inhabitants
Great Britain	180 (215 if Building Societies are included)
France	435
Italy	560
Germany	540
Spain	940

Source: CCBS 2007[22]

The Basic Bank Account: voluntary failure

In theory, the BBA should lead to greater financial inclusion. In practice, take-up has not been as rapid and widespread as expected. There have been two drivers for this. On the one hand, customers do not necessarily trust the banks, are increasingly unlikely to have a bank branch in their area, or may not feel confident enough to open an account even where this is not the case.

Banks, on the other hand, have demonstrated little interest in this market segment, as BBAs do not generate income. There is evidence that some banks covertly refuse applications for BBAs, don't make them universally available and that many are unnecessarily bureaucratic.[16,17] In addition, banks have demonstrably failed to market BBAs in the same way as they market other products. They are costly to open, and do not yield profit: most UK banks have clearly failed to recognise the potential for clients' future financial development that increased financial inclusion can achieve.[18]

In many ways this is not surprising. Banks see themselves as commercial entities, responsible only to their shareholders, with a focus on profit maximisation. There is a cost attached to running basic bank accounts, hence the reluctance of banks to fully engage in this market segment. However, to consider banks as a straight commercial businesses is not entirely correct.

Banks operate a unique position in the economy, from which they gain many advantages. As the Northern Rock debacle has demonstrated, and as has happened the world over, the state does frequently step in to avert the collapse of a bank. 'Systemically important' banks are seen as "too big to fail", which can reasonable expect a bailout with public money if required. In return for this de-facto guarantee, banks should be expected to give something back to society, and to contribute to greater financial inclusion by providing products, such as the basic bank account, even if they incur costs from it.

Bank branch closures in deprived areas

Banks continue to close branches across the UK, with the majority of closures concentrated in deprived areas. Britain already has one of the lowest densities of bank branches anywhere in Europe – less than half that of France and one third of Italy and Germany[21] (Table 1).

Current trends indicate that bank branch closure in the UK will continue, increasing financial exclusion and disadvantaging groups who depend heavily on accessible personal banking such as small and micro businesses and the elderly. Banks are notoriously reluctant to publish composite geographic details of their branch closures. Research carried out in 1995 and 2003 demonstrated that branch closures have had the greatest impact on low-income and deprived areas.[23,24] This research used government-defined socio-economic areas to analyse geographic distribution of closures. Table 2 shows the closure rates across these socio-economic classes, called 'super groups'.

Table 2: Bank branch closure rates across socio-economic classes.

Super group	Total branches 1995	Total branches 2003	Branch closures 1995–2003	Branch openings 1995–2003	Net change	Net change (%)
Industrial Hinterlands	1,873	1,524	479	130	-349	-18.6
Traditional Manufacturing	1,677	1,303	499	125	-374	-22.3
Built-up Areas	**1,832**	**1,424**	**508**	**100**	**-408**	**-22.3**
Prospering Metropolitan	**1,431**	**1,111**	**480**	**159**	**-321**	**-22.4**
Student Communities	**1,829**	**1,442**	**579**	**192**	**-387**	**-21.2**
Multicultural Metropolitan	**1,040**	**795**	**329**	**84**	**-245**	**-23.6**
Suburbs and Small Towns	2,651	2,209	628	180	-448	-16.9
Coastal and Countryside	2,341	1,942	497	98	-399	-17.0
Accessible countryside*	164	128	42	6	-33	-22.0
Total	**14,838**	**11,871**	**4,041**	**1,074**	**-2,967**	**-20.0**

Source: Leyshon *et al* 2006(modified).[27]

Although rates of closures are fairly similar across all super-group areas, the number of banks were much lower in most deprived and less affluent areas before the closure programme began (highlighted in bold in Table 2).[25] For example, multicultural metropolitan areas lost 23.6 per cent of branches between 1995 and 2003. There were only 1,040 branches to start with, however, reducing the total number to 795. Areas described as typical middle-income, by contrast, lost far fewer branches. 'Suburbs and small Towns' for example still have 2,209 branches (down from their original 2,651). 'Coastal and Countryside' lost only 399 branches. Both these groups actually increased their share of branches as a percentage of the total at the end of the research period in question (2003).[26]

Recommendation

As long as banks are treated as straight commercial operations they will continue to focus on the most profitable sections of the population and these trends will continue. 'Voluntary' commitments cannot work. The continued closure of bank branches and post offices, and the failure to recognise the connection between the two, could leave many disadvantaged communities without any access to financial services, directly undermining governmental efforts to increase financial inclusion. Preventing this requires political will from the Government to act to ensure geographically widespread and equitable access to financial services, either at post offices or at bank branches.

2. A system that works: why post office banking could combat financial exclusion

Five million POCAs have been opened since their introduction, but only 1.97 million BBAs, a clear indication that consumer choice rests with the Post Office. This is despite the limited functionality of the POCA compared to BBAs, and the limited financial services post offices are currently able to provide. The conclusion is clear. As research by the Financial Inclusion Taskforce on demand for credit has demonstrated, there is a demand for financial services in general, but it is currently not provided where it is wanted. If the Government genuinely wants people to use bank accounts and access financial services, it should offer them where people want them: at the Post Office.

A Post Office bank account would both provide the Post Office network with greater footfall and potential for earnings and preserve the network as an asset for small businesses and increase financial inclusion. More people would have a bank account and the high degree of trust in the Post Office could also be used to tackle other vital aspects of financial inclusion such as financial education (i.e. savings, small credits, overdrafts, etc.). Furthermore, as **nef**'s report *The Last Post* revealed, the existence of a Post Office in a deprived neighbourhood provides real benefits for local businesses, making a significant contribution to the local economy.[28] The same is true in reverse of course: post office closures can result in negative outcomes for local economies, adding to and accelerating cycles of decline.

Post offices are uniquely positioned to increase financial inclusion. The network has more branches nationally (even after the closure programme) than all bank branches combined[29] with a trusted reputation amongst those who have the least trust in, but the most need for banking services.

A Government survey showed that people without bank accounts are generally on low income and/or on benefits. The highest response rates for not having a bank account were found in these groups: less than £10,000 household income (15%), renting from social landlords (21%) unemployed (21%) or retired (14%).[30] If the Post Office bank account targets this segment effectively, it would not represent direct competition to mainstream banking; a concern of banks. If banks are unwilling to cater for the unbanked, as the low take-up and limited promotion of BBAs indicates, then they should accept a provider of banking services that could better cater to the needs of the financially excluded, and that does not operate on purely commercial principles but seeks to promote the broader public good in local communities.

To increase customer choice and competition, however, a universal service obligation (USO) for banks should also be introduced, similar to the obligations that exist for water and electricity companies. As we have argued, banking should be universally accessible just as these vital services.[31] As we have also pointed out in this briefing, banks occupy a uniquely privileged position in the economy, and so should be required to give something back in exchange for the taxpayers' money that effectively underwrites their businesses.

In the current financial crisis, where banks are likely to become more risk averse and to focus increasingly on their most profitable activities, the case for a USO to increase access to banking for the hardest-to-reach is more urgent than ever. Bank accounts are an indispensable tool for financial inclusion, and if the Government is serious about increasing financial inclusion, it should both require banks to offer a Universal Service and should use post offices as a key tool to achieve its goal.

Currently, BBAs are indirectly accessible through post offices, but people cannot open one there. They cannot choose the Post Office as their financial service provider. This is a perverse situation in which post offices help to deliver the services that the private sector was supposed to deliver (increased access to bank accounts). But it is unable to provide this core service itself. This lets the banks off the hook: by allowing post offices to provide services a bank could provide, banks think they are released from the obligation to maintain a widespread network themselves, and released from engaging in the time-consuming and thus costly interaction with clients.[32]

The KIWIBANK

In the 1980s New Zealand underwent a period of rigorous deregulation and privatisation. One of the results of this process was the split of the postal services into three enterprises: New Zealand Post Office, Telecomm, and Postbank. Postbank was bought by the ANZ bank, an Australian bank, in 1989. This meant that no major bank in New Zealand was locally owned anymore. The market was dominated by four Australian banks and one British bank, all of whom were perceived to charge high and unjust fees. In addition, many branches have been closed over the years, leaving towns and rural areas without branch access or even ATMs. Banks have focused on the corporate sector, neglecting personal and small enterprise banking.

From 1999 onwards, the Government pushed for the founding of a new post bank. In 2001, KIWIBANK was founded as a wholly owned subsidiary of New Zealand Post. It started out providing personal banking only, but has in the meantime expanded into the business market. Its fees are lower than those of the other banks. It uses the branch network of the New Zealand Post Office, but is a separate legal entity. As the New Zealand Post is highly regarded among the population, Kiwibank as a subsidiary can draw on this positive image.

So far, the story is a success. The bank is growing and customer satisfaction rates are high. It has contributed to increased profitability of New Zealand Post, and prevented further branch closures. There also appears to be anecdotal evidence that other banks in New Zealand have lowered their fees to match those of Kiwibank.

The availability of banking services through the Post Office network is a welcome step forward, as it helps people access financial services in an institution they can trust, and increases consumer choice and flexibility. However, it is very difficult to understand why the Post Office is not allowed to offer these services itself, but can only act as an intermediary. Research has demonstrated the reduction in income for post offices and sub-postmasters as a result of the Government's switch to direct payment of benefits.[33] Yet the Government has not allowed the Post Office to find a suitable replacement source of income.[34] An equivalent scenario would be to take away pharmacies' rights to dispense prescription drugs, and ask them to remain economically viable, without allowing them to branch out in other areas of business.[35]

Ultimately, a Post Office Bank, such as exists in many other countries, would be the ideal solution. The viability of this approach is demonstrated by success of the New Zealand Kiwibank. However, this viability crucially depends on having an extensive network that reaches out to those communities with low banking densities and high rates of deprivation and financial exclusion.

Being able to access bank accounts at post offices is rendered ineffective for financial inclusion purposes if there are no post offices to go to.

Conclusion and recommendations

The Post Office network is uniquely positioned to deliver basic banking where it is needed, not just where it is profitable: at the heart of some of the most disadvantaged communities in the UK. A government committed to financial inclusion should make much better use of this respected institution with a real and trusted role in the lives of the financially excluded. To make sure that this happens, there are two broad approaches the Government should adopt:

- First, it should stop the Post Office closure programme and increase the functionality of the POCA to closely resemble a current account. Ideally, it should grant the Post Office a banking license to allow it to compete with banks and to fill the gaps branch closures leave behind.

- Additionally, it should impose a Universal Service Obligation on banks to reverse the current reduction in the bank branch network. At the same time, it should subsidise co-operation between the Post Office and third sector lenders, whilst increasing the POCA's functionality to match the best BBA.

The one option the government does not have is to continue on the current path. This will lead to the eventual full flight of financial services from areas deemed to be unprofitable, leading to greater financial exclusion, with dire consequences for the poor and marginalised in our most disadvantaged communities.

Appendix

Table 3: Available types of basic bank accounts (non-exhaustive list)

Bank	Account	Services available	Debit System	Credit Interest on £1	Other functions/restrictions
Abbey	Basic Account	S/Os and D/Ds	-	-	• No use of branch counter service • Internet banking available
Alliance & Leicester *	Basic Cash Account	D/Ds	-	-	
Barclays Bank	Cash Card	D/Ds		-	• Withdrawal only from Barclays, Woolwich and Post office cash machines • Includes telephone banking
Clydesdale Bank	Readycash	S/Os and D/Ds	Maestro[1]	-	• Including internet & telephone banking
Co-operative Bank	Cashminder	S/Os and D/Ds	Visa Electron[2]	-	
Coventry BS *	BranchSaveMoneyManager	S/Os and D/Ds	-	-	
Coventry BS *	CallSaveMoneyManager	S/Os and D/Ds	-	3.40%	
First Trust Bank (NI)	Basic Bank Account	D/Ds	-	-	• Only cash card, withdrawals only from their ATMs, Post offices in the UK, and AIB Cash machines in Ireland. • Telephone and internet banking included
Halifax	Easycash	S/Os and D/Ds	Visa Electron	-	• Includes Telephone and internet banking • Branch counter use restricted to withdrawals of over £300
HSBC	Basic Bank Account	S/Os and D/Ds	-	-	• Includes Telephone and internet banking
Lloyds TSB	Cash Account	S/Os and D/Ds	Debit Card	-	• Withdrawals only from Lloyds TSB and Post office cash machines • Includes Telephone and internet banking • Access to Scottish Widows pensions and investments
Nationwide BS	FlexAccount Cash Card	S/Os and D/Ds	-	0.10%	• Internet banking included
NatWest	Step	S/Os and D/Ds	Solo[3]	0.10%	• Includes Telephone and internet banking; • Offers upgrade to Advantage Blue account, monthly fee of £6, which gives access to insurance and other savings (e.g. Rail Card)
Northern Bank (NI)	Northern Personal Access	S/Os and D/Ds	Maestro	0.50%	• Includes internet banking and account updates via text (fee based) and e-mail
Norwich & Peterborough BS	Gold Current	S/Os and D/Ds	-	0.10%	
Royal Bank of Scotland	Key	S/Os and D/Ds	Solo	0.10%	• Online banking and mobile pre-pay top up at cash machines
Ulster Bank (NI)	Step Account	S/Os and D/Ds	Solo	-	
Yorkshire Bank	Readycash	S/Os and D/Ds	Maestro	-	• Includes internet and telephone banking

Source: www.moneyfacts.co.uk [11/06/2008] (modified).

1 Maestro is a debit card that allows payment in most shops, sometimes abroad as well, and also withdrawal from any ATM in the UK and at select ATMs abroad.

2 Visa Electron is a debit card issued by Visa that can be used online and in shops, and allows withdrawal of money from ATMs in the UK and abroad. It cannot be used on 'imprinters'. It is usually issued to people who do not qualify for a credit card, as the availability of funds in the card holder's bank account is checked at every transaction.

3 Solo cards are simple debit cards that can be used to pay in some shops, for some online services, and to withdraw cash from ATMs in the UK. Similar to Visa electron, availability of funds in the card holder's bank account are checked at every transaction. They usually cannot be used at ATMs abroad, unless they have a 'Maestro' or 'Cirrus' logo on them. However, cards with these logos cannot be used at UK Maestro or Cirrus outlets.

* Information on this account was only found after a search using the terms 'Alliance and Leicester' and 'basic cash account' on www.google.co.uk.

****No information found on website.**

Endnotes

1 Thomas W (no date) *Basic bank accounts: the case for a universal service obligation,* London: **nef**.

2 Thomas W (no date) *op. cit.*

3 Nissan,S (2008): *A model for funding and supporting CDFIs: Lessons from the United States*, London: **nef**

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18 The Australian ANZ bank, for example, has started to realise this potential. It is running several pilot projects targeted at financially excluded people to increase access to loans and mortgages. One of the rationales for these pilot projects was the potential of these clients to be future ANZ customers.

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26 Leyshon also looked at branch rates compared to the share of population. This demonstrates that less affluent areas have sometimes higher shares of branches compared to more affluent areas. However, this can be explained with clustering of branches in inner cities catering for commuting working populations or visitors, in areas that do not necessarily in areas with high population densities.

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34 Stapelton N (2006) *op. cit.* p. 46, notes: 'The Post Office is either losing clients or losing the exclusive access it provided for products and services.' This further underlines the fact that although it was traditionally the delivery service of choice for government products, it is limited in offering its own products.

35 The current average split in income for pharmacies is 80 per cent NHS-prescription drugs and 20 per cent other business, according to the National Pharmacy Association (information received via e-mail).

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Further information

This briefing paper is the first in a series from **nef** (the new economics foundation) examining how barriers to financial inclusion in the UK can be overcome. This work is supported by the Levi Strauss Foundation.

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