
Post Office Banking: A consultation on developing the banking and financial services available at the Post Office

Response form

The Community Development Finance Association (**cdfa**) is pleased to respond to BIS's review of Post Office Banking.

The **cdfa** is responding on behalf of its 71 members comprised of Community Development Finance Institutions (CDFIs). CDFIs are social enterprises which deliver an appropriate financial service to those in greatest need. CDFIs serve three markets: micro, small and medium businesses in disadvantaged communities; third sector/social enterprise; and financially excluded individuals, providing credit where access to finance has been denied by mainstream financial institutions.

Our response has been informed by direct consultation with the membership.

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 Post Office already offers a broad range of financial products and services. Although the Post Office's financial services are not directly marketed to less well-off in society, this demographic may well indeed make up the majority of its current or potential customer base. The Post Office should further exploit its position in the market by offering more financial services directed towards the financially excluded and vulnerable in society.

One of the main benefits that sets the Post Office apart from other institutions is the number of outlets and the ability to deliver financial services to remote and underserved locations. With its large infrastructure in place the Post Office is well placed to deliver a viable and affordable alternative to the mainstream banks for vulnerable customers. The Post Office is also an extremely well known brand which in the large part is trusted by the market it serves.

At the user end, many customers of CDFIs may well rely on the Post Office heavily for services such as bill payments, benefit receipts and savings accounts. In targeting the financially excluded and those who are 'disillusioned' with the mainstream banks, the Post Office needs to differentiate its products from mainstream banks. In offering such a wide variety of services the Post Office needs to clearly target and advertise towards its customer demographics, with simple affordable financial products. Convenience and cost are the two greatest factors on choosing the Post Office services over mainstream alternatives, especially when affordability is paramount. The Post Office must look to maximise the benefit of both these variables to attract customers and increase its financial reach.

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?

The examples provided do not seem to offer much scope in terms of expanding the services beyond what the Post Office already offers. The main difference overseas appears to be that other nations' Post Offices are branded and marketed as a bank *per se* – using its benefits of trust and local accessibility as a way of carving out a niche to promote its services.

The lessons to be taken from abroad are the rebranding and marketing of the Post Office steering it clearly towards the role of a bank. By adding a basic bank account, a current account, and working to address financial exclusion and access to credit through working with intermediaries such as CDFIs the Post Office has enough financial services to operate as a bank.

Question 3 – Do you agree that these are the right values for banking at the Post Office, i.e. universal, accessible, trusted and sustainable?

Those are the correct values, provided each is defined adequately. *Universal* and *accessible* must include reaching out to financially excluded and vulnerable customers. Services must be accessible – not just via online services or by phone, but directly. Financial exclusion exists particularly in rural and disadvantaged locations where access to a local bank branch is difficult. With the 11,500 outlets access for all individuals and face to face services must be provided to bring vulnerable people into the mainstream financial services industry. Through offering simplified financial products and not operating on the global trading scale as larger banks do, the Post Office can focus on its core customers with a personal service and a sustainable model.

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

Access, support and inclusion are essential areas to focus Post Office services. Access to a bank account and addressing financial exclusion should be imbedded as a core goal of the Post Office Bank. However, on defining financial services the focus is solely on current accounts. Expanding Post Office services in the provision of affordable credit to vulnerable consumers and business in deprived areas must also be a core function of the Post Office. Whilst the Post Office currently offers personal loans, that are at reasonable levels of APR in comparison to high cost lenders, it must focus this service on access to credit for vulnerable consumers. CDFIs operate in helping people find affordable credit they need after being turned away from mainstream lenders. Through partnering with CDFIs where appropriate or creating a loan fund to address financial exclusion the Post Office could reach out to its communities and squeeze out local high cost lenders.

The Post Office should also expand its services and increase access to credit for businesses. Many businesses, especially in the recession, have had difficulties accessing mainstream credit. Limiting loans to individuals stifles business creation and entrepreneurship in UK's communities. Offering loans to micro and SMEs, either through working with existing intermediaries (e.g. CDFIs), or directly through the Post Office would increase the provision of credit throughout the UK. Such services are especially important where Post Offices exist in deprived areas. CDFI growth in these areas suggests that mainstream banks often will not serve businesses operating in these spaces. The Post Office must step in to address the inequalities in the provision of credit across all spheres- both in personal, housing and business.

Access and inclusion together are key to the development of services at the Post Office. Access to all types of credit in remote communities and underserved should be an essential remit of the post office. It should operate with a double bottom line approach with profit making and social goals being equally important in its activities.

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

Financial services from The Peoples' Post Office Bank should include provision for:

- Micro and SME loans and banking services for businesses in disadvantaged communities and
- Bank services, including credit for third sector, charities, community groups, non-profits and social enterprises
- Bank services, including credit for financially excluded individuals

A Post Office Bank will be a true alternative to mainstream financial providers if financial products and services include provision for the above market segments.

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?

Government programmes to address financial exclusion provide a sound framework for building an even more efficient structure for ensuring inclusion of all, even the hardest to reach, in the UK. The Post Office Bank should be designed to facilitate financial inclusion programmes and directly combat exclusion, including schemes to businesses and enterprises, especially in disadvantaged communities. However, it should be recognised that the degree of government support for credit services for people on low incomes may not be, in fact, as “substantial” as could be and claimed by Question 6.

Products and services

We believe the Post Office would serve as an extremely effective vehicle for delivery of selected existing programmes, new programmes as they develop, as well as in partnership with organisations already providing products and services to business and people on low incomes.

Services should include:

- Micro-credit to enable the under- and unemployed to move into entrepreneurship
- Affordable, responsible credit to financially excluded individuals
- Services included credit to businesses in disadvantaged communities
- Services including credit to community groups, non-profits, charities and social enterprises.

The Post Office Bank would be enhanced by partnering with those working in these areas – namely CDFIs.

Delivery Partnerships

Community Development Finance Institutions provide fair, affordable and responsible credit to financially excluded individuals, businesses in disadvantaged communities and to the third sector/social enterprises.

Unless a Post Office Bank is charged with and enabled to develop a provision and capacity for providing products and services to under-served markets, partnering with CDFIs would enable the PO Bank to offer financially excluded customers affordable credit through partner CDFIs.

In areas where partnerships are formed, the services of the Post Office could be tied to the lending activities of CDFIs. For example a CDFI could undertake to manage the lending function of a Post Office branch or group of branches in a geographic area, lending the capital for the Post Office without the Post Office transferring capital to the CDFI. This would effectively be a way of subcontracting the skills and abilities of CDFIs, which already have local knowledge and experience of lending into underserved markets. Specialist skills would be required for the Post Office to undertake a loan book and serve individuals and enterprises in deprived communities. By utilising the existing network of CDFIs the Post Office would not be required to develop its own lending processes, but rather implement tried and tested processes, documentation and practices from the best or most local CDFIs and those with the right processes for each target market. A network of Post Offices tapping into CDFI skills, partnerships, capacity building and development would serve this purpose.

Currently, CDFIs and third sector banks possess the geographic capacity and capitalisation to partner with only a fraction of Post Office branches or, in the aggregate, serve a small proposition of demand for such services.

In order for banking and credit services to be made available to disadvantaged communities and underserved markets across the UK, a commitment must be made to expand CDFI and similar providers working with these markets. Otherwise, the notion a Post Office Bank serving as a bona fide People’s Bank might not be realised. Likewise, the Post Office Bank could develop its own CDFI Loan Fund programme in tandem with community finance intuitions. Possible partnership models could range from customers being directly and seamlessly referred on to CDFIs and other such providers or by PO Bank hosting the actual partner-provider in branch, by phone, or online. Another model proven to work

that demonstrates solidarity across the third sector is and formal collaboration between credit unions and CDFIs, which could be expanded to include PO Bank.

As part of a Post Office Bank programme of support for the third sector and social enterprises, the Bank could invest in CDFIs and other such providers in order to help expand the sector – a need identified above – either into existing CDFIs or by helping to launch new CDFIs in areas lacking such provision.

Post Office Bank investment into CDFIs would enable expanding services to underserved markets, thereby creating a cycle of investment into CDFIs which then, in collaboration with a PO Bank, deliver.

The Post Office could develop investment products using the Community Investment Tax Relief scheme, which provides depositors/investors with a commutative and lucrative tax relief whilst providing revenue to the CDFI sector to use in providing credit to businesses in disadvantage communities.

Finally, the Post Office need also address its own geographic reach, given that many local branches have closed in recent years, many of which my have served disadvantaged communities. In such cases, it might be possible for a Post Office Bank to provide service through an exiting community resource rather than the Post Office itself necessarily needing to be the primary partner and host of all ancillary services.