

## Post Office Banking – Submission, February 2010

### Introduction

1. The Communication Workers Union (CWU) represents approximately 250,000 employees in the postal, telecoms and related industries. It is the recognised union in the Royal Mail Group for all non-management grades including over 5,000 members who work for Post Office Limited, predominantly in its 373 Crown Offices. Unite is the UK's largest trade union representing two million members across the public and private sectors. The Communication Managers Association (CMA) sector of Unite represents 11,000 members, the majority of whom are managers within the Royal Mail Group.
2. Unite is also the largest trade union in the finance and legal sector representing some 150,000 workers in all grades and all occupations, not only in the major English and Scottish banks, but also in investment banks, the Bank of England, insurance companies, building societies, finance houses, business services companies, solicitors and law firms. Unite wishes to see a Finance Sector which is diverse, vibrant, geared to long term sustainability and provides the people of the UK with the financial services that they deserve.
3. The CWU and Unite form part of the Post Bank Coalition which additionally includes the Federation of Small Businesses, the National Pensioners Convention, the New Economics Foundation, Public Interest Research Centre and the Countryside Alliance. As part of the coalition we have campaigned for a new publicly owned Post Bank to be set up, based on the post office network, which would keep profits within the business to ensure its sustainability and provide a new model of banking in the UK. We will also be making a submission as part of the Post Bank Coalition.

4. The CWU and Unite welcome the opportunity to contribute to the Government's consultation and the growing consensus that, as we have argued, the banking services the Post Office provides should be expanded. The post office network is a valued public institution which supports the commercial and social infrastructure of the UK and there is significant potential to build on its current banking provision to help secure the future of the existing network. We are disappointed, however, that the consultation does not explicitly consider the appropriate model for delivering this, particularly after the Select Committee for Business, Enterprise and Regulatory Reform – as it then was – called on the Government to urgently review the strategy for delivering banking services at the Post Office in its report 'Post Offices – securing their future' in June 2009.
  
5. The CWU and Unite believe that the model for delivering banking services is integral to the question of what products it can offer and what benefits post office banking will provide, particularly in light of the Bank of Ireland's financial position. Without a new approach we do not believe that the expansion of banking services, which would be necessary to help secure the existing network or cater for local communities, can be delivered. This needs to be reflected in the proposals going forward and we believe that the failures of high street banks, both before and as part of the financial crisis, show the need for a new model of banking in the UK.

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

6. While there is significant scope to expand banking services at the Post Office and to increase the revenue generated through these, the CWU and Unite place a high value on the current provision. Although this is largely a matter for the relevant businesses – the Post Office, the Bank of Ireland and high street banks – we also value the Government's support for post office banking with the Working Capital Loan, the Post Office Card Account (POCA), Savings Gateway Accounts and Child Trust Funds and it is clear that financial services are integral to the future of the network. In outlining this, it is helpful firstly to provide an overview of the Post Office's financial position.

7. In the past decade around 7,000 post offices – almost 40 per cent of branches – have closed<sup>1</sup> but Post Office Ltd is still heavily reliant on the Network Subsidy Payment from the Government, worth £150m per year, which compensates it for maintaining the network beyond its commercially optimum size. This dependency is manifest in the operating results from Post Office Ltd: in 2008/09 it made a £41m operating profit – its first operating profit since 2001 – equivalent to a £110m loss before the subsidy and the business is anticipating similar returns in the current and forthcoming financial years.<sup>2</sup> Without Government funding, it is clear that the business and the network would be unsustainable in its present form and further closures would be inevitable.
  
8. In light of this, the current contribution of financial services to the business is vital and needs to be sustained as a minimum.<sup>3</sup> One reason for Post Office Ltd's difficult financial position has been the reduction in Government services being accessed through the network – as a result of both Government decisions and consumer behaviour<sup>4</sup> – and a central aspect of the business's strategy to counteract this has been to grow the financial products it offers. These are now an essential strand of the business and account for 31% of its turnover. Post Office Ltd also estimates that the POCA generates £200m income a year, not including the increased revenue this provides through footfall with around 6.5m POCA customer visits to the post office each week. Alongside this, its financial services arm has made £31m, £36m and £34m in profit in the last three years respectively.<sup>5</sup>
  
9. On the current customer numbers alone, the CWU and Unite believe that this contribution from banking services to the Post Office's financial results should

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<sup>1</sup> From 18,393 branches in 1999/00 to 11,327 today. Figures from Postcomm's ninth annual report on the network of post offices in the UK, October 2009. 625 Outreach services have also been introduced as part of the Network Change Programme.

<sup>2</sup> As part of its 5 year business plan to end in 2011 Post Office Ltd is targeting a £50m operating profit after the subsidy in 2010/11. It is on course for a slightly higher return in the 2009/10 financial year as a result of one-off savings.

<sup>3</sup> As we outline in response to Questions 3 and 4 the CWU and Unite believe that sustaining its current contribution requires an improvement to its product range, in particular with regard to the functionality of the POCA which is a key source of income but customer numbers for which are in decline.

<sup>4</sup> Between 2005 and 2009 Government services went from providing 45% of revenue to less than 24%.

<sup>5</sup> This represents 50% of the profits made by the joint ventures with the Bank of Ireland for currency exchange and banking services. The overwhelming majority of these profits come from currency exchange.

improve, although how this will develop is difficult to predict in the current climate. The profit figures consist of its currency exchange and banking joint ventures with the Bank of Ireland, the latter of which was launched in 2004 and moved into profit in 2007/08 with a return of £4.9m; this rose to £6m for 2008/09 (Post Office Ltd received 50% of this).<sup>6</sup> This came from a deposit book of around £7.6bn (this stands at around £8.5bn today) and 2 million customers. The business is at an early stage, so to provide some comparison for its results, in 2008 the Co-op retail bank made £41m profit from a deposit book of around £7.9bn.<sup>7</sup>

10. This potential improvement does not detract from the need to expand the business and the Government has recognised the need to continue its financial support for the network beyond 2010/11 when the present settlement expires. With negotiations currently taking place, it is not clear what level of funding will be available for this.
  
11. The Post Office clearly needs to find new sources of revenue and expanding its banking provision offers a significant opportunity for doing so. As the leading foreign currency provider in the UK,<sup>8</sup> the primary access point for National Savings & Investments<sup>9</sup> and with a network more extensive than all of the banks in the UK put together the Post Office has a strong base to build upon. As we outline in response to Question 3, however, the most pressing issue that the Government needs to address is how this can be achieved.

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<sup>6</sup> The banking profit figure for 2008/09 was calculated using the overall amount for the two joint ventures in Royal Mail's annual report and accounts of £34m (representing the Post Office's half share) less £31m – half of the profits from First Rate Ltd., the currency exchange business. £3m would be Post Office's 50 per cent share of this and £6m would be the overall profit. However, we note that the accounts for Midasgrange Ltd (the banking business) published with Companies House in 2010 list its profits as £14.9m. This would give the Post Office a £7.5m share rather than £3m. The reason for the difference between these amounts is not clear.

<sup>7</sup> Figures come from the Co-op Bank's Annual Report for 2008. It should be noted, however, that the Co-op Bank's retail banking profits are likely to be significantly lower for 2009 with losses from impairments and reduced income from interest as a result of the financial crisis.

<sup>8</sup> Postcomm's ninth annual report on the Post Office network

<sup>9</sup> NS&I's annual report for 2008/09 shows that for the last financial year 58% of NS&I's income from sales was generated by the Post Office (counter sales accounted for 36% while postal sales through the Post Office accounted for 22%). Direct Internet sales through NS&I accounted for only 17%.

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?

12. In the last fifteen years a number of countries have reformed or introduced post office banks including France, with la Banque Postale launched as a fully licensed bank in 2006, Germany, with PostBank acquiring its own banking licence in 1995, Italy, with Bancoposta launched in 2000, New Zealand, with Kiwibank launched as an independent bank in 2002, and Brazil, with Banco Postal launched in 2002.
13. As noted in the consultation document, current accounts and business accounts are a significant omission from the products offered by the UK Post Office's joint venture with the Bank of Ireland when compared with post banks around the world and as we outline in response to Questions 3 and 4 the CWU and Unite believe that these core basic products are central to attracting new customers.
14. A further unique feature of the provision in the UK is that the Post Office provides access to accounts from other banks alongside its own financial products (which are part of a joint venture). We believe that this reflects the Government's focus on using the Post Office as an *access point* for banking, rather than developing the banking side of its business. In our view this strategy has been mistaken and has both hindered the development of banking through the Post Office and missed an opportunity to reduce its dependence on Government funding. If it is to emulate the success of Kiwibank and Bancoposta – which are widely recognised as having secured the financial viability of their respective networks – its own banking services must now be given a greater priority and driven forward in a concerted way. While the Post Office carrying out transactions for high street banks helps to counteract their retreat from communities and tackle financial exclusion, without a secure network this access will not be possible in the future.
15. As the consultation states there are a number of models which have been adopted by different countries for financial services through post offices. As members of the Post Bank coalition we believe that the most appropriate model for the Post Office would be an independent, publicly owned, Post

Bank and as our research from YouGov referred to in Question 3 indicates there is a clear public demand for this. On an international comparison we believe that the most successful Post Banks such as Germany's PostBank and France's La Banque Postale, both of which have over 11 million account holders, have been based on this model.

16. The CWU and Unite believe a number of lessons can be learned from the example of Kiwibank in New Zealand, a fully licensed bank wholly owned by New Zealand Post, and that some similar services to those it offers could be provided by the Post Office. There are a number of parallels between the two in terms of banking, with both businesses being launched into established markets, in part as a response to the retreat of high street banks from smaller communities into larger cities. Both the New Zealand Postshop and the Post Office had also previously been home to banking services which had been sold off to other businesses.<sup>10</sup>
  
17. There are two specific services we believe could be offered by the Post Office which Kiwibank provides. Firstly Kiwibank has a number of mobile business managers, who will visit customers at home if they book an appointment to discuss a loan application. One benefit of this is that customers do not need to wait to see someone at a PostShop and it also ensures access to services which an individual office may not be able to provide, for instance where it does not have the facilities for customers to speak to someone in private. On both of these counts we feel that a similar service may be a beneficial addition to post office banking in the UK. Mortgages are only available at the larger post office branches and if the Post Office is to fully capitalise on the advantages offered by its extensive network a mobile capacity may be necessary. We understand that other banks in New Zealand have followed Kiwibank in providing this service following its commercial success.
  
18. Secondly, Kiwibank offers its own pre-paid card product, the Prezzy Card, which allows a customer to upload money onto a basic debit card which is independent from a bank account (allowing them to withdraw money from a cash point or use to pay a third party). Prepaid cards are attractive to a range of people (those without a bank account, someone travelling or parents

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<sup>10</sup> Alliance and Leicester bought Girobank in 1990 and New Zealand's PostBank was sold to ANZ in 1988.

providing money for a child for example) and there are a number of these available in the UK with differing purchase, upload and withdrawal fees. Some prepaid cards can be bought at the Post Office, but we believe there may be an opportunity for it to offer its own prepaid card.

19. We note that the forthcoming upgrade the Post Office Card Account will only enable users to access their money over the Post Office counter or at Post Office or Bank of Ireland cash machines (which make up only 3.6 per cent of the total ATM network in the UK<sup>11</sup>) and will not provide a direct payment service to third parties. As we outline in response to Question 4 we believe that this is an area where the POCA must be improved, but a pre-pay card may appeal to some POCA users in the interim, particularly those who do not have a bank account.

20. Kiwibank has also been quick to embrace technology and the CWU and Unite believe that the Post Office needs to mirror this to cater fully for its customers and match services being provided by competitors in the UK. Kiwibank offers mobile banking – with text message alerts, updates on request and mobile credit top up facilities – and online and mobile Internet banking. The Post Office currently only allows Internet access to four of its products – credit cards, instant saver accounts, growth bonds and guaranteed equity bonds – on a PC (but not for Mac computers) and has no mobile service. We feel that this is an area where the Post Office is behind its competitors and could learn from Kiwibank. As we propose in response to Question 6, the Post Office could also emulate the M-PESA mobile payment system to offer a new product in the UK which could additionally help tackle financial exclusion.

21. Finally, micro-credits are offered in post offices in a number of countries including Brazil, India and Malaysia and we believe that this is a service the UK Post Office should offer. We would emphasise, however, that while there is a unique opportunity to provide these services through the Post Office and for it to become a success in the manner of Kiwibank and other international comparisons, the consultation will not achieve either of these things if it only results in a list of products the business could offer. As we outline in response

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<sup>11</sup> Figure from *Opportunity Knocks*, Consumer Focus survey January 2010

to Question 3 there needs to be a step change in banking, starting with the model being used, for this to happen.

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

22. The CWU and Unite are members of the Post Bank Coalition which has campaigned for a new publicly owned bank to be set up based on the Post Office network, keeping profits within the business and providing socially useful banking services to small businesses and communities across the country as part of a Universal Banking Obligation. We believe that this would provide a universal, trusted and accessible bank which would help sustain the Post Office. A central part of this campaign is the argument that a new model is needed for the provision of banking services at the Post Office to deliver these goals and we regret that the Department for Business, Innovation and Skills has not included this issue within the current consultation.

23. We believe that there is clear public and parliamentary support for our campaign. In the last parliamentary session EDM 1082, which backed our call for a publicly owned Post Bank was signed by 219 MPs; in the current session EDM 344, expressing regret at the failure of the consultation to discuss the appropriate model for post office banking and calling for the establishment for a Post Bank, has been backed by 171 MPs.<sup>12</sup> Support for the Post Bank campaign is also demonstrated by a YouGov survey of over 2,000 adults in the UK commissioned by the Post Bank Coalition, which found that:

- 78% of respondents were in agreement that following the financial crisis there is a need for a new model of bank, run in the public interest and not solely for profit;
- only 13% agreed that high street banks currently meet the needs of local businesses and communities;

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<sup>12</sup> As of 11<sup>th</sup> February 2010

- 72% agreed that all of the profits from post office banking should stay within the business and be used to sustain the network;
- and 63% said that they would be likely to use a publicly owned Post Bank run in the public interest.

24. With regard to the proposals in the consultation the CWU and Unite believe that the appropriate model for banking services is intrinsically linked to the values for banking at the Post Office and that these values cannot be meaningfully discussed without reference to how they can be achieved. Most pertinently on this point, we do not believe that the current partnership with the Bank of Ireland can deliver an expansion in banking services or the values of universality, sustainability and trustworthiness that the Government is hoping for. We believe that a Post Bank would do so and urge the Government to support the establishment of a Post Bank.

### **Current banking services at the Post Office and the Government consultation**

25. At this stage it is helpful to provide an overview of the current banking provision at the Post Office. Firstly, it provides access to basic accounts for all, and current accounts for the majority, of the main high street banks. Alongside this the Post Office acts as a point of sale for National Savings and Investment (NS&I) products and provides the Post Office Card Account in partnership with the Department for Work and Pensions, a benefits payment account (not for customer deposits), which will be accessible across the network and at Post Office and Bank of Ireland cash points as a result of changes being introduced this year.

26. The Post Office also has its own banking business which is a joint venture with the Bank of Ireland (this comprises two companies: First Rate Services, which is exclusively for currency exchange, and Midasgrange, which covers savings and lending products). The profits from the joint venture are split equally between the Post Office and the Bank of Ireland and it is scheduled to run until 2020. We understand that under the terms of the agreement to set

this up the Post Office cannot offer products jointly with another bank (aside from providing an *access-point* for high street current accounts).<sup>13</sup>

### **Post Office Ltd's joint venture with the Bank of Ireland**

27. The consultation document discusses four possible products which the joint venture could offer – current accounts, business banking, child savings accounts and a weekly budgeting account – while proposing greater access to credit unions and high street banks through the network. However, the CWU and Unite are concerned that the Government's belief that these new services will be introduced by the partnership with the Bank of Ireland is misplaced and that the joint venture model itself will not deliver the aforementioned values.
28. The Bank of Ireland is now part owned by the Irish Government, which has a 25% shareholding, and is awaiting a decision from the European Commission on the state aid implications of plans to transfer an estimated €16bn of bad debts into the state-owned National Asset Management Agency (NAMA).
29. In the first six months of this financial year the Bank of Ireland made a loss of €1bn and if the transfer of bad debts to the NAMA goes ahead it has estimated that it will need to write off up to €3.4bn as a result of the discounted rate at which the bad debts are purchased.<sup>14</sup> Along with shouldering the loss, the Bank of Ireland will need to raise billions of Euros to restore its capital base and meet its Tier 1 target ratio.<sup>15</sup>
30. The EU decision is expected at the end of the first quarter of 2010 and the transfer of loans to the NAMA are expected to run until half way through the year. We would therefore anticipate that the bank will make a significant loss

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<sup>13</sup> This is in line with the uncorrected transcript of evidence from the Minister for BIS, Pat McFadden MP, from the BIS Select Committee on 19/1/2010. He was quoted as saying 'My understanding of that contract is that the Post Office are not in a position where they could simply offer children's savings with one bank and perhaps the weekly budgeting account through another bank, and so on. It is quite a broadly based contract that they have.' Note, neither witnesses nor members have had the opportunity to correct any errors in the record.

<sup>14</sup> Bank of Ireland six month interim results for 2009/10.

<sup>15</sup> The Bank of Ireland has estimated that if the transfers had been made in September 2009 its Tier 1 capital ratio would have stood at 4.2%, rather than its current level of 6.6%. Reports from Ireland suggest that it will need to raise €1.4bn just to reach 5% – the Bank's target however is to have an 8% tier 1 equity ratio (Irish Tribune Report by John Ihle 8/11/2009, *Bank of Ireland claims 8% equity capital is correct level*).

in 2010/11 and that its focus will be on ensuring the survival of the business in the coming years.

31. Alongside its financial straits the Bank of Ireland will be required to focus on its domestic market. In order to save the business from insolvency the Irish Government has provided €3.5bn in state support and it will take immediate responsibility for the bank's bad debts through the NAMA. In his Budget speech for 2010 the Finance Minister Brian Lenihan stated that he was determined that taxpayers would see a return in the form of credit from the bank<sup>16</sup> and in line with this its latest six monthly results state that it is actively seeking to de-leverage its UK residential mortgage book while referring to efforts to increase lending to first time home buyers and SMEs in Ireland.<sup>17</sup>
  
32. In light of the foregoing, the CWU and Unite do not believe that the current partnership with the Bank of Ireland will deliver the products discussed in the consultation or the expansion of the Post Office's banking business which would be necessary to achieve the values that the Government has proposed. We understand that discussions on the provision of a children's savings account through the joint venture have been shelved and that plans to offer current accounts by the end of 2010 have been postponed due to lack of available funds for investment in their roll out from the Bank of Ireland.
  
33. The CWU and Unite believe that the value of sustainability must be the priority for developing post office banking: without a secure network the other benefits cannot be delivered. With Post Office Ltd making an operating loss in the region of £100m before Government subsidy, this will not only require a significant expansion in provision, but a rapid one: firstly as we note in response to Question 4, the number of POCA users declined by 400,000 between 2006 and 2008 and, with POCA representing around £200m worth of income for the Post Office each year, this trend needs to be halted; secondly, the Post Office currently has a unique opportunity as a trusted

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<sup>16</sup> Financial Statement of the Minister for Finance, Brian Lenihan TD, 9/12/2009.

<sup>17</sup> The NAMA scheme will also provide a formal structure to ensure that the Bank of Ireland is lending in its domestic market, by giving SMEs recourse to an independent tribunal if they are refused credit.

alternative to the high street, but with a plethora of new competitors entering the market it cannot stand still.<sup>18</sup>

34. However, with the Bank of Ireland simultaneously realising significant losses, seeking to increase its capital base and coming under pressure to engage in new lending in its domestic market it is not in a position to deliver this. We believe that without a change in strategy for providing post office banking the future of the network will remain at risk. Furthermore, we feel that it is unrealistic to expect products which are universally appealing or trusted to be delivered by a bank which is writing off billions of Euros in bad debts.

### **The joint venture model**

35. While we do not believe that the current joint venture with the Bank of Ireland is in the Post Office's interest, more generally this business model itself presents barriers to moving the business forward and delivering the proposed values.

36. Firstly the partnership model involves splitting the profits equally with an independent bank, and this has seen over £100m being taken out of the business by the Bank of Ireland in the past three years. If the Post Office is to have a secure future the CWU and Unite believe that the profits from its banking products need to stay within the business and in light of the above figures the YouGov survey conducted on behalf of the Post Bank Coalition showed 72% of respondents agreeing that *all* of the profits from post office banking should stay with the Post Office and be used to sustain the network.

37. Secondly, the joint venture model gives rise to a conflict of interest. One example of this is with the POCA, where the contract is with the Post Office alone. POCA customer numbers are declining and the Post Office needs to act quickly to halt this. It can only do so through the joint venture, but the Bank of Ireland does not sustain a direct loss from the decline and the joint venture does not have this imperative to act.

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<sup>18</sup> Both Virgin Money and Metro Bank are high profile new entrants while Tesco bought out its own joint venture with RBS in 2008. Furthermore, three new high street banks are expected to emerge from the state-owned banking assets.

38. This conflict also arises with business that the Post Office's commercial partner receives from Post Office customers on its own products which are not covered by the joint venture. While we understand that the Post Office receives a small commission for this, the Bank of Ireland keeps the profit and benefits from a new customer in the long term. The CWU and Unite believe that this business represents a missed opportunity to help sustain the network, but the conflict arises with regard to expanding the joint venture: while this would clearly be in the Post Office's interests, sharing the profits may act as a disincentive for its partner to invest.<sup>19</sup>

### **Proposals for a Post Bank**

39. As part of the Post Bank Coalition the CWU and Unite have campaigned for a new publicly owned Post Bank to be established through the Post Office network. As an independent bank, providing its own services on a similar basis to New Zealand's Kiwibank, 100 per cent of the profits would remain within the business helping to significantly reduce dependence on Government subsidy – in the last financial year this would have reduced the operating loss made by Post Office Ltd by just under a third.

40. Furthermore, we believe that a publicly owned bank, which is set up with a Universal Banking Obligation, would provide services which the mainstream banks have failed to offer, catering for small businesses and the financially excluded both of whom are highlighted as priorities within the Government's consultation. A Post Bank based on this model would deliver the banking values that the Government has proposed and the socially useful bank that the public want to see.

41. The Post Bank Coalition has proposed a number of routes for delivering a Post Bank as set in our campaign literature.<sup>20</sup> These include using banking assets currently in public ownership or the NS&I business – which has £96bn

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<sup>19</sup> This is highlighted by the case of business banking. Currently, facilities for businesses to deposit and withdraw money through the Post Office are only available to customers with business accounts with the Bank of Ireland, Alliance & Leicester and the Clydesdale Bank. The Bank of Ireland therefore benefits from the most extensive branch network in the UK and while it would clearly be in the Post Office's interest – not to mention the interest of small businesses – to provide new business banking services, this will not necessarily be the case for the Bank of Ireland.

<sup>20</sup> Both 'The Case for a Post Bank' and 'Delivering a Post Bank' are available at <http://www.cwu.org/42032/people-s-bank.html>

in customer deposits – to form the basis of an independent bank. We have also proposed that funding could be generated from an issue of bonds to the public.

42. With the Post Office currently receiving £150m per year from the Government and re-negotiating a new subsidy from 2011 the CWU and Unite believe that there is a firm case for public funding to support the establishment of a Post Bank, by frontloading this investment. We would urge the Government to act on this in order to safeguard the future of the network and deliver the values for post office banking that it has proposed.

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

43. The CWU and Unite agree that both current accounts and business banking should be an immediate focus for the Post Office, as core services, which can act as the foundations for further expansion. We also feel that the Post Office, as a publicly owned institution, is a natural home for a weekly budgeting account and that it should provide children's savings accounts. However, as we outline in response to Question 3, we remain sceptical that the current joint venture will deliver the products proposed in the consultation and we believe that there needs to be serious consideration as to how these can be provided.<sup>21</sup>
44. Given the financial position of the Post Office a key focus needs to be on the profitability of the business and improving the functionality of the Post Office Card Account (POCA) must be a priority in this respect.<sup>22</sup> Between 2006 and 2008 the number of POCA users fell by around 400,000 while the number of people receiving benefits through a bank account rose by 900,000. The POCA has been limited to enabling users to withdraw benefits at the Post

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<sup>21</sup> We understand that plans for current accounts are being delayed, children's savings accounts have been shelved and that there are no firm plans for new business services. Furthermore, we do not believe the Bank of Ireland will be in a position to introduce a weekly budgeting account, which is unlikely to be seen as a significant profit maker.

<sup>22</sup> Post Office Ltd estimate that the POCA is worth £200m income per year, not including additional revenue this creates through footfall.

Office counter and we believe the trend towards bank accounts demonstrates a preference for more services, such as depositing money and for the payment of third parties. This is borne out by recent research from Consumer Focus, *Opportunity Knocks*.<sup>23</sup>

45. The new POCA to be introduced this year will extend access to Post Office or Bank of Ireland cash machines, but we believe this is still too restricted. On top of the other additional functions they provide, basic accounts with the main high street banks commonly offer debit facilities and access to around 64,000 ATMs and cash services over the Post Office counter; the new POCA will only be accessible through around 2,300 ATMs. One potential way to address this is the proposal from Consumer Focus for a new Post Office account, with functions such as deposit and debit services, a bill payment facility and a small overdraft, which is aimed at those on low incomes. We would urge the Government to work with the Post Office to deliver such a product, which may help to tackle the decrease in the use of the POCA; there may be scope to combine this with proposals in the consultation for a weekly budgeting account.

### **Access to high street banks and credit unions**

46. The CWU and Unite welcome proposals to increase the number of high street current accounts available at the Post Office; this will expand access to banking and potentially help to tackle financial exclusion. We note that both RBS and Northern Rock are in majority and complete state ownership respectively and we believe that the Government should act to ensure that they reach a settlement with the Post Office.

47. The consultation also proposes for access to credit union accounts to be offered through the Post Office branches. Again, the CWU and Unite welcome this tie-in and, as we have advocated through the Post Bank

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<sup>23</sup> 'Opportunity Knocks' surveyed over 1,000 people with low incomes on their preferences for different types of account compared to the new POCA from 2010. This showed 43% of those who use the POCA to receive benefits and also have a bank account of some sort expressing a preference for basic bank accounts over the POCA and 22% of those who only have a POCA expressing a preference for a basic bank account. Only 7% of those receiving benefits through a bank account expressed a preference for the POCA.

Coalition, believe that a Post Bank should have a close partnership with credit unions to tackle financial exclusion.

48. However, we would caution that the Government's proposals should not be seen as a panacea to the problem. The Commission for Rural Communities reported that 'the infrastructure required [to tackle the problem of financial exclusion] (credit unions, debt advisers, banking facilities etc.) is weak and often missing in rural areas,'<sup>24</sup> and the Financial Inclusion Taskforce have noted that 'it will take significant time to build adequate capacity and coverage among third sector lenders.'<sup>25</sup>
49. With varying coverage of credit unions across the country many areas lack adequate provision and these providers are seeing a significant increase in applications for credit as a result of the financial crisis and the recession. In light of this we believe that a Post Bank offering micro-credits would help to meet demand and the proposed tie-in with credit unions should not obscure the need for this.

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

50. As outlined in our responses to previous questions the CWU and Unite regard current account and business banking services as particularly important for expanding and improving banking at the Post Office, with a view to achieving a more sustainable network.
51. Along with these services, as part of the Post Bank Coalition we have suggested a number of new financial products that we believe a Post Bank should offer and which would provide socially beneficial services such as green energy bonds, local Government bonds and products to pioneer investment in local economies. These would involve the Post Office lending to or investing in socially useful projects such as local businesses or charities

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<sup>24</sup> Rural Economies Recession Intelligence April 2009 briefing note from the Commission for Rural Communities

<sup>25</sup> Financial Inclusion Taskforce Report for the Budget 2009

and we believe that this would be a unique selling point for a new bank, particularly in the wake of the banking crisis.

52. As a highly regarded public institution the Post Office is well placed to offer this. The extent of the Post Office network also means that these products could be locally targeted, listing projects in an area that were being supported.

53. In July the Government Office of the Third Sector's consultation on establishing a Social Investment Wholesale Bank recognised the need to generate more credit for social enterprise and identified a market failure in this respect. We believe that a publicly owned Post Bank could offer products at a retail level to help meet this need.

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?

54. As we outline in response to Question 3 the CWU and Unite believe that the Post Office should be 'universal' in catering for all sectors of society and in particular for those whose needs are not met by the market, such as those on low incomes or the financially excluded.

55. To achieve this, we firstly believe that the Post Office should offer micro-credit lending services. In April 2009 the Government's Financial Inclusion Taskforce noted a significant increase in demand for credit and a lack of capacity of credit unions to meet this. The Taskforce report stated that 'research has shown that many consumers require small cash loans that mainstream credit providers do not offer. These loans are typically under £500 and are repayable over short periods by weekly payments. Mainstream banks have little appetite or capability to serve this market effectively.'<sup>26</sup>

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<sup>26</sup> Financial Inclusion Taskforce Report for the Budget 2009

56. A publicly owned Post Bank based on the Post Office network would be well placed to offer micro-credits at reasonable rates. In this context we note that losses for credit unions are typically low and we therefore believe that a Post Bank could effectively control this lending by the amount of credit it provides, rather than by imposing higher rates or charges on this.
57. As we outline in response to Question 1 the CWU and Unite believe that the Post Office must offer full access to its services through the Internet and mobile phones. While the Post Office needs to catch up with other banks in this area we believe that there is potential for innovation here which could distinguish a Post Bank from the competition and cater for those on low incomes in a new way.
58. One proposal for this would be a service based on the M-Pesa mobile-banking account which was initially launched in Kenya by Vodafone and Safaricom after its development was sponsored by the Department for International Development. This enables third party payments, cash withdrawals at registered outlets and receipt of money through a mobile account. It operates through a tailored sim-card rather than particular software or a particular phone so there is a large potential market for this in the UK.
59. Again, however, as with the proposed values and products for post office banking, while we fully support the Post Office catering for those on low incomes we do not believe that this will be provided without a radical change to the current model.

## **Conclusion**

60. As we have stated above, we welcome this opportunity to engage with the Government's consultation and the recognition that the Post Office's own banking services must now be expanded, particularly with a view to improving the sustainability of the network. Given the value of the Post Office to communities across the country, the unique levels of trust it has and its wide ranging network, we believe that there is now a significant opportunity to mirror the success seen in other countries with post office banking.

61. However, we do not believe that the required expansion can happen without a change in the model being used. Furthermore, while we agree with the values proposed by the Government, these can only be delivered by a publicly owned Post Bank, run in the public interest. The YouGov research we have commissioned evidenced significant public backing for this and we would urge the Government to support this as a matter of urgency once the consultation closes.

### **Notes – YouGov poll**

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2097 adults. Fieldwork was undertaken between 26th - 28th January 2010. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

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