TRANSCRIPT OF ORAL EVIDENCE

MINUTES OF EVIDENCE

TAKEN BEFORE

FINANCIAL INCLUSION COMMISSION

CHEYNEYGATES ROOM, WESTMINSTER ABBEY, LONDON SW1P 3PA

TUESDAY 13 JANUARY 2015

MR ALEX LETTS, MR DAVID HARWOOD and MR DAVE POOLE

Oral Evidence

Taken before the Financial Inclusion Commission

on Tuesday 13 January 2015

Members present

Sir Sherard Cowper-Coles
Professor Sharon Collard
Mr Laurie Edmans
Mr Nick Hurd MP
Dame Mary Marsh
Mr Chris Pond
Ms Sian Williams

Witnesses: **Mr Alex Letts**, Ffrees; and **Mr David Harwood** and **Mr Dave Poole**, Brighthouse.

Chairman: Thank you very much for coming along. I will just say a brief world about what the Financial Inclusion Commission is, although you have already had the papers, and then I will get the range of Commissioners here to introduce themselves. Then we will ask you each to make an introductory statement and then we will get into questions and we have got about an hour. The Commission was not my idea. I think it was the idea of Chris Pond who is the Vice Chair sitting on my right. His thinking and our thinking now was that very good work was done by the Financial Inclusion Task Force chaired by Brian Pomeroy, who is our President, which wound up in 2011, and in the run-up to the next UK Election it made sense to take stock of the state of financial inclusion in the United Kingdom and to make in politically digestible form some suggestions for what the next Government should be doing in this area. We plan to publish a report in March of this year. We are a cross-party Commission. We have Nick Hurd from the Conservative Party here, Lord Archy Kirkwood has just left us from the Liberal Democrats and we have Wilf Stevenson from the Labour Party. This is the final evidence session in London. We have got one in Glasgow on Friday and then we will be in the business of really putting together a report which will be published in March.

My name is Sherard Cowper-Coles. I work for HSBC Holdings leading the Group's work on financial inclusion around the world, both in terms of what we say to the regulators around the world with whom we deal and those who regulate the regulators, the politicians, about financial inclusion and also looking at the way in which the Group should position itself in terms of products and presence and policies so that we can address and be seen to address the problems of financial exclusion. I am chairing the Commission. On my right is Chris Pond

Mr Pond: Chris Pond. You have heard my role in the Commission. My day job is with an organisation called Kraeb Gavin Anderson which is an international communications agency. I also chair the Money Charity, a financial capability charity, which I know some of you have been working with, and the Standards Board on Equity Release. In a previous life I have two confessions. One is that I did work for the regulator the FSA on financial capability and I even spent eight years in the House of Commons, but I have been going straight ever since!

Ms Williams: Sian Williams. I am at Toynbee Hall, which is one of the leading charities looking at financial inclusion in the country. My depth of knowledge I guess is that I am the one who will really pick holes in everything you are going to say so I apologise for that in advance.

Mr Hurd: Nick Hurd, Member of Parliament for Ruislip Northwood and Pinner.

Mr Edmans: I am Laurie Edmans. My background is in pensions and life assurance. I am still doing it so I am not going straight yet. I chair the Trinity Mirror Pension Scheme, a small life company and I am also a non-executive director of the Money Advice Service.

Dame Mary Marsh: I am Mary Marsh, mainly involved currently in the charity sector but with a background before that in education. I am also a non-executive director on HSBC in Europe and have some other non-executive roles.

Professor Collard: I am Sharon Collard. I am based at the Open University Business School at the Centre for Public Understanding of Finance.

Q. Chairman: Then we have got Jennifer and Lisa and Deven, the intellectual support team, and everything you say is being transcribed. Would you like to each introduce yourselves and make an opening statement? It is a rather interesting combination of Ffrees and Brighthouse.

Mr Harwood: First of all, I would like to thank you very much for inviting us here today to talk about financial inclusion and the role that Brighthouse and others can play in contributing to the debate. I am David Harwood. I am the Company Secretary for Brighthouse and prior to that I was with the previous parent Thorn which opened the business. I am going to talk a little bit initially about the business history and where it came from. I am joined by Dave Poole, who is our Chief Risk Officer, who will explore a little bit more about the customers we serve and also those that we cannot serve because there is an element of that.

At Brighthouse we are proud to serve a group of customers who are predominantly low-income families who are under-served by the current market in terms of mainstream lenders and are frequently demonised in the press in the way that they are spoken about. To put our business in context, I think it is worth considering where it originally came from. In the 1960s and 1970s, it was common and many millions of UK householders used to rent a television from companies like Radio Rentals or Granada. Why did they do that? There were three principal reasons. Firstly, they could not afford to buy the goods outright. Secondly, they were concerned about the high cost of repairs. Thirdly, they were comforted by the fact that they knew they could give the goods back at any time and have nothing further to pay.

In 1994 Thorn EMI opened the Brighthouse business as a sister company to Radio Rentals and they did it in order to provide a similar service to people that they saw were unable to gain access to goods elsewhere. We have built over the last 20 years a company that has 291 stores across the UK. We have created 3,000 jobs in the UK and we are very proud to serve over 270,000 customers as we stand today. In doing so, we operate as part of the competitive alternative credit market, as we refer to it, which serves the majority of those who are excluded from mainstream credit. Without this market there is no question that the number of people completely excluded would be significantly increased. Indeed, there are now around 12 million adults in the UK who rely on this market because they lack funds to buy goods outright and they cannot access mainstream credit because the banks do not lend to them at the moment. This hinders access to goods that you or I would take for granted - televisions, washing machines, fridges, that sort of product. At Brighthouse what we seek to do is provide affordable and fair credit in this market. We do that through our rent-to-own proposition. Our typical customers, as I said before, are families. They manage their finances weekly. Their income sources tend to be from either full or part-time employment often backed up with tax credits and other forms of benefit. What they want is to avoid building a debt that they cannot afford to repay. What they fear is the unexpected bill that might knock their finances off track. Furthermore, they need flexibility in the face of the increased volatility in the income that they receive which has been driven over the last few years by factors such as the increase in part-time working, the increase in zero hours contracts and also the ongoing welfare reforms that we have been seeing.

The Brighthouse proposition has been designed to try and serve those customers so the customer's payments are fixed across the life of the agreement which gives the customer certainty as to the amount they have to pay. Delivery and installation are included and all repairs of loan items are covered should they be necessary. If the goods are accidentally damaged or destroyed in a fire or stolen then they would be replaced or repaired without any excess for the customer to pay. On top of that the agreement had been designed so the customer has the right at any time from day one through to the last day of the agreement to return the goods in any condition for any reason and they will have nothing further to pay. Effectively, they can walk away with no commitment. That is what puts them in complete control. Because we understand our customers and the challenges they face, we have a range of ways we could help them should they fall into financial difficulty, whether it be a temporary change or a more permanent change. For example, we offer contract extensions without any extra charge being added. If somebody is two or three weeks late we add that to the end with no adjustment to interest or anything like that. They can often swap out a product for a cheaper one if that is suitable for them and if something is a medium-term drop in income, then we offer a service where they can give us the goods back for a period of time. For a period of three months we would hold the specific item for them and give it back to them at a later date when they could afford it. Alternatively, for a period of up to a year we would then re-start them with a similar product of a similar age to the one they had before. Those are three of the ways that we can help our customers. The design of the proposition is meant to be flexible to give that purpose. That summarises us and what we are offering and I will turn over to Dave and he will give you some more insight into the customers that we cannot serve.

Mr Poole: The majority of our customers do not have access to credit facilities from banks, mainstream lenders or indeed in many cases credit unions. That said, we also are unable to provide credit to around 20% of those who apply to us because they do not meet our minimum creditworthiness or affordability criteria. That is around 25,000 households a year who approach us whom we cannot serve. That is a figure that has not substantially changed throughout the economic cycle. For these individuals we can try and signpost them to free debt advice and encourage them to understand how they can improve their credit rating. We noted one of your questions in the call for evidence was around credit scoring and the role credit scoring plays in financial inclusion or exclusion and we do use relatively sophisticated, bespoke credit scoring to determine those customers whom we can and cannot lend to, and for those we can lend to the extent of the credit we should be extending. We believe it remains the most objective and reliable means of determining the likelihood of default in a group of customers. We utilise full credit reference checks as part of the process and we firmly believe that greater data-sharing from lenders, landlords and utilities would lead to better lending decisions in this market. We do however believe that credit scoring is only a starting point in determining creditworthiness and far more important is the relationship with our customers that we build over time, so we get a greater understanding of their ability to repay and the sustainability and the affordability of an agreement. From the market that we operate in we understand the challenges faced by those consumers excluded from mainstream credit and we also recognise that there is a part of the market that we are still unable to service. We believe that this sector will never be served by banks, mainstream lenders or credit unions. We welcome a robust regulatory environment which works in the interests of consumers but care needs to be taken to ensure that there are not unintended consequences which might cause a larger percentage of people to be excluded from credit altogether. Some might argue that the banks should play a greater role, but in this post-recessionary period it is understandable that they cannot take these additional risks both regulatory and financial. The challenge for all of us is to devise a system that can assist this disadvantaged group and reduce the risk they resort to unlicensed and unregulated lenders.

Q. Chairman: Thank you very much. Alex?

Mr Letts: I am Alex Letts. I am the founder and Chief Executive of Ffrees Family Finance as we were originally called. We are a commercial VC-backed entity which also has received funding through from the Big Society Capital fund and from the British Government and from the European Development Fund through Nesta and through Finance Yorkshire. It is a happy coming together of interests between the perceptually rapacious venture capital world and the much more socially aware and socially fair type of investors like Nesta and Finance Yorkshire. What Ffrees has been designed to do is bring a modern, better current account product and service to the market that is available to anybody and everybody regardless of their financial or economic or demographic status. That is being done against a background of extreme competition from a variety of other well-established banking providers. It has proved to be remarkably successful in its first year of operations. In just one year without having a fully-fledged product Ffrees has already reached and opened accounts with just under 50,000 customers, 62% of whom come from within what are social impact investors, which is categories 4 and 5 of the ACORN descriptions, which is Financially Stretched and Urban Adversity postcode communities.

So how does Ffrees hope to succeed and become the million customer brand over the next three year that it believes it can? First of all, it obviously has to get a full banking competitive product out there. At the moment it does not have direct debit and faster payments, which has been an issue brought about by Ffrees being the new kid on the block rather than any deliberate attempt to obstruct a better product for a wider community. That will be available in April. It has also not had the full digital mobile banking applications (or apps) which will also be available in April as it launches its new product set, which will be a direct comparison for any current account in the UK.

So what? Why is Ffrees attractive to a very wide audience and why is it so, if we can use the expression for current accounts, financially inclusive? Ffrees has a purpose which is, as I have said, regardless of status to reach into every sector of the community in the country without prejudice. That prejudice is generally built around credit rating, but also if you are a bank, you struggle, in fact I think (although I have eminent members of the banking community here who will tell me otherwise, I am sure) about 60% of customers who have current accounts with the major retail banks are unprofitable or tend to be over-charged, as we all know with the steep interest rates and expensive and unsuitable credit products that get sold to customers whose vulnerability is traded on if they make a mistake and become accidentally overdrawn or go over their overdraft. These people are sold overdrafts in the first place when I am not sure they are necessarily productive for them. Our difference is that we have built a business model that allows us - and this is a crucial component of Ffrees - to be commercially viable and profitable without offering any type of debt product and by encouraging our customers almost in everything they do to save up and to put a little bit of money on one side and to have easy, simple ways of paying their bills for ongoing liabilities and putting a little bit of money aside each month and maybe something for a rainy day. Ffrees customers will never save up enough of a cash pile to change their lives through using the current account. The nature of the amount of money that a typical customer might have at the end of the year in their separate savings pot that we give them is probably £300 to £400, but, picking up on Dave's comments here, that is the sort of money that allows them to put up a barrier against unexpected financial events that might drag them down the road of borrowing money at high interest or even worse falling into the arms of the loan shark community.

One thing I should really say is that our product is built around a proper current account. Its secret is that we run ours on the electronic money rails not on the full banking rails. We have taken what was a prepaid card-type infrastructure and we have repainted it and reworked it in many instances, particularly by April, to be an exact replica of the current account product when it will run on full debit card rails. What it means though is we do not have the big fat operational footprint linked to the IT. We have a very modern, flexible digital platform that we are operating off and we built and we do not have the costs, the regulation, the infrastructure problems, the perceived ethical problems and the other capital requirement costs that are bearing down on the banks. So we have a clean canvas. We can go and operate to a very wide audience and offer a product that is both financially fair, encourages people to save up rather than to borrow money and encourages people to access their money and manage their money in a way that will de-stress their lives.

Q. Chairman: Thank you both very much. As a matter of form we are asking all witnesses just to confirm for the record that you support the principle underlying the Commission promoting more financial inclusion in the UK? It is evident from what you say.

Mr Letts: That is definitely correct.

Mr Poole: Has anybody ever said no to that?

For the record – Mr Poole and Mr Harwood both respond in the affirmative.

Chairman: Who would like to ask questions among my fellow Commissioners?

Q. Ms Williams: Can I pick up on some facts and figures. I do not know if it is possible for you to share but I did not catch the number of people of your total client base who have taken up the Ffrees account so far? Do you have figures for that?

Mr Letts: We need to be very careful when talking about free accounts. There is no such thing ---

Q. Ms Williams: I mean a no fee account.

Mr Letts: There is no such thing as free in the world of banking.

Q. Ms Williams: I am not talking about costless. I am talk about free to the customer.

Mr Letts: Again there is no such thing as a free account. What we have is an account which there is no monthly charge for. Think of Ffrees like a mobile telephone company where you have pay-as-you-go or you have a contract.

Q. Ms Williams: I am just asking in your language, you call it free.

Mr Letts: 70% of our customers opt for the pay-as-you-go product which has no monthly charge. In other words, what they are paying for is they will pay for the use of the ATM, they will pay for setting up a standing order and they will pay for various other components as they go along. There is a clear - I hope - and transparent pricing sheet on our site.

Q. Ms Williams: Just a note then, I am looking at your website and it does very clearly say that it is free.

Mr Letts: Does it say free?

Q. Ms Williams: It says it is “simple, easy, fair and free” on your website, so you might want to think about that language because that is very misleading.

Mr Letts: It is horrible if it does. It should not do. Thank you.

Chairman: She did warn you in advance!

Q. Ms Williams: So 70% of people opt for that?

Mr Letts: Yes, 70%, and, interestingly, we have some data on why they come to Ffrees. Of those people who join, 80% say they come because they cannot get overdrawn and 80% say it is free to join and it has no monthly fee so quite a high proportion are attracted by the fact that it has no upfront fee. Sadly, if I could change it I would because it is a word that has been introduced since the mid-1980s of “free” banking, which is probably the biggest mistake the banks ever made or one of the biggest mistakes, and we all now have to go along with that terminology.

Q. Mr Pond: First of all, I have got to declare an interest because, as I say, I have got an involvement with the Money Charity who has been doing some work with Brighthouse in terms of their procedures and Alex and I have been talking quite a lot since the work I had done with the CHJ on debt and I am keen on promoting that sort of account. Putting that to one side for a moment, both of you have talked about the credit history issue. We know for many people that is a major barrier to financial inclusion. I think you talked, Dave and David, about having a sort of tailored approach to looking at people’s credit scoring and, Alex, you are offering accounts regardless of people’s credit history where they cannot go overdrawn. How does that fit together? How can you, Alex, in a sense, take that risk and is there something that you are doing at Brighthouse which mitigates the risk that you face?

Mr Poole: I think the significant difference between the two is that Alex is not a lender whereas we are. There is an asset going into the customer’s home where we want to feel some degree of confidence that there is a willingness as well as an ability to meet the payments for that asset or that if the customer cannot meet the payments they will hold up their end of the bargain and return it to us or choose to take one of the forbearance options, but I think the risk associated with our business is quite different to that associated with Ffrees and therefore it is appropriate for us to at least set a minimum threshold of creditworthiness that we can operate at.

Mr Letts: We take no risk with our customers. You might argue we do not offer overdrafts because we cannot. The truth of the matter is that we have been having some debate about this, and we do have a fair debt loan product that our customers may access, it is not ours. In my experience, and this is based around this 83% of customers who come to us because they say they do not want an overdraft, as soon as you give someone an overdraft they run it up to the limit and as soon as they are up to the limit they tend to want to go over the limit or do accidentally, which is where they run into really bad problems. I think a lot of customers see Ffrees as a way to impose some self-discipline and if we offered, which we could do through third parties, a rolling overdraft capability, I think it would be unhelpful to our customers and unhelpful to the mission that I believe in which is we have to get people in this country to start to think a little bit more - I am not talking about asset-based credit, I am talking about non-asset-based credit - about not borrowing but actually saving.

Mr Poole: I think there is also a point worth making around the significance of credit history and how that has perhaps changed over the last 20 years and certainly significantly in the last ten years. I think the principle of what represents an impaired credit file has changed markedly since the financial crisis. Anecdotally, you will hear evidence of mortgage applications being refused for a single missed payment on a credit facility over quite an extended period of time because the risk appetite of the mainstream lenders and the banks has shrunk back so significantly that the customers who lack access to what we are defining as mainstream facilities (although I am not really sure in this day and age what that definition of a mainstream facility actually is) is much greater. We use credit history certainly, but we will trade with customers with credit files that are less than perfect and we do represent an opportunity for them to actually start creating some good credit history again.

Q. Dame Mary Marsh: You are very different businesses right from the point I am going to make about your direct relationship with customers where you have retail stores and face-to-face contact. I am interested, Alex, in how did you connect with your 50,000 customers and you are heading for million you say in a fairly short time-frame? How do you connect with them for them to find you and how do you continue the relationship? Because you have got this very smart digital basis that you operate on so what about the digitally excluded and just how are you reaching people?

Mr Letts: Digitally. And you are going to say to me that not everybody has a smart phone or internet access. I have to say that I brought this along. I do not know if you can see it, but that is an age profile, and you can see the gist of it, of our customer base. As you can see, this end down here is the younger end. Every bank in the country wants to have the so-called millennials as their customers. These are the millennials and that age here, the highest point on here is about 33 years old, so what you are getting, what our audience tends to be - although my greatest fan is an 85-year-old called Rosie who has asked me to marry her (I am still considering it!) and it is for everybody regardless and anybody can join - is those who are the smart phone generation. 95% of our customers have smart phones. The smart phone generation tend to be under 50 and the younger users under 40, maybe under 35, and they tend to be saying, “I have had a bad experience or have heard bad stuff from friends about banks” or “I don’t need a bank; I just want to access my cash.” Most people tend to go to banks or tend to need a bank because they want to have access to non-asset based credit, I think. So our users tend to be that generation and they all have smart phones. However, very interestingly, because it is something that troubles me slightly, we pulled some research from 2012 about smart phone penetration and what it shows is the very high penetration of smart phones right across the age group and socio-demographic profile. In 2012 it is still showing as only about 60% in some of the lower demographics. That is still a high penetration and that was two years ago and we all know what has happened with smart phone penetration since then. Certainly it is not pervasive amongst the financially excluded but it is as close to being pervasive or will be by the end of this year as you could possibly get. People have smart phones.

Q. Dame Mary Marsh: Is social media an important part of your marketing approach?

Mr Letts: Yes, again because we have a small footprint and we have to operate on a commercially viable basis, our whole customer engagement programme (ICE - integrated customer engagement) is around a platform that allows us to Facebook our customer. We have a team of 20-somethings Facebooking with our customers, working out with them what their issues might be, solving their problems and taking abuse from time to time, as one does, and dealing with it, so it is done digitally.

Q. Dame Mary Marsh: And your socially fair investors have they taken a long-term view on return?

Mr Letts: I have had a lot of experience of dealing with venture capitalists over the years, it has been my life (or my burden) and my experience of dealing with the impact investment community is they have the most commercially sensible attitude to life, which is instead of expecting a 10X or 20X return for a three-year investment, they built their maths around a realistic return as long as they get some kind of sustainable output. So you get the likes of Nesta and other impact investors that we are talking to who look for a 2 to 3X return over a five-year period which is a sensible return for one's money and gives you a chance to build a sustainable business that can scale and actually be there in ten years' time to support the goals that they want to support as well as we want to support.

Q. Professor Collard: I have a couple of questions, one just picking up on that discussion with Alex. Just from your description, I wondered whether your account is an account that attracts people that have had financial difficulty in the past, had their fingers burned and are now looking for an account that does not offer them credit because that is something that they want to avoid?

Mr Letts: Yes.

Q. Professor Collard: It might not be an answerable question. It is just a thought.

Mr Letts: It is very easy to make generalizations, and we have a lot less research having only been in business for a year to be credible than say a bank has, but if I look at the figures, 65% of our customers have a current account somewhere else which means the obverse of that is 35% have not, and they tend to be younger people I suspect coming to the market for the first time. The 65% who do are frightened of being overdrawn, as I have said before. They are attracted by the idea of saving: 80% say they like the idea of saving up and putting by a few pennies. One of the things we operate is we say to customers on joining to put aside a pound a day. You have a current account, we are not a savings deposit taker but you can ring fence money in what are called “jam jars”. I am sure you know what they are which means it is safe and you have to smash the jam jar if you want to get it out and you can attach that to a payment mechanism to pay for a credit loan or a credit-based deal. We say to our customers a bit along the lines of eat five a day fruit and veg, save a pound a day and at the end of the year you will have 365 quid in your current account. About 17% of our active customers take that up. About 20% of our active customers say they would like to take it up but still say they cannot afford it. But a £1 a day is a cup of coffee.

Q. Professor Collard: One of the criticisms of the Brighthouse model has been the fact that you offered insurance which was optional for people to take up but very often became something that was mandatory almost because people were not able to buy the goods in store without taking out that insurance. That has been one of the criticisms of the industry that has come through from various research reports in the past. Is that something you have sought to address and how would you respond to those criticisms?

Mr Harwood: I would say at the moment we do provide a policy as part of the package. We do not sell it separately. It is just provided. In terms of trying to design the product to meet customers’ needs, we are trying to avoid that unexpected payment that might arise from the goods being stolen, which means they have then got a bill and no product, or if it is damaged that would then need to be repaired that would not be covered without some sort of policy. What we do know is that a lot of our customers do not spend money on insurance, and if they do have a policy the chances are there is an excess on that policy which would mean that an accidentally damaged television would still result in a bill for them which is why we took the decision to include it. It is something we are looking at to see whether it could be done differently.

Q: Professor Collard: At the moment people could not opt out of having that insurance?

Mr Harwood: Not at the moment, no, because we looked at our proposition and said what do we need to have in it to make it suitable for the customer. The concern was, as I say, a lot of our customers are not insured at all and if they are they typically have an excess, so therefore we wanted to make sure, quite often they get damaged by children running around the house, and if that happens the product can get repaired or replaced with no excess. My own policy at home has an excess and I think it is more prevalent on the lower accounts.

Q. Professor Collard: Is it possible to say what proportion of the overall cost the insurance premium would be?

Mr Poole: It is very small. We are about to break out on our price tickets to give our customers a greater ability to compare the price of the goods, the price of the service, the price of the insurance. Typically the insurance on a washing machine might be something in the region of £30 over a three-year period.

Q. Professor Collard: That will be explicit on the price tickets?

Mr Poole: Yes, that is happening from the middle of February this year.

Q. Professor Collard: I just have another question. It was just because we have seen such a lot of focus on the payday lending industry and from the beginning of the year we have seen a cap on payday lending. I just wondered if in your part of the industry you have seen any knock-on impact from the middle of last year when the changes started to happen? Do you think you are picking up any fall-out from that change or is it a different type of product so you do not think they are substitutable?

Mr Poole: One of the beauties of using full credit reference data is we are able to see the other credit commitments our customers have. Fewer than 6% of our customers would have a payday loan so the use of payday loans is not prevalent in our customer base.

Q. Professor Collard: You are not seeing any increase in that? You are not anticipating seeing any increase in that?

Mr Poole: No, we think the payday lenders are in many cases lending to a different group of customers than the ones who would find Brighthouse meeting their needs.

Q. Mr Hurd: Having set up with starter capital I am delighted at the impact on those communities active in the space. I have two questions, one is about growth and the other about challenges. In terms of your growth and your target of one million customers, I did not hear when you would hope to hit that? My core question is would you expect that split of the 65/35 to be sustained on that growth curve, ie, what proportion of your customers would you expect to be new to the system?

Mr Letts: One of the problems with Ffrees at the moment has been we have not had access to the direct debt and faster payments infrastructure which has been an incredible constraint on our ability to grow. That is, by the way, not pointing a finger at anybody. It is because we were not mature enough as a business or credible enough as a business in my opinion to merit serious consideration for that. From April we will have that. The difficulty that customers have with us and the reason they do not put all of their account with us, they tend to use us as a control of their money/chequing account (although we do not have cheques) is because they cannot pay by direct debit. It is my business plan's belief that as soon as we have the ability to offer direct debit and faster payments we will see a much higher number of our customers giving up their other account and switching to us because they have a better, clearer, more transparent way of budgeting and they cannot get overdrawn. At the moment not having direct debit stops them doing that.

I do not expect the obverse to your question which is will we get more people who have never had a bank account. There are, depending on whose numbers you believe, I believe around 3 million people in the UK who do not have a current account. The Treasury puts out 1.5 million but that data is two years out of date. The Cantor research is more recent. So, if there are only 3 million people in the country who do not have a current account, it is not a huge growth opportunity. Of those that do not have bank accounts and are financially excluded, some of them are beyond even our help if you like. They may be very old, they may not have access to the internet and they may be beyond our help so what we are trying to do is affect the under-banked as opposed to the unbanked.

Q. Mr Hurd: A question on jam jars. One of the things that struck me most powerfully through the evidence is the lack of financial resilience out there and the enormous vulnerability to shocks. That has led to plenty of suggestions about the need to incentivise savings and the creation of a financial buffer for people possibly using matched funding and various other schemes. I am interested in your insights from the jam jar product as to whether you think some form of incentivisation for savings would work or is there a fundamental problem you are highlighting which is they just do not have enough money to save?

Mr Letts: It all depends. There are two reasons people might use a jam jar. One is to save up. At Ffrees you get cash back when you make retail purchases and those get put into your current account in a jam jar. This shows some savings to encourage you to save up. And then we encourage you to put in other savings. So saving up per se using a jam jar is one way. The other use of the jam jar and I think the easiest way to incentivise it is for paying bills. Our jam jars currently, as I have said before, do not include direct debt. They connect to standing orders, which is not the be-all-and-end-all. Once jam jars can connect to direct debit from April, I will be going to companies like these guys and saying, "I want to incentivise your customers to have a jam jar attached to a direct debit because you know the money is going to be there at the end of the month to pay for the jam jar and I want you to incentivise the customer by giving them some Ffrees that I will put in their savings account for doing that. I think it is perfectly feasible to go to housing associations, to go to utility companies and to go to other companies that have direct debit arrangements with customers and say you know that the likelihood of getting paid by a customer who is using a jam jar is much higher than if they are not using a jam jar so give them some financial benefit for using the jam jar. It does not mean certainty but it is much closer to certainty. That is how I think you will incentivise the use of jam jars in future to be done not by some great handout to people saving up but for people using jam jars to pay their bills and keep on top of their finances.

Mr Harwood: One of the things that some of our customers tend not to be keen on direct debit because if it goes wrong they get a big charge from the bank. What they tend to prefer is a continuous payment authority on a debit card which provided you use it in the correct way, is better for the customer. We would make two attempts to get the full amount and after that we cancel it and get in touch with the customer. There is no charge for the customer if it does not get paid. Maybe you want to put a jam jar attached to it.

Mr Letts: We offer CPA already but when you search for continuous payment authority on-line you get such horror stories that our customers shy away from it. I do not know the answer yet to when we have the direct debit in place what happens when a customer's direct debit fails; are we going to penalise them? What I do know is we will not penalise them in any way, shape or form the way they get penalised by their current providers. But there may be a charge to us from the banking infrastructure if a direct debit fails, I think it is £6 although I am not quite sure, so we are setting up an early warning system around direct debits because we also have text communication with our customers. Those who have apps will get alerts through the apps as well. That acts as an early warning system to try to make them put more money into their jam jar to pay their direct debit.

Q. Chairman: So the text message will be linked to the direct debit, will it?

Mr Letts: Yes, what our processing provider has is a capability for the account details to contain a telephone number so you get a text message if you do not have enough money in the account when you are due to pay a direct debit and you can put an early warning system around that.

Q. Chairman: Is there the ability to get a text message three days before a direct debit is due?

Mr Letts: Hopefully a bit before that. These things all take time to get right. I could anticipate a moment in the future where we have a much better early warning system for our accounts based on customers' monthly behaviour where we know this is going to happen at this stage in their account. I cannot promise that from April but, as we get more sophisticated, we will be able to offer better and better services in this respect. That will help people better manage money. As you know, one of the biggest stress providers in people's lives is overuse of managing their money. One of the other things that we want to introduce because people do not understand their bank statements either is we are trying to just make a bank statement a graphical representation as opposed to a list of numbers. Again, these are all things on my wish list and if I had £100 million or £5 million extra I could go and do it tomorrow but we only have 20 developers.

Mr Poole: I would like to pick up on a point that Alex has made there about bank statements. In our market-place we have tried to make greater use of customers' bank statements in our affordability processes. We ask all of our customers to provide us with validation of their income for each agreement they enter into with us, but their bank statements can be incredibly confusing. Our customers will tend to use them in one of two ways. You will see an amount of cash go into the bank account and you will see that entire amount of cash be withdrawn and the customer will then use that to budget on a cash basis from day-to-day or you will see multiple small cash withdrawals throughout month that are being used to meet bills as they fall due. I think some better way of being able to explain to the customer how they are using their money would be welcome.

Mr Letts: I call bank statements classic rear view analysis and what we have to get to - and we can get to quite quickly but not today - is a system whereby we are giving a forecast as opposed to this is what happened last month and we are able to say this is what is going to happen this month. I think that will help customers better.

One other thing that would be useful for you to know about use of current accounts is that of the money that gets deposited that gets put into their chequing account/current account 50% of that money, almost exactly 50% (and this has not changed across the year that we have been operating) is taken out as cash. So for whatever reason, even though they have a fully-fledged debit card, people are still taking out 50% of their money as cash, even if they have to pay to take it out as cash, they use an ATM. If you want to take it out as free you take it out as cash back in the supermarket, but if you take it out as cash you will probably pay for that, depending on the type of account you have, and 50% of the money comes out still as cash. I do not understand it.

Q. Chairman: Do you provide contactless cards?

Mr Letts: We will do from April.

Q. Ms Williams: The announcement in December from the Treasury around the changes to basic bank accounts, personally I worked very hard on that for the last year with the Treasury so I am very excited about that, but I suspect you might feel differently because that is going to affect your business model. Do you think it presents a challenge to a company like yours or do you think it is a different segment of the market you are not trying to reach?

Mr Letts: If you allow me, I have three strands in answer to that. The first is I overheard some chap who has been trying for two and a half to three years to launch a current account for the unbanked and I heard him refer to that as anti-competitive practice getting together a bunch of banks who say we are going to provide a product that will out-compete other providers. Frankly, my perspective is the sooner we get rid of this whole free banking nonsense the better. No, it is not a problem for me at all, purely because unless banks suddenly become charities (which I think is probably against their nature based on experience) they will have to charge for their services fairly and that is what that alleged agreement was about. So I see it as a precursor to banks quickly reversing out of the free banking product which the CPA and the Payments Regulation from Europe will stop them doing anyway from 2016, so it is just a precursor to a whole campaign for banks to say we are going to charge you fairly. Transparency of charging? Rock on. By the way, I thought the whole agreement and the way it was announced and the way it was publicised was shabby and did no-one a great service. It did not list the banks. If you look on the Government website it does not list who the banks are. It calls it an agreement to agree. It has no guarantees around agreement being delivered. If you are going to do it let's do it properly. Let's get transparent and get on with it getting rid of free banking, charging people for what it costs and let's have fair and open and transparent competition.

Q: Ms Williams: We have had a conversation previously so you know some of my thoughts around this and I do absolutely subscribe to a free and competitive market. Do you have a problem with your marketing model? I just want to ask you about it. It follows up on Sharon's comment. For example, on the website the price promoted is the weekly payment and currently on your website and in your shops you do not break down that price into the cost of the product, the cost of the services and then the cost of the insurance and then the cost of the interest. So, for example, today I could buy a particular washing machine in Argos for £299 or I could pay - and it is just an example and I appreciate that - £1,716 if I took your product or your payment terms, so that is a huge difference. One of the things that I really believe is that we have got to build both an inclusive system and skill people up to navigate that system, but from my perspective where you are falling down is not that you are charging a lot of money because people can choose to buy or not buy, but you are not appropriately telling people what they are paying for because you never break down the costs in the true cost of the product and then the cost of insurance or services that I may or may not want a then a cost of interest on that. I heard you say that you are looking at that. How far will you go? How transparent will you be?

Mr Poole: We are going to absolutely break it out on every single price ticket on every product on the internet and the date for that happening at the moment is 16 February. It is not just something we are just thinking about, Sian; it is something that is absolutely happening.

Q. Chairman: Just to be clear, you will break out within the weekly payment or over the total cost of the agreement? I know it is in the tables at the back of your catalogue but how are you going break it out?

Mr Poole: Firstly, I would like to make the point that at the point a customer signs up for a product with Brighthouse, and that will always be completed in store, the total price that they are going to pay is completely transparent, so the customer will absolutely understand what the cost of the item is, the cost of credit and therefore the total repayable.

Q. Ms Williams: Not just cost of the item but the cost of the services. They have to be separated out.

Mr Poole: That is absolutely what we will be doing from the middle of February, so the customer will see the cost of the product, the cost of the service package, the cost of the insurance and the cost of delivery and installation of that product. Then they will see separately what the interest charge for that will be. What we also have done and will continue with a commitment to do so is to publish manufacturers' product codes so the customer can directly compare the product on-line, they can compare what buying a similar warranty would cost, they can compare what insuring that product against fire, theft and accidental damage might cost, so they can absolutely compare what they may be able to do somewhere else versus what they can do with Brighthouse.

Q: Chairman: The problem though is if you are a single mother and Christmas is coming - and I have been through your catalogue, I have got one in my office - you are desperate to get a television for your kids for Christmas or whatever it may be, and on the main pages of your catalogue all you can see is you can have this flat screen television for £6 a week. Then the children are screaming for it and then when you come to sign or look - but of course that is how you operate. I just want to ask you very quickly how do you deal with arrears? How many of your customers get into arrears or is your credit scoring so good now that a very small proportion would?

Mr Harwood: Just before that I would like to go back to the point you have just made. The key thing is we have an attractive proposition for our customers but, as Dave said, out front we do have a very detailed credit score and we discuss the affordability of the customers before they would sign up for a contract and make sure they know the full cost to them but also letting them know that they can stop at any time, which is a big part our proposition. The rental element is very important.

Q. Chairman: I know that is a key part of the proposition, but we are talking about human beings and human psychology. I live in Ealing and there is a socking great Brighthouse store in one of the poorer parts of West Ealing. These are human beings and these are people who, as you say, could not otherwise afford a washing machine or a telly for their kids. It is all very well to say they can ring up Brighthouse and say, "Can you pick the washing machine up?" but they have still got to wash the children's clothes or still keep the kids quiet. I know that is the theory, but I also ask you as a human being to think a little bit about they are vulnerable people, they are people who, as you have said so many times, cannot otherwise get access to these products, but carry on.

Mr Harwood: A washing machine is a good example actually. To go to a launderette would probably cost £20 or £30 a week, and that is the choice they are facing. They can get a washing machine in their house and do the washing at home for a small amount of money and their choice is the launderette several times a week. That is the choices our customers make. What I was going to say to you is the fact is that we do affordability tests before we sign anybody up on an agreement and make sure they fully understand it. Dave can now talk about what we do when people fall into arrears. I think it is important to understand both parts.

Mr Poole: I would like to say our credit scoring systems are so good that we have absolutely eradicated arrears, but I am afraid I cannot say that. Around 10% of our agreements will miss a payment on a weekly basis. Our arrears management protocol is that we will send a pre-delinquency text message or interactive voice message to a customer on a Saturday because most of our accounts are due on a Saturday. We will remind the customer if the account has not been paid by the middle of Saturday afternoon that the payment is due. If the payment is missed, on Monday morning we have a central contact centre based in Sheffield and we will start to contact customers who are in early arrears from first thing on Monday morning. All customers will receive up to half a dozen contact attempts per day so we will try twice in the morning, twice in the afternoon and twice in the evening. If the customer answers the phone and makes a commitment to repay and promises to pay the account within a certain period of time then they will receive no further contact. If we have been unable to contact the customer in that first week of arrears, then we will seek to try and visit them at home in the second week that they missed the payment. For 90% of those visits, the door will not be answered and we will leave a card to remind the customer. Essentially what we are trying to do on those home visits, we do not collect cash on the doorstep; we are trying to reconnect the customer back with the store or back with the contact centre so we can discuss their issues with them and offer them one of the various forbearance options that David described earlier on. After 84 days we will cease any further attempts to collect arrears and the account is essentially defaulted and written off at that point.

Q. Ms Williams: I assume you sell the debt on?

Mr Poole: We do.

Q. Ms Williams: Do you have any relationship in terms of customer support and management and quality control who you sell debt on to?

Mr Poole: Yes, we do. We undertake a fairly extensive audit of anybody that would be purchasing debt from us.

Chairman: Thank you very much. Thank you for coming in and for a really interesting and rich session of evidence. Good luck in your future business models.