

## Introduction

1. We welcome the opportunity to respond to this inquiry.
2. We have been operating as a limited company subject to the Companies Act, owned and funded by Government, since separation from Royal Mail in 2012.
3. Post Offices are at the heart of Welsh life. Over 93% of the population have a Post Office within a mile of where they live. People want a shop, a bank and a Post Office in their community. Increasingly, Post Offices enable all three.
4. For people without cars, or who don't have access to public transport, for those who don't do business online, and for small businesses serving or operating from rural communities, we are increasingly the only place where they can deposit and withdraw cash, pay bills, collect benefits, send parcels and transfer money around the world. In 2018 customers undertook nearly 850 million transactions in Post Offices across the UK.
5. We bring trusted competition into markets, from cash to bill payments to homephone and broadband, to identity services. Through the Post Office Card Account, we provide pensions and benefits in cash for 1.1 million people, many of whom do not have access to a bank account. Over 85 million bill payment transactions were undertaken in Post Offices last year and over 128 million banking transactions. In Verify, we have leading market share against four private sector competitors on the Government's digital identity framework. We are the largest retailer of both Mails and Foreign Currency in the UK and support the delivery of the Universal Service Obligation on mails.
6. Over 99% of UK consumers with bank accounts and 95% of small businesses can undertake basic banking with us. On a normal day we manage and control some £1.5 billion of cash. Our personal financial services business has built up a savings deposit book of £14.2 billion.
7. The value of Post Offices is recognised by customers and communities. In November 2016 research by YouGov/London Economics obtained values of "willingness to pay for the Post Office network" by households and small businesses in the range of £4.3 billion to £9.7 billion.
8. Other research from the New Economic Foundation suggests that the value of each individual Post Office to their local economy equates to some £310,000 each year. These reports show that Post Offices are widely trusted, have a presence in nearly every community and that the network plays a crucial role in the sustainability and commercial vitality of the communities that it serves.
9. Since separation from Royal Mail, Government policy for the Post Office has been largely consistent: maintain a truly national network, providing 'Services of General Economic Interest (SEGI)' while enabling a reduction in UK Government financial support. We provide SGEIs, as required by Government policy. These include processing social benefit and tax credit payments to the public; processing national identity and licencing scheme applications; universal payment facilities for public utility services; access to postal services as well as universal access to basic cash and banking facilities.

### **Scope and value of the Post Office Network in Wales**

10. The Post Office network in Wales is at its most stable for several decades. Reflecting the rurality of Wales, around 68% of service points serve customers in rural communities. With 930 access points (Unaudited, March 2018), the Post Office is itself the largest retail network in Wales and plays a crucial role in the social cohesion and vitality of the communities that our branches serve.

11. Post Offices are deeply embedded in Welsh communities. They stimulate local economies by making it possible for local enterprise to access the services they need to run successful businesses, creating further opportunity and keeping a locality flourishing. Furthermore, Post Offices across Wales are located in many different types of business, further reflecting the local economy – from garden centres and farm shops to cafes and service stations. A number of Post Offices are also run in local pubs and in community-run shops.

12. The Association of Convenience Stores publishes an annual UK and Wales specific “Community Barometer” which shows the value people place on different local services and the contribution they make to their community. For the third year in a row, in both reports, Post Offices are seen to have the most positive impact on local communities.

13. The network comprises of Post Office branches on high streets in towns, cities and villages, supported by a range of outreach options that connect vulnerable customers in smaller and isolated communities across the country to important government and commercial services. These outreach points, which include service provision from visiting Postmasters in public buildings and visits from one of the 12 mobile Post Offices that serve numerous rural communities in Wales, ensure that customers in these areas can still access services as close as possible to the community in which they reside.

### **Increasing access through the Network Transformation Programme in Wales**

14. Post Offices are the largest retail network in Europe and support convenience stores and a range of other outlets by driving footfall and providing additional income.

15. The UK-wide Network Transformation Programme (NTP) has seen significant public investment in Post Offices across Wales. To date, across Wales, over 500 branches have been modernised either on-site or at a nearby premises. In total, opening hours at these modernised branches have increased by over 17,000 hours per week, equivalent to over 350 new Post Offices in Wales, based on traditional opening hours of 46 hours per week. Out of these 500 or so modernised branches, 332 branches are now offering a seven-day-a-week service to local customers.

16. The investment programme has resulted in many Post Office branches being integrated into retail shops, with customers benefitting from longer opening hours in modernised premises and the retail partner from additional income. This investment has meant that Post Offices are now a much more commercially attractive proposition for local businesses, thereby encouraging entrepreneurship in, and sustainability for, the local community.

### **Enquiry Question: The current position regarding access to banking services in Wales, to include issues relating to financial inclusion and digital inclusion.**

17. Post Office is the **largest physical banking network in the country** with more branches than all major banks combined.

18. The Banking Framework Agreement, launched in January 2017, enables 99% of all the UK’s consumer banking customers and 95% of small business banking customers to access basic banking services through every Post Office branch and outreach service.

19. **Post Office moves over £70bn of cash around the country each year** through our own supply chain – we have been handling high volumes of cash for many years and have the infrastructure and people in place to do this very well.

20. While we provide access to banking for 28 banks, **we are not currently able to provide a shared hub for these banks to sell products**. We may be able to offer a future ‘surgery’ type service whereby a banks’ representative can arrange to meet with their direct, existing customers using our appropriately sized locations to host those meetings. We have a compliance relationship with Bank of Ireland, whose products we do sell in our branches, to expand this arrangement to fit with the compliance regimes of 27 additional financial institutions would be incredibly difficult for Post Office Limited and Postmasters, and confusing for customers. We have also been approached by a number of building societies exploring whether the same would be possible for their customers (the largest, Nationwide, is already on board for cash withdrawals and balance enquiries).

21. For **Post Office to acquire its own banking licence we would need to take on several billion pounds of additional funding to meet capital adequacy requirements** and it would almost certainly render the existing Banking Framework invalid as we would be running a competing offer alongside other banks. The additional challenge of requiring all our Postmasters and staff to become regulated and trained IFA advisors would be significant. Equally, the impact on the transactional nature of Post Office daily life – interrupted by longer ‘advisory’ conversations (in an appropriately private setting) – would lead to extensive queueing. Any expected increase in the Post Office role to offer complex, regulated and licensed banking products would need substantial analysis before coming to a conclusion.

22. **Post Office is not intended to replace a full bank branch** – we provide basic cash in and out transactions for personal and business customers. We cannot provide account servicing for our partner banks, they must own the customer relationship. **Our focus is on supporting community access to everyday banking (cash) services vital to the local economy, and therefore delivering for customers of our partner banks, not competing with them.**

#### **How do customers view the Everyday Banking offer?**

23. We have very positive feedback from customers using our Everyday Banking services, our lowest score **so far in 2018/19 was 89.6% customer satisfaction, the highest was 93.2%, that’s based on around 3,000 customer reviews.**

24. The banks’ own customer research also backs this up, with some even seeing customers preferring to use Post Offices for cash in and out services, perhaps because you can also do other things at the Post Office and the opening hours are invariably longer, so it is likely that customers find it more convenient.

#### **How does Post Office support vulnerable customers in accessing cash and their broader banking arrangements?**

25. We offer unrivalled relationship with customers, this means Postmasters can provide informal pastoral care such as looking out for people who miss their regular branch visits.

26. We also have a range of training, from mandatory general compliance training to advance Financial Services compliance training for branches selling financial services, to a new module specifically covering how to support vulnerable customers which we have developed with charities.

27. We work very closely with banks who announce local closures. We then work with their staff to ensure any vulnerable customers known to that bank are escorted (if necessary) to the local Post Office, they meet the staff, and we can adapt our service to them to accommodate any special needs they may have. We have done this in numerous locations UK-wide over the past few years. Post Offices deal with a wide range of customers and we always have done. We’ve been supplying cash to some of the country’s most vulnerable people for decades so are very well placed to pick up where the banks are unable to provide a physical branch of their own.

28. Many customers who use a bank branch which closes will already be using a Post Office, it’s a brand people are familiar with, we might just need to help them transition over and use Everyday Banking services when they haven’t used them before.

## Growing awareness of Post Office Everyday Banking Services - Post Office and Banking Industry Five-Point Plan

29. Following the Autumn Statement 2017, the Post Office and the banking industry worked together to develop and deliver an awareness-raising programme around the Everyday Banking services. This ran alongside the Post Office's own in-branch campaign and a national advertising campaign which features Everyday Banking.

30. The main pillars of the **five-point-plan** are:

1. Raise awareness of banking services available at the Post Office via regional and targeted localised pilot media campaigns. These will be timed to coincide with Post Office in-branch campaigns across the Post Office network.
2. Support specific communities, including those impacted by bank branch closures, through information leaflets, joint Post Office and bank outreach to communities and improved collaboration between Post Office and banks during any bank branch closures.
3. Promote the Post Office as an integral channel for day-to-day banking, with clear and prominent information for customers in banks' literature, on websites and telephony channels.
4. Provide enhanced support for vulnerable consumers to be developed based on Citizens' Advice best practice guidelines.
5. Carry out ongoing monitoring of awareness and confidence in the Post Office counter service.

31. Following the campaign, awareness of at least one service was measured as high as 77%, up from around 50% in the past, though awareness of two or more services was still 52%. This shows that awareness is on the right trajectory and that the work we are undertaking with the banks, and have in fact largely built into our business as usual activity, is working.

### How Post Offices support communities as bank branches close?

32. When a bank branch is due to close the local Post Office branch will connect with the closing bank branch manager to ensure all their customers are aware of the services available at Post Office and can hand-hold customers with particular needs to transition to the Post Office services.

33. In addition, the closing branch will write to all its local customers to inform them of the closure and alert them to the services available at Post Office.

### Post Office Relationship with Credit Unions

34. Credit Unions have a long and proud tradition in Wales. Two credit union 'aggregators' (PCT and Incuto) are developing propositions for their customer Credit Unions (and the technical systems which will enable them) to plug into the national payments infrastructure alongside far larger financial institutions. This is a step-change for the industry and will open up a range of different services to credit union members.

**35. PCT are already live with 23 credit unions currently offering Everyday Banking services at the Post Office to their members. Incuto expect to follow in May.**

36. Offering connectivity into the Banking Framework for counter service has been a pro-active initiative on the part of the Post Office, in recognition of the role our unrivalled network can play in financial inclusion. This has then become a priority for the aggregators and Post Office and is a very positive step forward for financial inclusion. This means **credit union members will potentially be able to access their accounts at any of our 900 plus branches across Wales** rather than being constrained to a small number of local credit union branches.

**Enquiry Question: The variety of ways in which branch closures and access to free ATMs can affect local communities (for instance the impacts from a business, tourism, social, demographic and regeneration perspective).**

### Post Office and Access to Cash

37. Post Office is playing an increasingly important role in access to cash for the UK. We already move £70bn of cash around the country. Post Office operates its own cash supply chain, this means we have a far greater ability to support our local communities with a scalable and robust cash supply, more than any other provider who may rely on whatever cash in a retailer till, such as PayPoint.

38. Over the last three years, the Banking Framework has become an increasingly important part of our offer. As the UK's banks restructure and close branches, Post Office is picking up the day-to-day banking transactions like cash in and out, cheque deposits and balance enquiries.

39. In 2018/19, we handled over 128 million banking transactions at our counters, growing at around 12% per year. As a subset of this, cash deposits into accounts, including those from small businesses who find their local Post Office more convenient, grew by 22% in the last year. Transactions either side of the recent Easter break provide a good illustration of this; we had record deposits on Thursday 18<sup>th</sup> and Tuesday 23<sup>rd</sup> April.

40. We offer a full cash handling service for small businesses for most of the High Street banks. It is up to each bank which service they choose to offer their customers, but from a Post Office perspective we offer them all:

- Automated Cash deposit – real time, instant credit
- Automated cash withdrawal – real time, instant account update
- Manual Cash deposit – by paying in slip – overnight processing, credit the next day
- Manual Cheque deposit – takes an extra day than normal bank credit, just because we have to get them from the branch to the bank.

41. Recent research by the Association of Convenience Stores revealed that access to cash is crucial to local high streets and local communities. It found that 76% of convenience store customers pay by cash and many customers only want to withdraw what they know they will need, rather than in multiples of £10 or £20.

42. Relevant Post Office services that support this evidenced need include businesses being able to visit their local branch to obtain change and deposit their takings at the end of the working day directly into their bank account. With many Post Offices open late into the evening and over the weekend then this has greatly increased the convenience for many small businesses to access their banking needs.

43. Post Office, through its commercial partnership with Bank of Ireland UK, operates one of the largest fee-free ATM networks in the UK. In 2016/17, across the UK we handled 152m transactions at our 2600 ATMs.

44. In order to reflect the growing value of the service we provide to the banks, and the increasingly vital role the Post Office plays in the universal provision of banking services, we are in the final stages of agreeing new pricing with them from January 2020. This will enable us to increase the remuneration that Postmasters receive, broadly tripling the fees for cash deposits, which are more time consuming and growing faster than withdrawals. The revised agreement with the banks will come into effect on 1<sup>st</sup> January 2020. However, recognising the impact that growing volumes are having across the network, we are bringing forward this increase in Postmasters' remuneration to start from 1<sup>st</sup> October 2019.

45. We are also extending the banking framework to Credit Unions and waiting for confirmation that two leading organisations have completed their system changes, and can participate, broadening access to cash.

46. We forecast that as banks automate services and continue to reduce branch numbers, banking transactions in Post Offices will grow over the next two years. However, at some point, the underlying shift away from cash will reduce the number of banking transactions and the demand for branch services. It is also likely that the higher charges being levied on the banks to provide the service will lead to exploration of other channels, including further automation.

## **How will digital identity help access to banking and other issues around financial inclusion?**

47. It can be challenging for some people to have sufficient proof of identity to qualify for a variety of different financial products, as well as other issues such as employment records or access to the healthcare system. Further, if people are able to prove their identity at one point in time, they may not be able to do so again at another time – for example by organisations requiring a council tax bill dated within three months – this can reduce customers’ ability to switch suppliers and fully engage in competitive markets.

48. A verified digital identity would provide a lasting record of someone’s identity which would enable them to prove their identity at any time without the need for time-sensitive documents.

49. Enabling customers to use digital identity to satisfy identity requirements will increase financial inclusion and even facilitate better switching in a range of competitive markets, not just financial services. The Open Identity Exchange think tank estimates that digital identity could save £1.5 billion in identity verification costs, £8.5 billion of savings due to identity-related fraud and up to £58 billion of wider economic benefits.

50. In order to realise these benefits, for identity verification particularly, digital identity must be given parity with paper-based identity. At present, this is not the case.

51. The Joint Money Laundering Steering Group (JMLSG) guidance states that the use of a government issued passport or photocard driving licence should enable most individuals to meet the identification requirements for Anti-Money Laundering purposes. Yet for digital identity the obligation to understand the basis of how this has been established, compliance with specific criteria, performance and monitoring remains with the firm; even where government standards of digital identity are used.

52. The government has changed the way the national digital identity programme, Verify, will work and has rightly put the onus on the private sector (including Post Office for these purposes) to develop digital identity provision for the UK. The government specifies the assurance and standards by which it can ensure a robust sector to secure the trust of consumers and businesses. We see the use of these government standards for banking identity verification as absolutely essential to this objective and recommend that the JMLSG guidance is revised on that basis.

53. Credit Unions would also be able to benefit from digital identity in supporting customers and potentially be an even better stepping-stone from a CU account to a full bank account.

### **Enquiry Question: To understand the potential process, benefits and challenges involved with establishing a community bank with multiple branches in Wales.**

54. We feel that others who have more direct or indirect experience of establish a community banking facility are better placed to inform the Committee’s considerations around the cost, complexity and logistical implications of establish a community bank for Wales. Post Office will, of course, review any proposals around this development with keen interest.

55. Our UK network of 11,500 Post Office branches, (930 in Wales), are the heart of community banking. 93 per cent of the population live within a mile of a Post Office branch providing vital to access to cash withdrawals, deposits and balance enquiries for 99% of UK bank personal account customers and 95% of small business account customers. This is a particularly vital service for people who live in areas, many of these rural and sparse rural communities in Wales, where banks no longer exist.

56. Given the acceleration of bank branch closures in Wales over recent years it is clear that Post Office is becoming the community banker for many communities across the country. It is a responsibility that we take very seriously because we know the importance that communities place on their local Post Office and the role that our branches play in the sustainability and commercial vitality of the communities they serve.