Levelling-Up

A report by the All-Party Parliamentary Group for Challenger Banks and Building Societies

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Foreword

The APPG on Challenger Banks and Building Societies embarked on its inquiry into levelling-up at the beginning of 2022. At that time, the UK was emerging from the pandemic and levelling up had never been more important. The APPG was looking to see what role challenger banks and building societies could play in levelling-up.

Since the APPG embarked on this report, the Government has published its long-awaited Financial Services & Markets Bill. This legislation has the ability to drive forward some of the initiatives suggested by our witnesses and endorsed by the APPG.

In our previous report on Post-Brexit regulation, we identified a number of areas where the existing regulatory landscape acted to frustrate competition and the development of regional banking institutions. Consequently, the APPG wanted to better understand how some of the issues addressed in our work on post-Brexit regulation could act together with innovative challenger banks and building societies to drive the change the UK banking sector sorely needs.

While the Government rhetoric on levelling-up has been clear, the reality of Government action has not only been delayed by the pandemic, but has also been too limited to direct interventions such as infrastructure spending. To date, little attention has been paid to the role that the financial services sector has to play in levelling-up.

Challenger institutions already make a huge difference in the lives of people outside London and the South East and those who experience issues accessing suitable products and services, including finance from the biggest banks. They are already playing an important role in helping levelling up by providing individuals and firms with the capital and the economic instruments they need to become as economically active as their peers. Moreover, they are also helping to deliver greater access through branches, telephone and online services.

There is much more that they could be doing if the regulatory market in which they operate allowed them. Unfortunately, far from encouraging this, current regulation broadly makes this significantly harder.

The UK's one-size-fits-all regulatory model for banks - challengers, building societies and institutions big and small isn't working. This is not being caused by the day-to-day realities of the UK economy or recent events such as COVID but a deeper structural malaise.

It isn't just Parliamentarians and those in the financial sector who realise that change is long overdue. Regulators too, through the Bank of England's Strong and Simple initiative, are looking to free up the economy by loosening blanket restrictions on institutions. But there are many further strong and simple measures they could be taking.

In this report we discuss some of the underlying issues and, through the evidence from our witnesses, we set out a series of simple measures that could enable challenger institutions and mutuals to do far more to aid the levelling up agenda, along with practical examples from some of our witnesses of what pioneering institutions have already done to address some of the issues which face the UK.

I am particularly grateful to my fellow APPG members for their support in helping put together this report, and Barndoor Strategy whose work as the APPG Secretariat has been invaluable. I would also like to issue a huge thank-you on behalf of the whole APPG to Metro Bank, whose kind support made this inquiry possible.

Rt Hon Karen Bradley MP
August 2022

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1 Executive Summary

The overarching issues that the APPG sought to understand were how challenger banks, building societies and other fintechs could help level up the UK.

The premise for our work was the evidence we took in our previous report on Post Brexit Regulation where it became clear that the larger established big five banks were a block to change in the banking sector.

As with the evidence the APPG took on the Post Brexit Regulation report, there is a surprising degree of agreement between challenger banks, building societies and fintechs about what the problems are in the system.

The issue is Government and regulatory intransigence do not provide adequate redress for the issues – despite increasingly compelling evidence. The UK's regulators have come a long way since the aftermath of the 2008 crash. There is increasing recognition as exemplified by the Strong & Simple initiative of the Bank of England that burdensome one-size-fits-all regulation is counterproductive.

The APPG wanted to understand how this dead hand of regulation affected the Government's attempts to level-up the country and whether the anticipated Financial Services Bill would therefore go far enough to resolve the problem.

From the evidence taken by the APPG, the answer to this must be an emphatic "no". The Financial Services & Markets Bill, whilst a very welcome and overdue update to the UK's regulatory landscape, does not go anywhere near as far as is needed to address the issues with the UK financial system.

The UK's major banks remain insulated from the forces of competition. Despite the increase in licensing new institutions in recent years the regulatory system and the dominant market power of the established banks is stifling Government attempts to rebalance the UK's economy.

We have a regulatory system so fixated on preventing failure, that it is impossible to set up a new Building Society in the UK and virtually impossible for a challenger bank to compete with the major banks on a level playing field. Only further reform will break the log-jam; changes to the regulatory thresholds are needed so that they are in line with those in the US and the EU. Our banking market needs to be opened up to enable Challenger Banks and Building Societies to deliver on their significant potential and provide the support and change across the UK that is needed to deliver the Government's levelling up ambitions.

APPG for Challenger Banks and Building Societies, August 2022

Recommendations

Recommendation 1:
Time For a New Big Bang

A lack of effective competition in the UK banking sector means poorer availability of lending for both consumers and small businesses, particularly outside London and the South East, which acts as a significant brake on levelling-up the economy.

While the APPG welcomes the new secondary objective to facilitate growth and competition in the Financial Services and Markets Bill, it does not go far enough.

It is time for a new Big Bang to break the restrictive regulatory practices which enshrine the dominance and market share of the big five banks. The Government should use the Financial Services and Markets Bill to drive fundamental change in the UK's financial sector to make it fit for the 21st Century.

The regulators should be aiming higher than just facilitating growth and competition aiming instead to design a regulatory landscape which will support the growth and development of new building societies and regional and community focused banks as seen in the United States.

Recommendation 2
Break the Chains of excessive regulation

It cannot be right that it is prohibitively difficult to scale a challenger bank or to start a new building society as is currently the case in the UK.

Time and again, when it comes to the regulation of challenger banks and building societies, there seems to be a distinct lack of proportionality in the approach of regulators. It is almost as if the UK's regulatory authorities would prefer to deal with a few behemoths rather than a competitive panoply of diverse institutions.

While this might suit the regulators and HM Treasury, it fundamentally undermines levelling-up. The Government should level-up the banking sector by forcing banks to offer branches to challengers before closing them. As well as financial incentives for challengers to take over branches and open new ones especially where there are no other bank branches currently.

The regulatory chains – the capital rules which make expanding and starting new institutions - should, for firms headquartered or operating in levelling-up areas, be removed so that it is easier to start and grow firms outside London and the South East.

Recommendation 3
Level-up the UK's regulatory thresholds so that they match those of our major international competitors.

It is fundamentally absurd to have regulatory thresholds which not only stifle competition in the UK but also make it internationally uncompetitive. The regulatory thresholds need radical revision and rules such as MREL need to be re-written to make the UK and its regions the most competitive place to operate a financial institution.

How can challenger institutions here compete with a £15 billion threshold when in other jurisdictions such as the EU the threshold is €100bn and the United States $250bn? This might make supervision easier for financial regulators, but it is permanently levelling down the rest of the UK and preventing competition in the banking sector from driving innovation and growth.

Recommendation 4
Accelerate the growth of Fintech by enhancing and broadening the open banking model and FSCS style protection for those investing in regulated Fintech institutions.

With the growth of Fintech, the flaws in the open banking model have become apparent. More needs to be done to allow open banking to offer a view of each person's financial situation.

Furthermore, with the rapid growth of Fintech firms, consumers need to be able to invest with confidence and therefore we would encourage the regulator to establish a FSCS style system for Fintech's offering consumer access where their money is not protected by the existing FSCS model.

Recommendation 5
Level-up financial literacy in schools and universities and ensure that entrepreneurs across the UK can access advice and funding to start a business.

Financial Education should become a stand-alone curriculum item at Primary and Secondary School level. For a nation that prides itself on being a global hub of financial services, the lack of universal financial education in schools is embarrassing. There is a need for greater awareness of financial services and financial products and jobs in the Financial Services sector across the whole country.

Some of this change can be delivered through the work of fintech institutions and in partnership with banks - banks, including challengers like Metro Bank, are delivering effective and free financial education programmes in schools. But we need to build on this. However, there is a need to level-up education across the UK to those areas where financial services are less of a dominant industry and where financial literacy standards are lower.

3 Introduction

The All-Party Parliamentary Group on Challenger Banks and Building Societies decided to look at Levelling-up following the evidence it received in its Post Brexit Regulation inquiry of 2021.

That inquiry found that although big steps were being made by the Bank of England and others to resolve issues in the UK financial services sector, far more needed to be done.

As the long-awaited Financial Services & Markets Bill arrives in Parliament, the APPG's report is an analysis of the regulatory landscape envisaged by that legislation. The APPG was keen to learn whether the changes envisaged would go anywhere near far enough to resolve the systemic issues in the sector identified by our previous work.

Moreover, the APPG was keen to understand if these changes would help or hinder the Government's ambition to level-up the UK and deliver the economic growth and benefits seen in London and the South East elsewhere.

In preparing for this work, the APPG published a call for evidence which asked the following key questions:

- What role can Challenger institutions – both banks and building societies - play in levelling up?
- How can the role of Challenger institutions of all types be enhanced in supporting the sustained growth of communities across the UK?
- What issues in relation to access to financial services do individuals and SMEs experience outside London and the UK's metropolitan centres? How do these differ from those in London, and other major UK metropolises?
- What role do Fintechs have in the levelling up agenda?
- How important are community banks, Building Societies and Credit Unions to the financial wellbeing of individuals and SMEs outside London and the UK's metropolitan centres? How could their role be enhanced?
- Is the current regulatory framework fit for purpose when it comes to launching and growing regionally- and community- focused institutions? What changes are needed? Is this holding back communities?

This report seeks to answer these questions and to raise awareness amongst MPs and Peers of the issues and questions they should be asking about the Financial Services & Markets Bill and the regulators who will be drawing up the secondary legislation and regulatory rules based upon it.

4 What role can Challenger institutions – both banks and building societies - play in levelling up?

(i) The role that Challenger Banks can play in Levelling Up

In asking this question, the APPG wanted to understand how institutions could help in levelling up the UK. The APPG received a wide array of responses. However, one of the issues raised was very familiar and one the APPG has dealt with in the past.

Supporting Care Leavers
Metro Bank supports the Care Leaver Covenant, a national programme that supports care leavers aged 16-25 to live independently. Metro Bank has extended a bespoke version of its free financial education programme, Money Zone, to care leavers providing guidance about budgeting, saving and banking, along with introducing a special identification process for care home residents and care leavers to make it easier for them to open bank accounts and become financially independent.

Metro Bank highlighted in their written evidence how differences in regional productivity were greater in the UK than in many other jurisdictions. They cited the Levelling-Up White Paper which noted that:

"There were sharp differences in access to financial capital across different parts of the UK. This actively contributes to spatial differences to productivity, jobs and living standards. Some small and medium-sized Enterprises (SMEs) tend to have particular difficulties accessing finance, especially outside the South East of England."

Metro Bank went on to emphasise that the main source of financing for SME's was bank lending.

This point of view very much agreed with that of the APPG Members in initiating the inquiry. Baroness Kramer in particular having made specific reference to the sparsity of regional banks in the UK compared to the United States.

Supporting the Armed Forces
Metro Bank has achieved the Armed Forces Covenant's Employer Recognition Scheme Gold Award, affirming its commitment to supporting the armed forces community by proactively seeking veteran hires, offering time off for reservist training, mentoring other organisations in their Armed Forces Covenant progression, and forces community engagement. Metro Bank offers mortgages as part of the Armed Forces Help-to-Buy scheme and are scoping further products for armed forces customers and veteran-owned businesses.

Aside from a lack of diversity of institutions, many of the firms which gave evidence to the APPG also highlighted the regulatory barriers to lending. This is discussed further below in relation to regulation.

Small banks had increased lending to SMEs. Metro Bank cited the Bank of England's 2020 publication on open data for SME finance which showed that since 2017, all the net growth in SME lending had come from smaller banks or from alternative sources. Clearly, the the big five banks had not increased lending to SMEs between 2017 and 2020. However, smaller banks and alternative lenders had done so.

There was some discussion of peer-to-peer lending at the APPG's round table. With many of the participants noting that much of the peer-to-peer lending market had dried-up of late.

According to the evidence we received, levelling-up also meant supporting customers and communities who have additional needs. Metro Bank in particular cited specialist training given to customer-facing teams so that they could adequately consider the needs of vulnerable customers in product service, design and communication.

Metro Bank were able to give specific examples of communities with special needs in particular care leavers and the armed forces.

(ii) The role of Building Societies in Levelling Up

The Building Society Association made some extremely prescient statements about the role of building societies and credit unions in levelling up. Several of these relate to the wide geographic dispersal of building societies and their broad reach across the UK. Together, building societies employ over 51,000 while 98% of building societies are based outside London – in cities, large and small towns across the UK, both urban and more rural.

Region	Building Society 2021 first-time buyer numbers
Northern	5452
Yorkshire & Humberside	11163
East Midlands	9082
East Anglia	4031
Greater London	9581
South East	20247
South West	9204
West Midlands	10034
North West	13986
England	92780
Wales	6159
Scotland	9217
Northern Ireland	2693
All UK	110856

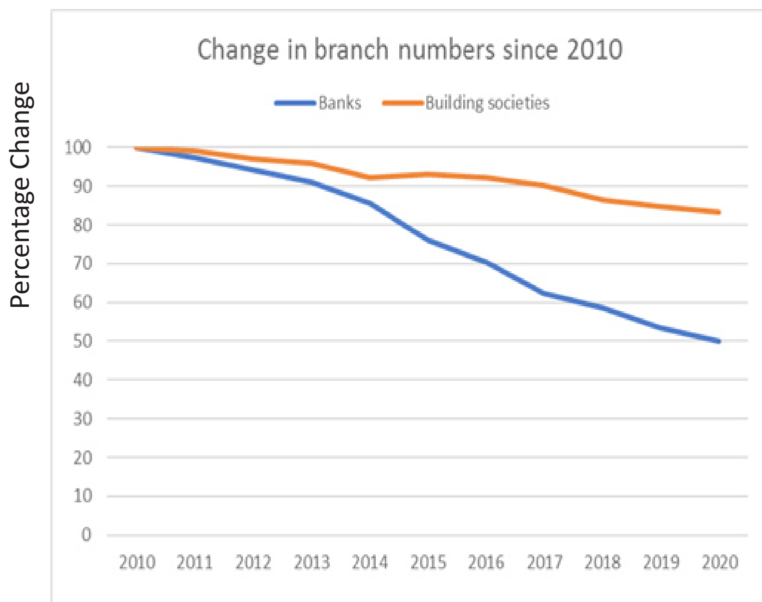
The purpose of building societies and credit unions stems from their mutual ownership model. Both are owned by their members. Borrowers and savers automatically become a member of their provider as they take out a mortgage, in the case of building societies, or a loan in the case of credit unions, or open a savings account at either.

They were also able to point to the role of Building Societies in providing mortgages across the UK as can be seen from the table on page 10.

Furthermore, building society branch numbers were falling off at a much shallower rate than banks. Consequently, building Societies were not only present across the whole of the UK and in areas in need of levelling up but also more likely to have active branches for customers to access.

This point was also raised by Metro Bank. Big bank branch closures are much publicised, but not all banks have branch closure programmes - Metro Bank has continued to expand its store network outside London and the south east, opening several new stores in Wales, the midlands and north of England since the start of 2020.

The CBBS APPG has previously recommended in our July 2019 report on Access to banking services that challenger institutions should be able to take over closing branches. The Government should in our view support incentives for challenger banks to open more branches outside London. In our 2019 Access Report we recommended that a community fund paid for by the larger banks could be established to do just this.



(iii) The role of Financial Education in Levelling Up

Looking at levelling–up from another angle, one of the persistent issues across the UK is financial education.

GoHenry in their evidence explained clearly and convincingly that financial literacy was a key component of levelling up. Financial literacy was already widely recognised as an essential life skill and a determinant of lifelong financial outcomes.

Recent economic modelling carried out by GoHenry revealed that the UK economy would be £200 billion richer by 2050 if children received financial education from an early age. It also showed those who didn't receive financial education as a child are more likely to be unemployed, or earning less today, than those who did. And that students with high financial literacy are more likely to start a business.

Despite progress being made to improve financial education within UK schools, GoHenry's evidence was that financial education has borne the brunt of the government's budget for consecutive years, with a 9% fall in funding since 2009.

This has put pressure on parents and businesses to play a greater role in teaching younger generations about the skills needed to effectively manage their money as schools currently lack both the experience and the resources to teach this.

With significant investment needed to support the UK's 'levelling up' agenda, a collaborative strategy is essential to improve the nation's financial literacy

Furthermore, GoHenry continued by explaining that managing money effectively demands a sophisticated set of skills ranging from basic mathematical skills to budgeting, an understanding of how interest works, or how to set up a business.

They were also able to point to recent CBI Economics analysis commissioned by GoHenry and Wilson Wright which underlined that financial literacy raises early-career earnings prospects by up to 28% .

Issues with the way that financial literacy featured on the curriculum in secondary schools were also cited. The issue was that there was little consistency to how it's taught – and Academies and Private Schools don't need to teach it at all – which means the opportunity to create a level playing field for all children to have access to vital financial education from a young age is currently being missed.

The APPG is therefore persuaded by GoHenry's suggestion that there needs to be consistency across secondary school financial education. It's already on the curriculum, so let's make sure it's being delivered effectively and as a

Metro Bank's free *Money Zone* financial education sessions have, since their launch, reached 250,000 pupils to date. Metro Bank is seeking to expand the programme to reach young adults too.

stand-alone subject as opposed to an add-on to Maths or PSHE lessons.

We also agree that it is vital for schools, industry, government, parents and charity bodies to work together to equip parents and teachers with the knowledge, skills and materials needed to improve the financial literacy of children in their care.

We also found the evidence persuasive that, as with many other life skills money habits are formed by the age of seven, it's also vital that financial education is made a compulsory part of the primary school curriculum.

We believe that there is a role for the financial services sector to work with schools to ensure that those teaching it have the skills, knowledge, confidence and tools to deliver financial education in a way that is relevant to today's digital world. Continuing this education in the home is also crucial not only to help families better manage their money but to cement this knowledge in wider society.

5 How can the role of Challenger institutions of all types be enhanced in supporting the sustained growth of communities across the UK?

The APPG received a range of responses on the question of how challenger institutions roles could be enhanced to support communities.

Perhaps the starkest was from Metro Bank, who outlined how they could open 40 more stores delivering an additional £3 billion in additional lending capacity if it were not for the regulatory restrictions placed upon them.

According to the National Audit Office 2013 report on improving access to finance, SMEs faced a £22 billion funding gap, this was highly significant in the view of the APPG. MREL could be pointed to directly as a cause of under-investment in SMEs.

Paragon Bank were also very clear in their evidence that MREL was a major block to challenger banks with the key issue being the threshold. Crossing this threshold meant that capital, which could have supported additional lending, was removed. The implication of this was that firms were therefore being prevented from supporting communities by MREL because not only did it impose seemingly arbitrary thresholds, but it focused firms attention on mergers and acquisitions in order to leapfrog the threshold.

There was a further concern expressed by Paragon and others that the advent of the Bank of England's Strong and Simple proposals could mean that while regulatory rules were slackened capital requirements would be increased, thereby further restricting lending.

In terms of supporting sustained growth of communities across the UK, the APPG was very interested to hear the evidence from the Building Societies Association. Their CEO Robin Fieth contrasted the situation here in the UK with far simpler systems in the US and Switzerland. However, there were different calibrations around factors such as leverage. Some of these small specialist institutions were adept at helping communities.

According to the Building Societies Association, the British Business Bank should include a tranche of mutual capital outside traditional financial services. It was also not possible to fill gaps in the market without new players. The BSA pointed out that there had been no new building society in the UK since 2008.

Paragon Bank also made the point that, given the heavy centralization of banking in London and the South East, credit policy was set through a London lens and then applied to the UK as a whole. Moreover, the PRA applied capital penalties to UK-only entities for the very reason that they were not international.

We found this argument compelling as we did with the suggestion that it would be better to look at concentration risks on a regional basis. This change in risk perception could even foster greater decentralization of firms across the UK and therefore facilitate levelling up.

Bank North also set out how the over-centralization of the skills and expertise in London had led to credit policy in larger banks being set and overseen centrally from London. This treated the whole of the UK outside the capital as the same. The APPG found this argument compelling and believe that firm regulatory action should be taken against this over-concentration in skills and decision-making. The easiest way to achieve this would be to use the regulatory system to incentivise regional banks outside London and the devolution of decision making to the regional or community level.

Lightning Reach as a fintech was a good example of a challenger institution which, although not itself a bank or a lender, was able to play a role nevertheless in supporting communities. Lightning Reach flagged that according to its data there were close to 15 million people living in relative poverty after housing costs before the pandemic, with less than 50% aware of support available to them - resulting in over 8 million people missing out on benefits, grants, social tariffs and local discretionary funding schemes. Lightning Reach's vision was to use its technology to make connections which might not otherwise happen between people in need and bodies able to help them.

Lightning Reach not only enables people to create a single profile to check eligibility and access personalised support across a range of support schemes, but also uses innovative and secure technology such as open banking and identity verification to speed up the application process for both individuals and organisations. Instead of filling out paper forms and sending them off along with ID, Lightning Reach's grants portal, which was developed with partners including the Royal British Legion and Lambeth Council, allows people in financial distress to do it all online on any device, within minutes.

To date, Lightning Reach had helped over 8,000 people find or apply for support with 91% satisfaction rates. Their portal had facilitated over £1 million in grants with over 10 partners including national charities the Teaching Staff Trust, Racing Welfare, Turn2us and the Smallwood Trust.

They are just one example of the many different ways that innovative fintechs could assist conventional lenders and challenger banks connect with the more difficult-to-reach sections of society and help level-up the UK.

6 What role do Fintech challengers have in the levelling up agenda?

One area where Fintechs had a strong role in levelling-up was in financial capability.

The APPG received some very cogent examples from GoHenry about the work that they were doing with schools. Families using the GoHenry app were able to teach their children about saving. However, from their data 40% of people without financial education also had no savings themselves.

The educational elements on GoHenry's apps helped both children and their parents to learn. With over 2 million members and a 14% UK market share, GoHenry is already helping to improve the financial fitness of kids and teens who were previously left out of the digital economy.

According to a Censuswide poll in December 2021, 92% of parents say their kids are more money confident since joining GoHenry. Moreover, according to this internal survey, 89% of parents said they would have made better financial decisions if they received financial education before the age of 18. GoHenry also provided a number of anecdotal examples of parents who began saving after learning about the benefits through the GoHenry lessons that their kids received.

Furthermore, according to Censuswide 75% of children agree financial education will help them in their future career.

Finally, GoHenry's economic modelling research demonstrated that:

- Prioritising FE will inject an extra £6.98 billion into the UK economy each year (£200bn by 2050)
- British adults who didn't receive financial education as a child are more likely to be unemployed, or earning less
- Kids who receive financial education will be £70,000 richer in retirement
- 40% of those who didn't receive financial education said they have no savings at all

There was a dissenting opinion from Bank North however, as they felt that although fintech had its place, app-based or platform based solutions were not well suited to high frequency transactions such as current accounts and payments .

HyperJar, the digital jam jar savings app, submitted written evidence to the APPG. Their evidence focused on what they referred to as the bank-based business model and how due to increasing digitisation challengers had an increasing role to play.

They went on to argue that Fintechs were nimbler than banks as their business model did not depend on a

bank balance sheet composed of savers deposits. Hyperjar highlighted four recent trends:

- **Neobanks** - Players such as Revolut, Monzo and Starling Bank have demonstrated that consumers value digital banking services that are both visual and interactive. Users can organise their money as they like (rather than seeing a standard bank statement) and mimic behaviours used with physical cash (e.g. putting money in envelopes, pots or jars);

- **Buy Now Pay Later** - The sharp growth of players such as Klarna and PayPal Credit – and the concerns that this has raised – is evidence of the over-supply of consumer credit. However, it was also evidence of a confluence between payment and merchant services that enables an exchange of value between consumer and merchant that went beyond the purchase itself.

- **Digital Currencies** - the explosion of digital currencies has been impossible to ignore, whether as crypto (e.g. BitCoin), e-money (e.g. Revolut) or loyalty (e.g. Tesco Clubcard). These technologies can be used to support local currencies or community schemes that foster productivity growth and retain economic activity within a given geographic area.

- **Merchant Cash Advance** - Hyperjar highlighted that the MCA market as an example of how data generated outside of the bank channel can be used to underpin credit decisions. Such data sources can be used to increase SME access to finance, particularly when coupled with data portability that de-couples data generation from finance provision.

Lightning Reach highlighted that Fintech solutions such as open banking could help to streamline the verification of financial information required to assess people for grants, social tariffs and other discretionary support. This not only speeds up the process for individuals with online or mobile banking (taking an average of 6 minutes in their experience), but further saves organisations hours of time and administrative work in place of having to collect and analyse bank statements in paper or PDF format - while reducing risk of fraud. However, open banking regulation could be strengthened to ensure that all financial products such as loans, savings and other assets are linked into the open banking framework across all institutions to provide a comprehensive overview of each person's financial situation.

HyperJar was also concerned about the lack of FSCS style protection for consumers placing their money in e-money institutions compared to the protection offered to bank customers. They felt that the regulatory perimeter needed to be expanded to cover e-money institutions doing direct business with consumers.

7 How important are community banks, Building Societies and Credit Unions to the financial wellbeing of individuals and SMEs outside London and the UK's metropolitan centres? How could their role be enhanced?

In the building society sector, there were many examples of how these institutions went the extra mile for their members and the community outside London.

The Yorkshire Building Society had started making its branches accessible to other institutions when they were the last branch on the high street.

The Newcastle Building Society also co-hosted branches in community spaces such a libraries and bus stations all over the northeast.

Concern was also expressed about access to cash and the role of the Post Office in cash distribution by several organisations which gave evidence to the APPG. Metro Bank in particular,

Society and Citizens Advice partnership supports more than 1,000 people

More than 1,000 people have so far benefited from an innovative, award winning Yorkshire Building Society and Citizens Advice partnership where Citizens Advice advisers are available one or two days a week in branches to support members of the public with a range of issues, including financial well-being Yorkshire Building Society is the first UK financial services provider to offer this in person one-to-one service across 18 of its branches in partnership with Citizens Advice

A Yorkshire Building Society and Citizens Advice first of its kind innovative partnership has already benefited more than 1,000 people. The programme commits Yorkshire Building Society to fund Citizens Advice advisers to hold free, confidential appointments at least one day a week across 18 branches until March 2023.

Leeds West MP and Shadow Chancellor, Rachel Reeves visited the Leeds branch of Yorkshire Building Society to talk about the partnership. She said:

It was great to visit the Yorkshire Building Society branch in Leeds and learn how this innovative partnership between the Society and Citizens Advice has been providing people in Leeds with much needed face to face support from Citizens Advice advisors. It is a fantastic example of a mutual organisation and a charity working in tandem to address pressing needs in their communities.

Newcastle Building Society is leading a ground-breaking pilot to bring banking services back into bankless communities.

In the wake of a series of high street branch closures, Newcastle Building Society has teamed up with global leaders in cash automation, GLORY, and shared banking fintech, OneBanks Hub, to allow personal and business customers of all major banks to withdraw cash and deposit notes and coins through our network of high street branches. An initial pilot will be run in two locations where bank closures have seriously affected local community access to cash.

We plan to install multi-bank transaction terminals alongside our existing services, allowing customers to access their account whichever bank it is provided by. The terminals provide access to all banks on the Open Banking network, meaning customers of all the major UK banks will be able to use the service.

The cash facility will be a lifeline for many small businesses, and people who rely on regular deposits and withdrawals to manage their day-to-day budgets. In many instances, due to closures, the convenience of doing this locally has been taken away.

The pilot will take place at our Gosforth, Newcastle upon Tyne, and Knaresborough, North Yorkshire branches.

Customers needing assistance to use the terminal, branded OneBanks Hub, will be supported by our trained branch colleagues, who will be on hand to help users connect to their bank to complete transactions privately.

outlined how to help people access cash during the pandemic, Metro Bank kept the majority of its stores open seven days a week and also helped customers access cash when self-isolating by nominating another person to collect cash on their behalf, with appropriate security checks.

In our 2019 Access to Banking report, the APPG called for the larger banks to be forced to offer closing branches to challenger institutions before closing them. We believe that this is an ever more pertinent suggestion given the number of towns being left with no bank due to the pull-out of the big five banks. Again, as the APPG outlined in its 2019 report on Access financial incentives could be used to encourage Challenger banks and Building Societies to open new branches outside London and the SE.

We also argued for closer support for banks seeking to work with retailers and greater consideration of the role of the Post Office as the bank of last resort in towns across the country. Again, we believe that with the ever-reducing branch network of the major banks these recommendations are even more pertinent in 2022 than they were in 2019.

8 Is the current regulatory framework fit for purpose when it comes to launching and growing regional and community-focused institutions?

MREL, the snappy acronym for "the minimum amount of equity and subordinated debt a firm must maintain to support an effective resolution" is essentially the amount of capital a firm has to carry by order of the regulators in the unlikely event that it became insolvent.

Rather like compulsory insurance for road vehicles, MREL is designed to make sure that others don't have to pick up the bill when things go wrong.

Unlike vehicle insurance, MREL is heavily weighted on the smaller players in the market. As the APPG learned in its post-Brexit regulation work, the threshold makes it practically impossible to scale a small institution up to take on a big five banks as the rule makes its capital too expensive and therefore renders it uncompetitive.

Bizarrely, while recognising the issues caused by MREL, the regulators have not chosen to raise the threshold. This puts the UK into stark juxtaposition with its international rivals – including the EU, which despite a reputation for more-onerous regulation actually has a lower MREL threshold for firms than the UK.

Consequently, the more flexible rules which have been touted by the UK Government to date have been ineffective. With the Financial Services & Markets Bill being debated in parliament in September 2022, there is an opportunity for MPs, Peers and the UK Government to fix this.

But here is the scale of the problem. At one end of this international scale the UK's MREL regime kicks in at £15 billion. In the US the same rules do not apply until a firm reaches £250 billion. Even the EU sets the figure at €100 billion

The APPG took extensive evidence on MREL and the threshold for our post Brexit regulation report so we will not be revisiting these issues here.

However, the high MREL ratio has a direct impact on the ability of institutions to level–up the UK as it prevents new regional challenger institutions growing, it prevents challenger banks such as Metro Bank, Paragon Bank, Bank North, and many others from being able to scale and it has a limiting effect on the capital available to Building Societies.

Accountancy firm EY, in their paper on MREL published in September 2021, explained the financial implications for mid-sized and challenger banks and estimated that the forgone lending due to MREL was £42 billion over five years. This is a sum which would have made a significant impact on levelling-up and would do so in future if the MREL rules were revised.

Paragon Bank were keen to illustrate to the APPG the incumbency advance that clearing banks obtain from their historic dominance in the retail savings and current account markets.

They have significant amounts of customer balances on which they are paying little to no interest. According to data consultancy CACI, as of February 2022, retail savings were paying less than a quarter of a percent or 25bps accounted for c. £625bn of deposit balances, with some £450bn in personal current accounts paying virtually no interest.

According to CACI data, the vast majority of these balances are with the Clearing Banks where the weighted average rate for new deposits is around 0.10%, while mid-tier and specialist banks tend to be price takers in the savings market, paying best buy rates to attract depositors.

As a further illustration of the scale of the issue, Paragon Bank suggested that the consequence is that the Clearing Banks will avoid paying circa £13bn of interest annually to customers, with this amount likely to increase as rates continue to rise.

This calculation was based on the difference between £625bn of retail savings earning an average of 0.10% and £450bn of personal current accounts earning 0% interest versus these balances earning the current average easy access savings rate of 1.25%

While Paragon was at pains to emphasise that this was a crude figure, the APPG believes that it neatly illustrates how the Clearing Banks are not incentivised to lend to those SMEs in the regions that have historically struggled to access financing. It has fallen on the mid-tier and specialist banks to lend to SMEs because they have the risk appetite to finance them given they can't rely on income from their clearing activity.

Robin Fieth from the Building Societies Association was particularly trenchant on the cost of regulation for small building societies. He told the APPG that the cost of regulation for a small building society per million pounds of asset is ten times as much as it is for a large bank.

Given the distributed nature of building societies around the country, coupled with their importance in mortgage lending and lending to a varied and geographically diverse customer base, this is a direct block on levelling-up the UK.

As the APPG has highlighted in the past in our work on Diversity of Institutions, there has been a huge contraction in

the focus and number of institutions outside London and the South East. If the Government wants to level-up the UK it needs to also level-up the financial sector due to its vital role in supporting businesses and communities.

Paragon Bank also raised the IRB Internal Ratings Based Approach to risk rating. This accreditation was difficult to achieve. However, once secured, IRB rated firms were not subject to the same higher levels of capital as challenger firms. This meant that they had yet another competitive advantage based on their status as large incumbents. Paragon Bank suggested that the PRA should consider an additional range of measures to improve the IRB accreditation process for IRB aspirant firms. This included improved resourcing, ring-fencing or resources for IRB aspirant banks and contingent approval of models with remediation via supervisory oversight.

On the Fintech side, Go Henry cited their CBI commissioned report that all parts of society including government and the regulators had a role to play in improving financial education. GoHenry were able to point to best practice in other countries about how collaboration with industry had worked successfully.

Go Henry's work with the CBI highlighted successful programmes in Denmark, Estonia and South Korea where government intervention in the curriculum and regulatory action to create child focused savings firms had boosted financial literacy in these countries.

HyperJar were concerned that the current regulatory framework created a systemic bias towards the banking business model at the expense of other business models. They suggested that a similar institution to the FSCS should cover e-money institutions to protect consumers and also to ensure that there was a level playing field between e-money firms and banks covered by an FSCS guarantee.

9 Conclusion

The wide range of organisations which fed into the APPG's Levelling-up Inquiry provided us with much food for thought. There are clearly many innovative financial services organisations operating in the UK. There is, for the first time in decades, a range of challenger institutions with novel products and business models.

However, the UK financial services sector is stuck with regulations which protect the status quo. With the Financial Services and Markets Bill before Parliament in September 2022, there is a golden opportunity to break the log-jam and make some meaningful reforms which would better deliver levelling-up and competition in the financial services sector.

Government has a choice. It can either simply talk about reform and make pronouncements on what it would like to see, or it can take action to deliver meaningful change which will drive levelling-up.

This is our second report which has come to the same conclusion about the regulatory structure. The APPG appreciates that we are not alone in making these or similar comments. Until decisive action is taken nothing will change.

If levelling-up is going to be successful, it needs to disrupt the business model of the big five banks which dominate the UK financial services space. Only by changing the regulatory landscape will there be space for other institutions to successfully grow and challenge the major players.

Minutes of Oral Evidence Session

Levelling Up Inquiry: Roundtable Transcript

Date: Tuesday 12th July 2022
Time: 10 am – 11.30 am
Location: Room C, 1 Parliament Street, House of Commons, SW1A 0AA

Participants:

- Rt Hon Karen Bradley MP (KB), Chair
- Baroness Patience Wheatcroft (PW)
- Mark Davies (MD), Regional Director, Metro Bank
- Ren Yi Hooi (RYH), Founder, Lightning Reach
- Robin Fieth (RF), Chief Executive, Building Societies Association
- Jonathan Thompson (JT) Chief Executive, Bank North
- Nigel Terrington (NT) Chief Executive, Paragon Bank
- Alison Dagwell (AD), Head of Communications, GoHenry
- Havard Hughes (HH), APPG Secretariat.

Attending:

- John Battersby – Head of Public Affairs, Metro Bank
- Matt Tagg – Prudential Risk Director, Paragon Bank
- Angus McVean – Office of Rt Hon Karen Bradley MP
- David Spencer, APPG Secretariat
- Sara Kendall – Larkin PR
- Ruth Jones MP

Apologies

- Tim Bowen – CEO, Penrith Building Society
- Peter Gibson MP
- Alison Thewlis MP
- David Simmonds MP
- Marion Fellows MP
- Lord Haskell
- Lord Holmes

Transcript of Session

Rt Hon Karen Bradley MP (Chair, APPG on Challenger Banks and Building Societies) – Introduced the session and explained the current chaos in Parliament as a result of the resignation of the Prime Minister and subsequent leadership election. She apologised for the intermittent presence of Parliamentarians on this occasion and explained that she also had to leave at 10.30am to attend a leadership launch event.

KB then went around the table and invited all participants to introduce themselves.

KB provided an overview of the aims and objectives of the session and outlined the intention to understand more about how challenger banks and building societies can support the broader levelling up agenda. She then invited participants to give an introductory statement.

Mark Davies (Metro Bank) - Metro Bank welcomes the opportunity to participate in today's round table. We strongly support the APPGs inquiry and agree that levelling up is issue that is of huge importance to people, businesses, and communities everywhere.

Metro Bank is the original challenger bank, first established in 2010 and the first bank to gain a new licence for over 100 years. From that standing start we have grown to 76 stores in high streets spanning from Eastbourne in the South to Cardiff in the west, Colchester in the east, and up to Bradford in the north.

Metro Bank has 2.5 million customer accounts, opening new branches during the pandemic in places like Sheffield, Liverpool, Cardiff, Bradford, and most recently Leicester.

Metro Bank is a full-service challenger banks which offers the same products and services as a traditional high street bank but on a more local basis with an ambition to become the UK's best community bank.

Metro Bank aims to be at the heart of communities and provide a better service than high street peers. Metro's customer service is rated the highest in terms of CMA customer service survey for the last eight years in a row.

Levelling up is important to Metro Bank which wants to meet the needs of communities across the UK and grow presence in more communities.

This is made more difficult by banking regulations that tilt the playing field against challenger banks and building societies and if Metro Bank had one key ask it would be to remove these barriers.

KB – Picked up on the point about high streets and noted that large retail banks are deserting the high streets and banking services are needed there.

Ren Yi Hooi (Lightning Reach) – Lightning Reach is a small fintech start-up founded during the pandemic. Their aim is to help people who are struggling financially to get back on their feet. With the cost-of-living crisis that is equally important.

Cost of living crisis has disproportionately affected women, people of ethnic minorities, and people living in rural areas so a remotely accessible solution is key. Is a fair amount of support out there but it is extremely complex to access and navigate.

There are benefits, local funding, grants, and social tariffs that can be accessed if people know about them and can navigate the application process.

Lightning Reach has helped people access more than £1 million in grants by using an online portal that streamlines the application process and integrates local community banking and Identification to make the process go faster.

Lightning Reach is keen to grow and work with others including banks and credit unions is key. They would like to see some open banking regulation changes, collaborate with other institutions and also want more investment in social start-ups like themselves.

Alison Dagwell (GoHenry) – GoHenry is a young person's banking and financial education app for children aged six to eighteen. They were the first to target this area and operate in the UK and the USA as well as recently acquiring French fintech company Pixpay, which operates in France and Spain.

Levelling Up for GoHenry means creating a level playing field for every child no matter their background to ensure they have the same opportunities to build a better future.

GoHenry research has shown that children who receive financial education fare better in adulthood. Those who don't are more likely to be unemployed or on a lower wage than those that did. People who are more financially literate are also much more likely to form businesses.

Financial education from a young age is key. There is a much-vaunted statistic that suggests that by the age of seven, kids have already formed their financial habits, so we need to get to them early.
Fintech's like GoHenry are helping to build that. We want to see financial education on the school curriculum. It is at secondary school level, but it is not consistent. Where it is compulsory, it is mixed with other subjects, and we feel it should be a stand alone subject.

At primary school level, it is not compulsory, and we feel that it should be. GoHenry is working with the Centre for Financial Capability.

We also feel we need to assist and enable teachers with the skills, knowledge, and confidence to teach financial education. We launched a report with the CBI which suggested Government should work with companies like GoHenry. We provide money lessons through our app.

GoHenry is a growing business and wants to collaborate with other institutions, charities, and schools to help deliver this.

Nigel Terrington (Paragon Bank) – As a Challenger Bank, Paragon specialises in certain markets which they try to excel at. Paragon has around £16bn of assets and 1,500 employees, 85% of which are based outside London and the Southeast and since Jan 2020, on average c.70% of monthly new SME lending has been outside of Greater London and the South-East.

In 2015, Paragon developed a lending diversification strategy moving away from a big focus on mortgages (Paragon is one of the biggest buy-to-let lenders) and towards the more commercial

areas, such as house building. The idea is to be focused and expert at what we do.

Paragon has been successful at this, but they feel that they could do much more. The biggest constraining factor is where they sit in the hierarchy. There are big high street banks and smaller new banks. Paragon and others like Metro Bank have become the squeezed middle.

The high street banks have 80% of everything as they did before the financial crisis and since the financial crisis, the Bank of England has authorised 30 new banks, which means we have more competition biting at our ankles, but the big banks are still able to dominate.

There is over £1 trillion of money held in high street banks earning 0.1% or less. Compared to the rates that we will offer customers for their deposits, it's the equivalent to £13 billion in lost value to consumers.

But the big banks also use that financial advantage to undercut competition on the asset side. The regulatory environment leaves clearers alone, adds new competition at the bottom, and the firms in the middle are getting squeezed.

There is more that banks like Paragon can do. They have scalability, capital, and financial resource, but the competitive advantage that has been bestowed on high street banks is the same as it was before the financial crisis.

Paragon has called for a change to the whole structure of proportionality. We get introduced to highly regulated structures much earlier. MREL kicks in at £15 billion. In the US, the figure is $250 billion and in Europe it is 100 billion euros.

Mid-sized banks can do more if regulations allow. We are being treated as a systemic threat, but we are not going to bring the system down.

KB – Agreed and said if we can make a case for how this sector can help with levelling up, we can then go to the Treasury and the Bank of England and say his sector can do more if you let them.

Robin Fieth (Building Societies Association) – The Building Societies Association represents the 43 UK building societies and seven of the largest credit unions.

Our members have 26 million consumers, just over £480 billion in assets, of which £357 billion is in mortgage assets which represents 23% of the UK's mortgage market. Our members offer around 3.6 million family mortgages.

They also have around 23 million savers around 18% of the cash savings market. They employ 51,500 people of whom 98% are based outside London and the Southeast. They also have around 1,350

branches.

The key message for the BSA is that it is vital to the UK to have a diverse financial services sector with mutuals at the heart of it alongside challenger banks and fintechs. That matters because of things like competition and choice, but also for things like resilience at a time of crisis.

On branches, our written evidence includes a chart showing rates of closure of branches. What's actually happened since 2010, is that Building Societies have moved from 12% to 20% of the market share because banks are closing branches fast. As Joe Garner said before stepping down as CEO of the Nationwide, "banks are looking for every opportunity to close down branches, we are looking for any opportunity to keep them open".

On mortgages, we had 18% of the market, now we have 23% so we have grown our share in a £1.5 trillion market. In the past two years, the Building Societies sector has 460,000 payment deferrals but virtually all of them are back and mortgage arrears at the start of this year were lower than when the pandemic struck.

On regulation, we wrote a paper for the Treasury in the summer of 2016 after the Brexit referendum calling for a far more proportionate regime for smaller UK domestic players and lower risk banks and building societies. That bears a striking resemblance to Strong and Simple.

We need to push that project along as swiftly as we can while giving the PRA sufficient time to get it right. Next stage, which we saw a hint of in a recent Sam Woods speech. They are more or less suggesting three tiers of banking regulation: Strong and Simple, Mid, and Systemic.

I have suggested to him that his comments were starting to lay out a simpler capital approach for mid-tier institutions.

The BSA did some work in 2017 that the cost of regulation for a small building society per million pounds of asset is ten times as much as it is for a large bank. That's the constraining factor. Everything we spend on regulation is money taken out of the lending markets.

In the US, the President of the Federal Reserve Bank of Kansas commented on the way local community cooperative banks responded far more quickly and more focused to supporting small businesses during the pandemic. Because they knew their customers so well, the support was more focused, and the success of the lending was far better. There are lessons there internationally in terms of levelling up.

Jonathan Thompson (Bank North) – As Chief Executive of Bank North, we

strongly support this inquiry and are pleased to be a part of it.

Bank North is a challenger at a much earlier stage than Metro Bank and Paragon Bank. We set up in 2018, got our banking license in 2021, and currently authorised with restrictions.

Bank North is a unique model in UK banking, and we believe we have a significant role to play in the levelling up of the UK and in addressing the market deficiencies. When it comes to SME lending, the big high street banks have been trying to make the market more efficient, transition relationships into contact centres. These are points which the APPG has addressed in a previous report in September 2021.

Bank North has a unique regional model. Our aim is to improve the provision of lending into the UK regions. We are based in Manchester and have a unique decentralised 'pod' model. The first is operational in Manchester and with equity support we will be rolling that out across the UK with the aim of having full UK coverage by 2024.

We are focused on provision of committed finance (£500,000 - £5 million) to UK regional businesses in the mid-market. This is market that the incumbents have been retrenching from to find efficiencies.

We are a 21st century take on the regional banking model that combines the benefits of cloud native banking technology at the heart of the bank which gives us efficiency and ability to scale and delivering transformational speed.

We have deep lending expertise, and our lending is structured and delivered locally giving us regional empathy and context.

We are getting great feedback from our regional pod in Manchester and will be rolling out three more pods over the coming twelve months.

Each pod behaves like an autonomous lending operation with head office oversight. We offer locally front-line lending specialists with locally empowered underwriters, in-house ability to value collateral and then super-slick legal delivery.

We can get early certainty including credit terms out in 48 hours and deliver complex transactions in 14 days when incumbents would take many months.

We also deliver a very authentic relationship management. The full lending journey is regional and offers accessibility and empathy.

We can deliver tailored support. Existing big bank models are very centralised. Our regional model puts us in the heart of communities and lets us tailor offerings to local businesses.

We believe we have a better understanding of credit risks and

regional economies.

There are challenges at every phase of the development of banks. Any challenger looking to break into the high street lenders is up against it. For us, the biggest challenge is the availability of equity capital, which is quite fickle and is looking for very certain, low-risk opportunities. Banking usually doesn't fit this. Changing the dynamic and being able to promote equity investment into the challenger bank sector would be a big step towards removing barriers.

HH – Asked how the role of challenger institutions of all types can be enhanced and help them support communities. What can be done to expand the role of challengers?

MD – We've all touched on MREL. We want to grow, especially in the North and the Midlands but without MREL, we could open 40 more stores and have more than £3 billion of additional lending capacity. That's the scale of its impact.

Until that time, we have to curtail our growth. Others here will say the same. It impacts competition which is what is needed to aid levelling up.

NT – The Bank of England did a consultation and has amended some of the rules around MREL, but not the threshold, which is the key one. It is disproportionate relative to the size of the banks that are affected. It brings you over the systemic thresholds which is wrong.

The danger that it causes is us not doing things. Paragon is over the threshold but not yet in the regime. When we get the letter, we don't want to go from £15 billion to £15.5 billion and then you are in because you then have to raise £800 million of capital market debt which are at higher rates these days. Would cost us £30-40 million a year which takes away capital to support further lending.

This is why it is reasonable to run a strategy where you aren't trying to grow for fear of going over that threshold. The other way is to grow rapidly and jump into it, either through an acquisition that doubles your balance sheet or growing aggressively. Both of these approaches carry risk, and the system is supposed to reduce risk.

This causes people to slow growth and reduce lending which impacts SMEs and individuals.

MD – The funding gap to SMEs is £23 billion so the opportunity is there if we are given the chance to grow.

Baroness Patience Wheatcroft – What is the response you get to these arguments?

NT – We were given a much longer period to raise the finance, but the threshold stayed because they felt it should stay there for safety reasons.
On Strong and Simple, where the threshold is also £15 billion which

means if your balance sheet is below this you are considered to be in the small category and the PRA is going to propose reduced level of regulation.

The Bank has been clear that we will give you reduced levels of regulation, but we will not weaken the system and if the Bank gives in one hand they take something away. We are therefore expecting an increase in capital requirements. That reduces capacity to lend.

I am not sure this is going to be the panacea we are hoping for.

RF – A simpler system is preferable, and the international precedent is there with places like Switzerland and the United States. The question is about calibration. The Swiss model for example sets the leverage at 8%.

We have been clear with the PRA that calibration is vital. A smaller capital outlay makes more sense. The more you set aside unnecessarily, the less lending is taking place and the more you are slowing growth. Optimum capitalisation is the key.

Raising mutual capital is incredibly difficult. Start-up capital for community banks and building societies is incredibly difficult. We have suggested that the British Business Bank should include a tranche of mutual capital for outside traditional financial services.
There has been no new building society since 2008. That shouldn't be the case. If you want to fill market gaps regionally, new players should be able to come and fill that gap. Credit Unions still can up to a point but it's hard for banks and building societies.

And then to thrive at a small scale. We can talk about size and its importance. But small can work well, if properly focused and managed. And they can help to support communities that struggle to access traditional finance. We can provide case studies around this from Switzerland and the United States.

NT – The mortgage market is heavily supplied with capital and funding and is hugely competitive. Where there is not such a strong supply or where it is distorted is the SME markets.

SME's will always be the biggest creator of employment in a recovering economy especially. If there is a focus of attention, it has to be how to get more finance into the SME communities around the UK.

But it's a big market but there is nothing homogenous. Small specialist banks and building societies are far better focused to understand the needs of individuals. The bigger banks want to put you through a cookie cutter. It's almost a regional thought process.

PW – What happened to the peer-to-peer lenders that were going to revolutionise this space?
NT – The peer-to-peers have struggled with the availability of funding, there

was no great liquidity to provide support. There were some failures. There was a sense they were banks when they weren't which created regulatory concerns. Many have disappeared or morphed into institutional and is no longer a viable market.

RF – It's a good point to make because the peer-to-peers have come and largely gone, and it hasn't created a major crisis. I remember speaking to Andrew Bailey when he was at the PRA, and he insisted they were not a no-failure regulator. The problem is that the political fallout from a bank going under is huge. So, while they are not a no-failure regulator, they also don't want anyone going bust!

They are therefore always going to be on the cautious side. 2008 is still very big in their minds. Peer-to-peer failures haven't been described as national disasters. The idea of challenger banks is that some will succeed, and others won't. You can't expect a 100% success in any start-up sector.

MD – We are talking about direct impact of regulation but there is also an indirect impact. Metro and Bank North are going into different regions, and it also comes back to Ali's points around financial education.

We do offer Key Stage 2 and 3 support for schools on financial education. As we expand, the local teams do go and do that education. So, it starts to have a ripple effect in other areas of priority as well as the more direct lending.

We'd love to be in more places and do that.

JT – Over the last decade, expertise has exited regional areas. People employed by big banks in branches or regional centres across the UK have been replaced. That has removed the capability to understand and get a grasp of the regional context and also removed regional empathy from lending decision-making.

Banking is heavily centralised in London and the Southeast so credit policy is set through a London lens and then applied across the UK as a whole. There is no ability to understand regional variations and that is critical for supporting businesses.

Put that bank into the regions and you get that effect of supporting and giving back to regions in a broader sense as well.

NT – The PRA gives us a capital penalty because we are not international. It's deemed a concentration risk because we aren't global. But smaller and medium sized banks are usually domestic. But there isn't a capital penalty when we base all of our business in London. A better way for concentration risks to apply would be to look at a regional basis. If you are spread domestically, then you can still be classed as in-line with the regulations. You could even incentivise moving to a more regional

basis.

HH – The APPG members wanted to understand what SMEs are experiencing outside London and are their experiences different?

RYH – Definitely the cost-of-living crisis is hitting SMEs and individuals.

An example is one lady that we supported who was a teacher from Manchester and a single mother who worked a couple of jobs to make ends meet. She had to have surgery and that meant she couldn't work. She was declined by a credit union and went to Citizens Advice. She gave up looking at the DWP website because it was too complicated.

We helped her to get a grant to tide her over. So, it's key to be able to help people through difficult moments and allow them to help themselves and still contribute to their societies.

There is quite a lot of regional difference. So, if you don't live near a CAB branch or local authority support is less, it can be a lot harder to find support.

Fintech offers opportunities to support people in this way and build an eco-system where we can help all types of people.

PW – What you are doing sounds fascinating but are you really a challenger bank?

RHY – No. We're a fintech. We are in conversations with some financial institutions, and we would like to work with more. Some banks are doing some stuff in this area, but it is hard to model how effective their interventions are. An advantage of our portal is that we are able to track successful interventions and work together with institutions to provide wrap-around support and give people the best support.

MD – It's another indirect impact. All our colleagues in stores work with local charities and community organisations and we give them a day off a year to volunteer locally. They could come and work with RHY for a day. But we can only get into communities if we are able to grow there.

We work closely with a charity called The Level Trust in Luton. Our store there works with them and others on financial education and makes sure people on lower incomes are getting the information they need too.

RF – Yorkshire Building Society is making its branches available to others to deliver on high streets where they are the only surviving branches.

Another building society is looking to have a third-party auto-teller in local branches to enable people to bank cash. I think there is a really good opportunity there and it seems like a logical thing to do. But we have not been getting a great

deal of support from the FCA. They can be a big blocker if something doesn't fit their way of thinking.

Their fanaticism about preventing consumer harm can sometimes get in the way of consumer good.

NT – There was a pilot done by high street banks. You have a branch or a shop and they all look the same. Why not have one and have staff in little hubs within that which reduces overheads and gives everyone access.

That pilot seems to have died a death.

RF – It wasn't the only one. There are a number of different solutions.

The other thing is Newcastle Building Society are co-hosting branches in community spaces like libraries and bus stations all over the northeast. These are real opportunities to support communities in different ways. For example, co-hosting in a library saved the local library and that then had broader community knock-on effect.

PW – A symbiotic relationship. There was some talk about the post office co-hosting some branches too.

MD – We have a relationship with the Post Office. The big banks aren't interested in businesses that can't turn over £25 million so we do have some relationship managers in places where we don't have a store at the moment. There is some pressure on the Post Office from the FCA on access to cash.

RYH – A question about the journey of a customer who might move from one financial institution to another as they struggle to access credit. What can institutions do to help them?

MD - As long as you can identify yourself and you have an address, we can give you an account and that helps you to build transactions and a credit score. We call it a cash account. W regularly review credit limits and see if we can offer things like a credit card with a small limit, that helps them to boost their credit score again.

RF – That's where credit unions rules are very clear. Very basic decisions around putting a small amount aside. We are campaigning on the current financial services bill to include an update to the Credit Union Act.

The FCA takes a very rigid view of current legislation. If it says you can do something, you can, but if it doesn't explicitly say so, you can't.

For example, a credit union cannot do hire purchase on a car, but it can give you an unsecured loan to buy a car. White goods lending is quite constrained. We are looking to enable Credit Unions to fill those gaps.

Lending to people with poor credit scores is difficult and this can result in questions around fair treatment of customers. None of us have really

seen the real impact of the cost of living crisis. The big concern is around the 26% of households who went into the pandemic with less than £100 of savings.

Levelling up is helping to improve the financial resilience of households by helping them to save, not just geographic levelling.

RYH – Yes, that's where having other types of support and ways to save as an alternative is important.

AD – There is a financial education point in there too. It all goes hand-in-hand with helping families levelling up. We do have families as customers who are teaching kids not to make their mistakes. Savings is one area especially. Our data shows that 40% of people without financial education had no savings at all. It was similar with pensions.

For us, it is fundamental to make those skills available for everyone. We want to hit every child. But we are a paid-for service, so we are offering to help first and work with others.

We are all about learning by doing. Our parents and children have apps had these have educational elements on them and you learn as you go and from making mistakes.

It is about empowering kids to have independence and understanding about money touching on all different elements of financial learning. We have a lot of material but can't go into schools completely ourselves.

MD – We are pushing on an open door. Schools love us going into schools and teaching kids these things. We make it fun too and show them things such as safety deposit boxes.

RF – Talking about junior branches run by Year Six kids at primary school. It helps with maths and other skills too.

AD – It's all about learning by doing.

RYH – learning is important for adults as well as kids. Anyone can go on that journey.

AD – We find a lot of parents are learning skills from kids. We had one single parent who had never saved before. She told her son to save to have money to spend at Euro-Disney on a holiday. This then inspired her to save and then her sister took inspiration from her and did the same.

HH – Concluded the session explaining there would be a transcript of this session and a report published shortly.

Meeting Ended – 11.30am

The APPG received a wide response to its call to evidence. These are available on the APPG's website: www.cbbsappg.org.uk

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