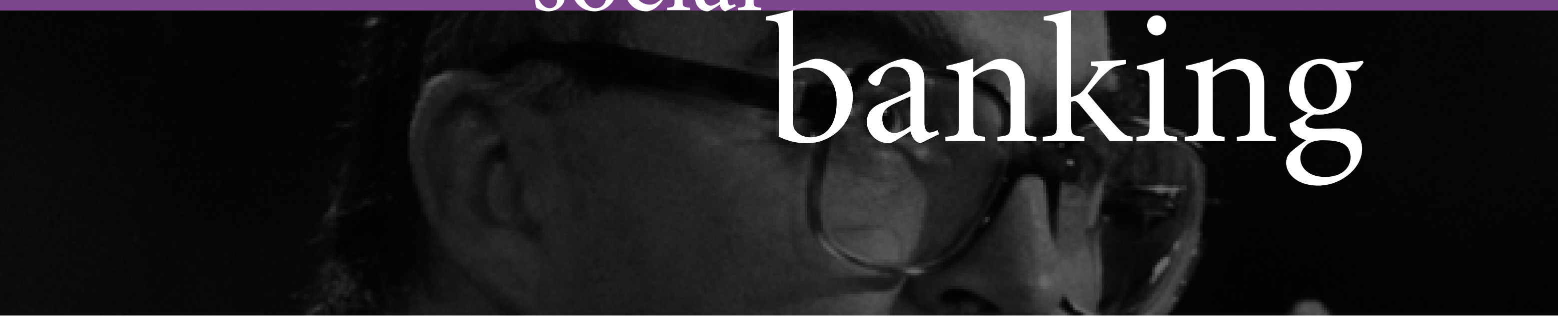
social banking



A seminar held on
Wednesday 20th October 1999
11 Downing Street, London

Edited by John Wilson

The Smith Institute

social banking

A seminar held on

Wednesday 20th October 1999

11 Downing Street, London

Edited by John Wilson

Published by The Smith Institute

ISBN 1 902488 19 9

Preface

The Smith Institute has been set up to look at issues which flow from the changing relationship between social values and economic imperatives.

This booklet is based on the presentations made by Patricia Hewitt MP, Ed Mayo and Fred Goodwin during a seminar held on 20th October 1999 at 11 Downing Street. We have tried to reflect the debate which followed. Inevitably, in transforming a live event into print, some of the colour and the texture of the original have been lost. We hope, however, that those who attended the seminar will recognise much of what is included here, and that those who read it fresh will respond to the flow of good ideas which emerged during the morning.

Introduction

Wilf Stevenson

As you may know, The Smith Institute has been running two strands in its work over the last year, one on equality and one on the enterprise economy. We have been struck in that work by how often the question of social banking came up.

You may have noticed that at the end of the Conference speeches this year, both the Prime Minister and the Chancellor stressed that equality of opportunity was one of the central planks of their thinking. As just one example of that, equality of access to capital for business or for personal needs could transform opportunity for many people who are on welfare. As has been said before, a hand-up rather than a hand-out.

In our most recent series of seminars, on the New Entrepreneurship, we heard from many creative and innovative people how frustrated they were at the current finance providers, including the Government grant system. Having heard a whole range of whingeing complaints, a Minister from the DTI asked rather plaintively, “What is the role of the DTI?” I’m afraid he got rather a silent response. But DTI were not the only ones to get complained about. Venture capitalists were described as a contradiction in terms: they were neither venturists, nor were they capitalists. And the high street banks, I’m afraid to say, sopped up the rest of the complaints.

Having been watching this area quite closely, we are aware that there have been many, many conferences, seminars and the like around which these subjects have emerged. The good thing about that is that most of the facts are now on the table and we don’t need to go back into too much of that. Whilst the banks, the Government and the community finance specialists have been circling each other in this period, we have not been able to see the way in which policy would develop. But I think we are now reaching the point that with Policy Action Team 3 imminent, the Cruickshank Review on the horizon, and the Pre-Budget Statement about to come up, there is a good opportunity to finalise the arguments and to rehearse the issues and policy positions that people wish to adopt.

So this seminar, I think, is quite timely. We are grateful to the Royal Bank of Scotland for their support for it. In our invitation to you, we asked you to consider what action needs to be taken in Government, in the banking sector and within community finance itself to encourage an expansion of social banking, and that is what I would like you to try and concentrate on.

Our first speaker is Patricia Hewitt. She is currently at the DTI, but before that she was Economic Secretary at the Treasury, where she had this responsibility, so she is particularly well qualified to speak to us. She will be followed by Ed Mayo, who is the Executive Director of the New Economics Foundation. We have been working very closely with NEF but also have learnt a lot from them, and I want to pay due acknowledgement to that. Finally, we are going to hear a banking perspective from Fred Goodwin, who is the former Chief Executive of the Clydesdale and Yorkshire Banks and is now the Deputy Group Chief Executive of the Royal Bank of Scotland.

Patricia Hewitt MP

Minister for Small Business and E-Commerce,
Department of Trade and Industry

Financial Exclusion

It is a great pleasure to be here and to see so many friends and colleagues here, particularly because it's almost a year ago that we had a Treasury sponsored seminar here at No. 11, looking at this whole area of financial exclusion. Several of you attended. We also had here some colleagues from the United States of America, where of course they now have several decades of experience of community banking, and so we were able to hear directly from them and start that knowledge transfer, really, between American and British bankers. At about the same time we set up the two Policy Action Teams, both Treasury led, and it's particularly nice to see Melanie Johnson here, who has taken over part of the responsibility for that. And, of course, we set up Fred Goodwin's Task Force on how the banks and the building societies could get behind credit unions in disadvantaged areas.

One of the central themes of that seminar, and I think of all our discussions around financial exclusion, is the need to build effective partnerships between the public, the private and the not-for-profit sectors. I certainly have a sense (and I would be interested to see how you feel about it) that over the last year we have begun to develop much stronger and much more active partnerships in tackling these problems.

Financial exclusion, of course, is part of a much broader and deeper problem of social exclusion, of people in our country who are simply cut off from the mainstream of social and economic participation.

When we look specifically at financial exclusion, we see really two facets to the problem. We see, first, the problem of people who can't get access to the personal financial services that I guess every one of us in this room takes for granted, people who cannot even get a bank account and who certainly can't get access to credit except at the most extortionate rates.

I have to say, the most extraordinary example I came across was a woman who had recently divorced from her husband. They had sold the council house that they bought, she received a cheque for her share of the proceeds (some £21,600), but she couldn't get a bank account to pay the cheque into. She didn't have a passport – they had never been able to afford to go abroad. She didn't have a driving licence – they had never been able to afford a car. She had none of the sort of basic forms of identity that the bank branches require – not because they are mandated to by Government, but because that's how the guidelines on identifying your customer get translated.

Now in fact, through the British Bankers' Association, I found her a bank account. I would say to any constituency member who gets a problem like this (and I used to get a lot and I guess Melanie is still getting them), just get on to the Chief Executive of one of your local banks and get them to open a bank account – and if that doesn't work, get on to the British Bankers' Association. Don't waste time, in a sense, taking it through Government – just let Melanie know what's happening.

There are too many people, several million people, excluded from those basic personal financial services. But secondly, there is also the problem of people in disadvantaged areas who cannot get access to either the finance or the support they need to move into self employment, or to start up a small business. It is that area that I particularly want to concentrate on, because it's that area, following the work of Policy Action Team 3, that I will be taking forward in my new role as DTI Minister for Small Businesses.

From Benefits to Business

In essence, now that we have put in place a programme to help people move from welfare to work, we need to complement that with a programme that will help people move from benefits to business.

If you look at the problems of moving into self-employment, there are cultural issues there about whether or not people who have grown up with very low expectations, very low qualifications, actually think of self-employment, or certainly legitimate self-employment, as the way they ought to be going. But there are also institutional barriers. If you are living on income support and you start perhaps a very small business, start some trading on your own account as a self-employed person, you are very unlikely, at least to start with, to make enough money to live on. So you have got to be able to move people from income support through into self-employment, but enable them to go on claiming benefits to live on while they get their business up and running.

I think we were all very pleased to see that in the New Deal for the Under 25s, quite early on, self-employment was added as a fifth option to the various employment and training options that were originally in there. What we now need to do is to learn the lessons from those programmes and generalise it into the other New Deal programmes – and more really, right across the patch to all people of working age through the new Employment Service and Benefits Agency, to combine with the new ONE programme that is being established.

What we also need to do is to get ONE, to get the new Employment Service, working with our new Small Business Service and with the Area Based Partnerships, Single Regeneration Budget, New Deals for Communities and so on, to ensure that self-employment and small business start-ups become a realistic and a properly supported option for people who are now trapped on benefit, and in particular those living in the most disadvantaged areas.

The Problem of Finance

But we also have to look at how we finance those small business start-ups. It may be something as small as the small amount of capital you need to start your own window cleaning business, just enough for the tools and equipment. It may be something larger, if what you need is a workspace and some working capital. We know that it is a problem for many, many small businesses right across the country to get access to finance on terms that they can afford, but it is even tougher in the most disadvantaged areas.

I look at my most deprived estates – an area like North Braunston in my constituency, for instance, which is the most deprived ward in the East Midlands. There are no bank branches there and haven't been for decades. There is not just a physical, but also a psychological and a cultural separation from the banks, the mainstream sources of business finance. There is a real sense amongst the residents that banks aren't for people like them – and there is, no doubt at all, a sense amongst the bank managers that they're not for people like them either.

We know that within deprived Afro-Caribbean and Asian communities, there is a real gulf between them and the mainstream financial services providers, and indeed beyond that is a feeling that mainstream business support services are out of touch with their needs, and are inaccessible.

There are other very practical problems. Again, take an estate like North Braunston, where almost nobody owns their own house. Indeed, a number of the empty properties on the estate have been abandoned by people who have bought their council houses and then found they simply couldn't afford to go on living in them, and they just upped and left. So there is a lack of collateral, because people's own house is the most common source of collateral for a small business loan.

These are very, very fragile local economies, with very poor retail customer bases, so they are riskier in terms of the willingness of banks to put money into an individual trying to start a business. They have got much higher levels of crime, so insurance premiums for businesses as well as for home owners are higher – if indeed you can get insurance at all.

There is also the problem of the very high unit cost of making small loans. It costs just as much for a bank to lend £500 or £5,000 as it does to lend £50,000 or £500,000, but of course you make the margins on the £50,000 or £500,000 loan, not on the very small one. When, on top of that, you haven't got the local knowledge and the relationships with local people that enable you to judge whether or not somebody is a good bet, you can see why so little in the way of mainstream bank financing is going into the areas that we are concerned about.

Community Finance Initiatives

Besides those problems, there is also a broader market failure, in that, in a sense, the externalities, the positive externalities that come from setting up a growing number of tiny businesses in deprived areas, will accrue to the broader community. They are part of a broader regeneration picture, but they won't necessarily accrue to the one person in a particular microbusiness, or to the bank that has financed that person. And it's because of those problems, and because of that market failure, that we are beginning to see community finance initiatives filling the gap.

The Prince's Trust is probably the best known and the best established of them. That is a fascinating story, because by definition the Prince's Youth Business Trust only lends to people who have already been turned down by the banks. I remember being very struck (some of you will have heard this story before) when I met the Director of the Prince's Trust in the East Midlands Region, based, as it happens, in my constituency. He was a bank branch manager who'd been seconded by his high street bank to the Prince's

Trust for a couple of years. He found himself in the Prince's Trust making grants and loans to people whom he himself had turned down for a loan as a bank manager. And of course what we know about the Prince's Trust is that the microbusinesses they support have a better track record of survival and success than the businesses that are helped by banks. So there was quite an important lesson in there for him as a bank manager, but more generally for us as policy makers.

There are others like the Triodos Bank, which I think is represented here this morning. But there aren't enough of these community finance initiatives, and they are not reaching out to enough people in enough deprived areas.

I am very clear that there is a role for Government here in spreading that best practice. This is what the Policy Action Team 3 has been looking at. I think we are on the verge of publishing that report, but the sort of ideas that we need to be looking at are, first of all, to ensure that within those Area Based Partnerships, and particularly the New Deal for Communities and the new rounds of the Single Regeneration Budget, business, sustainable business and sustainable local economic development, is at the heart of the regeneration programme.

We need, I think, to look at something like a Government Challenge Fund for community finance initiatives, so that we in Government can help to provide, but also to leverage in from the private sector, the working capital that those organisations require. We certainly need to look at the role and development of the credit unions, because in some cases the credit unions will be the source of microfinance for the microbusiness – but I'll leave that for Fred to talk about. We need to look at Government loan guarantees for lending, whether it's from the bank or from the community finance initiatives, to these small and, in some senses, high-risk businesses. And we need to make sure that the new Small Business Service which we are creating at the DTI will have, as part of its remit, the provision of business support to people in disadvantaged areas.

The Need for More than Finance

It's not just about finance. I think that is really the central lesson of the Prince's Trust experience. It is about ensuring that the self-employed person, the start-up entrepreneur in disadvantaged areas, has got somebody holding his or her hand. Somebody who has been through this before, somebody who can mentor them, help them with the business plan, help them keep an eye on the cashflow, and all the rest of it. And that is why I announced just ten days ago the creation of the National Association of Volunteer Business Mentors, based on the American SCORE Programme (the Service Core of Retired Executives). We are not just looking to recruit retired executives, we want to recruit potential mentors from right across the age range, and we want to make sure that although that programme will be available across the piece, it particularly reaches out to, but also recruits from, people in disadvantaged areas.

I think also (although this is certainly not DTI business) that we need to look at how we grow social and not-for-profit enterprises within disadvantaged areas – both because they can improve the quality of life locally and because they can build the capacity of local people to take charge of their own lives and to develop marketable skills. We should look, for instance, at whether or not many of the housing repairs and much of the housing management on our worst estates can't be done better by locally owned and run housing co-ops than by the often rather remote and sometimes inefficient local council. There are a whole variety of local services there, childcare included, that could be run by for-profit or not-for-profit community based and owned enterprises. Again, those need to be part of our Area Based Partnerships.

Just to end, my feeling, looking back on the last twelve months, is that we have been making some real progress. And certainly in the area of personal financial services we have seen more of the banks coming forward with debit accounts that don't risk people running into overdraft, and that have been marketed in some cases specifically in lower income areas. We are seeing a growing number of financial institutions (not enough yet, but more) getting involved in the Area Based Partnerships. We need as well the new policy initiatives that I have described, and there will be many others we shall discuss this morning.

We do need to keep very close track of what is happening. I will ensure that the Small Business Service, through the Business Link Networks, monitors what they are doing in disadvantaged areas, as well as what they are doing for other small businesses, because at the moment it is virtually impossible to find out what the TECs or the Business Links have been doing in the areas that we are concerned about.

We need obviously to track the success of the Area Based Partnerships. We need the banks to be disclosing what they are doing in deprived communities, both in the personal financial services and in the business support areas, because that kind of transparency of information is going to be hugely important in spreading best practice, as a lever to ensure that those banks that are lagging behind are – I was going to say, 'shamed' – but are motivated, incentivised to catch up with the leaders in this field. And above all, it gives us as ministers and policy makers the chance to see whether or not what we are doing, and what you're doing, is really working, and what more we need to do in the years to come to ensure that this scourge of financial exclusion is laid to rest.

Ed Mayo

Social Banking Makes Sense

My headline is that "Social Banking Makes Sense". It's not going to be easy, but it isn't a fad, and it is not going to go away. It's part of the future business agenda and it's part of the future policy agenda. It will be a way to make money. It will be a way to protect and build your brand and reputation. It will be a way to motivate staff.

To explore this, what I want to do is to answer the four key questions. Firstly, what is social banking? Secondly, why is it needed? Thirdly, how far, building on what Patricia has said, have we got? And fourthly, what needs to happen now?

So you know where I am coming from, let me just briefly introduce the New Economics Foundation. We promote practical initiatives and policies for a just and sustainable economy. The issue that we explore is, how do you get an optimal mix of social, economic and environmental outcomes? Those are the three circles of our logo.

What is Social Banking?

Now first, what is social banking? Well it's where suppliers of financial services take a positive interest in the social outcomes and effects of their activities. So, in its basic form, that might require merely that a bank be conscious of its social impact – for example, through doing a social audit, as the Co-op Bank and, in a less complete way, Lloyds TSB and NatWest are doing. In a more advanced form, it enables banks to re-engineer products, processes or services in order to improve their social impact. A prime example is what we are talking about this morning, enabling disadvantaged people, enterprises and communities to access financial services and to use them to good effect.

This form of banking is challenging, and intuitively it does feel like taking small scale, more costly and risky products and selling them to people who may not be able to afford them. But there are tricks up the sleeve of the social banker which do address issues of cost, risk and return. Some examples: NatWest has launched a social banking bond which it is selling to high net worth customers, a kind of Robin Hood approach; Triodos Bank uses trusted intermediaries such as the Churches National Housing Coalition to sell savings products; the Local Investment Fund and Charities Aid Foundation bring specialist knowledge to financing charitable and social enterprise.

Let's take an example. Start-up businesses are systematically sidelined by credit scoring agencies and this is bad for the economy and it is bad for society. Social banking initiatives such as Hackney Business Venture in East London use local knowledge, like South Shore Bank in Chicago. They know the local neighbourhood and are therefore able to assess which start-ups are likely to work. Now this also has commercial benefits. Banks have done much, and certainly can do more, to address perceived discrimination in lending. That has got to be good sense. When ethnic minorities in the UK have a disposable income of £10 billion, that's a powerful incentive to do so.

Social banking is therefore quite a distinct approach to banking and, perhaps not surprisingly, it has been specialists that have actually pioneered it in the UK, particularly in the co-operative sector. What they have done over the last twenty years is to set up a series of non-profit financial intermediaries, usually called community finance initiatives. These initiatives will always play an important part in social banking. If you are a mainstream bank, then I would say you can do social banking on your own, or you can do it in partnership. It's best to do both – and if you want to know where to start, start in partnership.

Why is Social Banking Needed?

The second question is, why is it needed? It is a very simple reason, which is that there are under-served markets here in the UK, and that means a higher business failure rate, fewer start-ups, less employment and, in extreme cases, no-go areas for investment and economic activity. With enterprise finance, the Policy Action Team 3, I hope, will explain such finance gaps. (I say "I hope": I am a member of the team but I don't quite know what I can say and what I can't say.) They will explain that such finance gaps are specific, rather than generalised.

Gap one is disadvantaged neighbourhoods, such as the Aylesbury Estate in Southwark where we are working. Gap two is ethnic minority enterprise. Gap three is self-employment for those on benefit. Gap four is some women entrepreneurs. As Fiona Reynolds of the Women's Unit in the Government has acknowledged, women, because of family breaks or caring for relatives, will save less over their lifetime and therefore have more limited opportunities to get business going. Lastly, social enterprise, which Patricia referred to. These are a range of initiatives for community economic development. They rely on a mixture of trading income generation and grant surpluses, reinvested in different ways rather than distributed to shareholders.

Now to some extent we can relate all of these to social exclusion, but it also does go wider than that, to affect employment and the economy at large. The clearest case is the microenterprise sector. This sector is creating more jobs net than any other size of firm in the UK. In fact, our research concludes that there is an inverse relationship between the size of firm and the number of jobs that it creates. Small is beautiful, but, if you will excuse me, micro is mighty.

The most common cause of failure for microenterprise is a lack of appropriate finance. As a result, the UK has a higher failure rate of microenterprises compared to OECD countries. Addressing this would have a major impact on employment. So why are there these persistent gaps? Is it poor competition?

Is it banking trends, such as bank assurance? Is it globalisation? My answer is that the systemic reason for such failure is institutional failure, and I should make it clear that that is a failure not just of banks but also of Government. I am sure, quite possibly, the non-profit sector as well.

How Far have we Got?

So the third question, how far have we got within the UK? Of course the good news is that this is not a UK phenomenon, there is a worldwide industry benefiting many millions of people around the world, so it's relatively straightforward, with due cultural acknowledgements, to benchmark what we are doing. This is one thing that we have done in a new book called "Poverty, Social Exclusion and Microfinance in Britain" written by Thomas Fisher, my colleague Ben Rogaly from Oxfam and myself, which will be out next month. The answer is that there are some innovations here in the UK which are of international significance, but overall we are still at an early stage. The pioneers are proving that it is doable, but often in the face of considerable inertia. It took eight years for the Aston Reinvestment Trust to raise their first million pounds for community reinvestment in Birmingham, although they are flying now.

Many community finance initiatives have been very creative in finding ways to achieve or approach financial sustainability, and that includes relying on grants or reduced rate capital in order to build their own capital base. But what about profitability? Well, there are two factors at work. The first is an attitude towards repayment and write-offs. The second is the scale at which initiatives are actually operating. An excellent example from overseas is the Community Loan Funds in the US, which have a long history and have experienced accumulative loan loss records of 1.1%. Now in the UK it will take time for community finance initiatives to prove that they can be as attractive partners for banks and other investors. They will need to demonstrate that the markets they serve are bankable, with a sufficient return in effective management of risk.

To take a parallel: within a decade, private finance for social housing rose from zero to an annual value of over £13 billion, and that's an excellent example of social banking. But the regeneration approach of enterprise lending is more restrictive and it lacks the asset base comparable to housing stock. Arguably, the same lesson applies, which is that the sector needs to prove itself over a timeframe of around ten years if it is to attract commercial partners at scale and on a sound footing.

As we have heard from Patricia, the public policy framework is under development, and I think that without this framework, the timeframe would be far longer. Twenty, thirty, maybe fifty years. Policy can put in place a number of key building blocks, but on balance I would argue that we have seen relatively little movement from mainstream banks. Let me add, however, that there are a handful of useful initiatives in relation to personal banking, such as Bank of Scotland and many others; social enterprise, such as NatWest; credit unions, such as the Royal Bank of Scotland, Lloyds TSB, Unity Trust, Co-op and others; housing repairs, such as Nationwide; business debt, such as Barclays and the others of the big four; and microenterprise, such as Northern Rock and, again, NatWest.

The good news in what I see is that these initiatives in the banks are often led by tomorrow's leaders, but the bad news is that they are rarely given direct support or recognition from today's banking leaders. Major retail banks have nominated pretty much all, or start as contact points for social banking, but are not yet investing the patient development, staff time and funds in order to see change in the core business.

What Needs to Happen Now?

So then, what needs to happen now? Clearly I expect the PAT3 report due out to be an excellent foundation on which to build. It recognises that Government has a role to play in enabling social banking to flourish and that there are economic and social benefits from doing so. What I would like to do is to make two calls that go beyond this. Firstly, we need some advances in practice; and secondly, we need to debate further advances in policy.

First, practice. Let me give you a flavour of some of the urgently needed social banking products which can be developed over the next two to three years, and which are needed.

1. A social venture capital approach to back the efforts of the UK's social entrepreneurs by using equity, or more likely near equivalents to equity, as patient capital for social enterprises that are diversifying away from grant dependency. NEF will be working venture capital leaders to test the market and the methods for this.

2. A pilot microfinance approach such as Street's at a national level. This pilot initiative is required to address gaps in appropriate finance for micro-enterprise. The good news that I am happy to report is that they are on course to start three pilots, and the first lending will be starting in the spring of next year.

3. A learning and benchmarking network is required for practitioners, and this is a second generation piece of the jigsaw. The NEF is working with the Woolwich in order to develop that practitioner network.

4. A commission on community finance. There are real gaps around capacity building, technical assistance and pre-development work and finance for community economic development, and these are critical demand side gaps. As Patricia said, the supply of finance is only part of the equation, and there are good models from overseas which we can draw on, such as the Local

Initiatives Support Corporation in the US. So we are working with the UK Social Investment Forum and the Development Trust Association to develop and test these ideas through a high level commission on community finance.

5. Regional community investment. We are developing two regional initiatives in Scotland and in London which draw on work that we have done with the Charities Aid Foundation (and which will be out in a report in the next few weeks) on what you can do at a regional level in terms of community finance. The Scottish Community Investment Fund involves groups such as Glasgow Regeneration Fund, Community Enterprise in Strathclyde and the Scottish Executive. The London Rebuilding Society similarly involves a wide partnership. Yes, you heard that name right, the London Rebuilding Society, and this will be a regional, financial, mutual, unique model bringing borrowers and investors together as members to support the city's social economy.

6. Research. With the Joseph Rowntree Foundation and the Department for International Development we, for example, are researching the question of appropriate regulation for community finance initiatives in the UK and internationally.

This is a flavour, but you will get the sense that this is a very ambitious but achievable social banking agenda, which can do a power of good. But as indicated earlier, it won't move forward without banks and governments walking the talk on social banking. I think it is absolutely correct to encourage a voluntary take-up of social banking. That means the Government has to move fast, because we know from experience overseas that public support to initiatives such as we have heard of from Patricia are an essential element of success, and these can be delivered, I think, at a low administrative cost, with high impact levering in of other funds.

An American Model

I also believe that there is another good model for rewarding those who do take up social banking and highlighting those who don't – the US Community Reinvestment Act and associated Fair Lending Laws. I have heard a number of rather ill-informed criticisms of the US approach, but academic data and literature reviewed by the US Department of the Treasury over the last couple of months confirm that the Community Reinvestment Act "has played an important role in expanding access to credit and to rebuild houses, create jobs and restore the economic health of communities across the United States". And according to last year's Federal Reserve Board's report to Congress on the availability of credit to small business, "banks have found that the data reported under the CRA does enable them to identify market opportunities and to redesign their products and services to increase lending to under-served segments of a small business community".

Under the Act (and the latest figures), US retail banks have committed over $1 trillion to low income neighbourhoods and discovered that such lending can be profitable. It achieves that through two main actions: public disclosure of banks' records in serving poorer communities, and regulatory sanctions for poor performance. In the UK, there are some practical options for how to do some of this, and we have already heard from Patricia on the issue of disclosure. What I would call on is the Treasury to complete an annual community reinvestment rating of retail financial service providers. Such a rating would assess performance on criteria such as finance for small business, social housing, social enterprise and non-profits, service for disadvantaged areas and charitable giving. Such data is publicly available.

In conclusion to those four questions, let us make it clear, of course, and concede that banks are not charities – but I note that in some countries charities are becoming banks! So what we are learning is that banking techniques can be used effectively for social gain. From pensions to insurance, from enterprise credit to basic banking, financial services are being elevated to a new prominent role in 21st century industrialised countries. I would suggest that any prudent bank wishing to invest in its own future will wish to investigate social banking somewhat further.

Fred Goodwin

Integration, Flexibility and Focus

It is a pleasure to have this opportunity to speak to you this morning. I shall resist the temptation to go straight onto the defensive and highlight the fact that I have got ten minutes this morning to address you and I am inclined to try and keep to that timetable. I say that because it gives me licence for some gross oversimplifications which I will make in the course of what I am saying. A lot of the issues we are talking about today are extremely complex. They have a superficial and almost hypnotic apparent simplicity right up until you try and do something about them, and then you get into an altogether more complex environment. So I acknowledge readily that I am grossly oversimplifying many of the issues that we will touch on.

I don't intend to go into too much about what precisely social banking is. Both Patricia and Ed have touched on some of that. There is a great personal temptation to go on and talk a lot about credit unions, but I think that area has been covered and will be covered with some of the material about to hit the streets. I don't really think that would be the best use of time this morning.

That said, I would like to say, quite unequivocally and clearly, that the model that Patricia described is one that I think is a good model, a model which I think can work, and a model which I personally support and as an institution we support. But it is a model which will take a lot of time and energy to make work. It has a hypnotic simplicity, it has a logic which compels us all, whereas it will be extraordinarily difficult to make it work and it is something for the long haul.

Having said what I'm not going to do today, what I would like to do is to just touch on two or three high level themes. They are integration, flexibility and focus. I shall start with just a little on focus.

Social Banking in Context

I think we do need to see social banking – or community banking, or whatever model we want to call it – in context. We are not actually about creating community banking or social banking for the sake of it. We are trying to create community banking as a contribution towards the issue of financial exclusion and the broader issues of social exclusion, and we should not lose sight of that focus. That is the end which we are trying to bring about, as opposed to creating social banking for social banking's sake.

Having said I wouldn't talk about credit unions, I will mention the growth in employee credit unions. Employee credit unions are a thoroughly good thing and are something to be encouraged in my view, but we do sometimes get the statistics about the credit union movement a little confused. A lot of the growth that is occurring is actually occurring in employee credit unions, which is great and good and I support it, but it is not actually progressing the issues of social exclusion. We shouldn't allow ourselves to be deflected from that in giving a sort of tick that the credit union is sound and in good health. It isn't actually growing as strongly in the community areas as it is in the employee credit unions.

Social exclusion, as Patricia said, and as is self-evident to all of us, is not a simple problem. It is not a small problem; it's not a new problem; it's been around for a very long time. It would seem reasonable therefore to conclude that simple solutions, if there were any, would have been implemented and succeeded. The experience of reality, research and, I suppose above all, our intuition tells us that multiple solutions, multiple methods need to be deployed to make meaningful and, even more importantly, sustained progress. It is actually possible to alter statistics in the short term, but that's not really what we are about. We are trying to create sustainable and sustained improvement.

Indeed that's what we have, because another feature which I find always interesting when we start to talk about social exclusion is that we almost talk as if it's a green field site. There is an enormous amount of resource and energy already applied to this subject. A huge number of agencies, departments, companies, bodies, individuals, financial resources, human resources, intellectual resources are already deployed, and yet the problem is still unacceptably large.

So before launching into "Let's have something else new", it seems to me important that we understand the integration piece – that part of the problem we have today is as a result of the lack of integration between what is already there. Yes, there are gaps, but a lot of what is there is not properly integrated, or is insufficiently flexible to actually allow the desired outcome to be produced. We get a sort of compliance tick for solutions being in place, but they don't actually work, because they all operate in different ways and at different levels.

I would put it to you that we need these levels if we are really to achieve the step change which I think we are all minded to achieve. The issues of integration, flexibility and focus need to be addressed.

Identifying Where the Problem Arises

A couple of examples of what I am talking about. I serve on the New Deal Advisory Task Force in Scotland and it's been a fascinating process. At the outset, as we sat down, everyone was kind of convinced that the main issue, the right determining step, would be availability of employers willing to provide options for the employment option. The Task Force was convinced that that was going to be the right determining step. Quite considerable resources and energies were deployed in marketing and enlisting the support of local employers. What we have actually found, during the duration of the scheme so far in Scotland, is that we have got more jobs than we have New Dealers wanting to take up the employee option.

In fact, the problems were upstream, and every time we dig in and solve a problem, e.g. that candidates don't want to come forward for interview because of transport costs, when you dig in, you find that there is already a scheme that solves that, and in fact you quite often find that there are several schemes that already solve that issue. It is fascinating to me to listen to the professional practitioners from the Scottish Office and the Employment Service talking about the various schemes that are already in place, and have been for several years, to address those sorts of issues. It quickly becomes apparent that I can't understand how the schemes operate. They debate amongst themselves how the schemes operate, and there is an enormous bureaucracy associated with making them happen.

So you fix the transport issue, then you find people still aren't coming forward because there is a "suitable clothing for the interview" issue – and there are schemes to solve that too. Good schemes, but quite complex schemes. There are a number of them, and they are not just immediately self-evident where they are. So the process goes on. With almost every meeting of the Task Force, you discover another barrier to people coming forward, and you discover solutions already there – but solutions which are not integrated or solutions that are not sufficiently flexible to actually produce the desired outcome. Nobody cares about all the schemes. It's the outcome that's important, and we are denying ourselves progress from what is already available by the absence of some flexibility.

On the business side, we talk a lot about funding gaps. Venture capitalists get a bit of abuse here and there, rightly so in the main, but I am now actually going to go in and look within the Royal Bank at those applications which come forward for credit from what you would define as microfinance proposals, those which employ less than ten people. We approve just under 90% of them. The issue is actually further upstream. They are not coming forward to us, and there are all sorts of reasons for that – of which the bank bears considerable responsibility, I accept. But the issue is not about us trying to improve our acceptance rate, it's actually to get more proposals coming forward for consideration. So again, it is an understanding of the integrated picture, rather than just homing in on the banks.

Now I mention these examples and I mention the New Deal, not to be critical of what I think has been a great success, but it does highlight the need to bring together what we already have, and not just to see everything in the context of a need for replacements or a need for things to fill gaps. Many of the gaps are already filled, if only we could bring all the pieces together to fill them.

A Bank Account for All

Cynics amongst you may be wondering when I was ever going to go on to social banking and the role of the major banks. That moment has now arrived. Of course, many of the banks are already heavily involved in this area, and both Patricia and Ed have touched on some of them, but it seems to me that in the most obvious role which the major banks could play, there is a major gap. It seems to me to be extraordinarily difficult for banks to talk about financial inclusion, or to position themselves as being against financial exclusion, when not everyone who wants a bank account can get a bank account.

I can well understand why people don't all want bank accounts, but what I can't understand is why banks don't make bank accounts available to anyone.

It seems to me just to highlight the many prejudices and the antipathy that exists towards banks. There is indeed a psychological barrier in many people's mind between themselves and banks, and for as long as that continues we are not going to make meaningful progress on the financial exclusion, social exclusion agenda.

It seems to me just a key foundation piece of going forward that banks make available accounts to anyone who wants them. And in that regard I am pleased to report that the Scottish banks announced last month that they would all make available accounts to anyone who wishes to have an account, but who meets the dreaded money laundering requirements.

Now one of the few areas that there may be a difference between Patricia and me is in this area of the money laundering requirements. They don't cause the banks any more pleasure than they cause you, Patricia, or than they cause our customers, but they are there. There is a requirement to meet the guidelines that are set out by the FSA. As a director of a bank, it is burned into my consciousness the penalties which follow for not following these. And yet it strikes me that here is an issue where we could, by working together, actually make this problem go away, because the notion that asking people to see passports, gas bills, or anything else before you allow them to open a bank account prevents money laundering is fantasy, it's absolute fantasy. No meaningful money launderer, no self respecting money launderer would find it difficult to get hold of a gas bill or a rent invoice or anything else.

There is no evidence available that I can see that suggests that by asking ordinary customers to meet these requirements we are somehow going to cut down on money laundering. Money laundering is a very serious issue and something which we are committed to dealing with. I spent some years working on the BCCI liquidation, and I know firsthand the grief that money laundering can cause to ordinary people. The solution is actually about monitoring the transactions which go through accounts, and there are really quite sophisticated tools and equipment to enable us to do that. So maybe we should get together in partnership and work out how we are going to make this money laundering beast go away. It is a waste of time and it is a waste of money, but more importantly it does exclude people – even when banks are willing to make bank accounts available to everyone, which not all banks are.

We at the Royal Bank have had a universal availability of accounts for some time. It became clear to me through the New Deal Task Force that in fact they were a problem for New Dealers. Many of them couldn't actually receive their benefit because they couldn't meet the documentation requirement. We were able to get together with the Employment Service and quite quickly concocted a shorthand version of procedures, which basically involved the Employment Service giving us the name of the individual, or confirming that the individual was a New Dealer, and we just opened an account. That technically does not comply with the money laundering regulations, but I am working on the basis that if we go down, then the Employment Service go with us, and that's a reasonably safe defence. But it highlights the issue that flexibility and commonsense can solve a problem.

In the two months or so that that has been operating, we have had 5,000 new customers. Now it's not rocket science, it's not solving financial exclusion, 5,000 doesn't sound like a terribly large number in the law of large numbers, but to those 5,000 people it makes a difference. You go and talk to them and it makes a real difference. So it does seem to me that the money laundering area would be one where some common sense, some joined-up thinking could be deployed pretty quickly.

There are other examples. The Bank of Scotland have done a similar thing with Big Issue vendors who face the same problem, where they have adopted a shorthand approach. But I think the landscape of social exclusion is actually littered with little instances like this, where there is provision, there is a desire to meet the need, but the rules prevent the desired outcome being achieved.

Integrating Social Banking into the Mainstream

Still on the subject of one of the themes, integration, it does seem to me that banks have a bit of a hurdle to cross in terms of integrating their contribution to this area into the mainstream of their business. Yes, you can participate on a philanthropic basis. Yes, historically much has been achieved on a philanthropic basis. And if the choice is between not participating and participating on a philanthropic basis, then let's have participation on a philanthropic basis. It isn't really the basis, though, that is going to carry this partnership forward, or make this work. Banks have to see this, and I can report that many banks do see this, as an integral part of their business.

Why do we see this as an integral part of our business? Well, growth is extremely important. Growth is important for the survival of the organisation. You could be excused for thinking that some banks don't subscribe to that view, but I think the evidence would suggest that most are coming round to it. Certainly in our organisation growth is key. Large numbers of our people, the vast majority of our people, are incentivised around targets of customer acquisition, growth, provision of products to customers. It just doesn't make sense for us to ignore a sector of the community who are sitting out there wanting access to our services. Yes, there are issues. Yes, there is a segment of the community where there are very specific issues. But actually, each of the segments of our customer base bring with them very specific needs and very specific issues.

The bottom line is that customer acquisition costs in this area can be quite low if we work in partnership with credit unions and some of the other vehicles involved in social banking. They are not quite so low if banks try to go in directly, and that's why I think I would take Ed's message and let's go in in partnership. That's how we find that it works best and build on that.

This segment is potentially profitable and attractive to us and needs to be approached as an integral part of our business, and until banks cross that particular Rubicon, I don't think we are going to make the type of progress that we envisage.

A Partnership Approach

Can anything be done to encourage banks down that path? Well, there is always legislation. Yes, legislation can work, but I am not personally sure that it would work in this instance. What we are looking for is partnership. I am not sure that conscripts are really going to make the type of contribution we need here, particularly at this time in the development of social banking. I think it is quite delicate, and to bring the financial sector and all the major banks weighing in on a compulsory basis – I am not actually sure it's just the cleverest thing to do. There are contrary arguments, but I would certainly come down in defence of not legislation at this point, because it is partnership we are talking about and I don't think you really can legislate for partnership. Rather, I think that market forces will play a significant part.

Ed mentioned the concept or the notion of institutional failure. I think if you look around the financial services market in the UK, there are plenty of instances and plenty of evidence of institutional failure, where the institutions have perhaps sought to distance themselves from the reality that their customers face and the reality of the market. I think, if you look at the evidence that unfolds on almost a daily basis, that is changing. I personally think that change, coupled with many of the technological advances which enable business to be transacted remotely more effectively, and enable a whole lot of initiatives to be developed which were not hitherto possible – I think those combined factors will bring about progress of the nature that we are looking for.

Patricia raised the issue of transparency. I think transparency is a good idea and I think it is too much to argue against transparency. My only caveat on the subject would be that you should not underestimate the industry and inventiveness that can go into creating apparent progress, in the absence of real process. The form over substance debate masquerades and manifests itself on a number of these issues. Charitable giving is one where a number of institutions include giving in kind and so forth into the figures. So transparency, I think, is good but we need to watch and not be duped by it.

One of the biggest encouragements that could be given to banks is to recognise that banks are not all the same. It does get a bit wearing to be grouped in with "the high street banks", because you know what's coming next is some ear-bashing. Banks are not all the same. We could debate whether they ever were all the same, but they are not all the same. The behaviours evidenced by individual financial institutions are quite different, and I think they will become more different as we go forward. Our institution would be much more encouraged – not that we need much more encouragement, but I think we would find life more straightforward – if we had fewer sweeping generalisations that include all the banks and then attach them to some piece of behaviour which we would consider to be Dickensian at best.

So that was all I was really planning to say today. I think, to end where I began, the model that has been described here is a good model and a model which we can make to work, but to make it work we need to emphasise integration, focus and flexibility.

Discussion

Reaching the Most Disadvantaged

Wilf Stevenson

Coming from the outside, there is still a circle at the heart of the policy issue, which is that there is clearly agreement that social exclusion is where we want to be focusing this part of the debate; virtually everybody agrees that there are benefits all round by taking an integrated and partnership approach on that; but the banks are not going to do it for philanthropic reasons. They have to be able to do it, and show they are able to do it, for a return.

The Government is willing to try and help that with some pump-priming, given that this may be a ten, fifteen or even twenty year haul. One of the things that Patricia mentioned which seemed particularly interesting was the question whether the Government Loan Guarantee Scheme could go down sufficiently low, as it were, into the areas that we want to get down to. The very, very disadvantaged, the very poor, the sink estates, the areas where there are clearly going to be returns, both economic and social. If that is going to happen, and it sounds as if it may do, can it be done without disproportionate administrative or other costs – because that is just going to raise more worries?

At a previous seminar, we had a good example of somebody who was clearly right for a particular programme (a bit like Fred was saying, there is always a programme there for you if you knew what it was) but she couldn't get at it because she didn't realise when she went in for it, although she was uniquely fitted for it, that there was an eighty page application form. She simply could not cope with this, with the resource that she had. So it is that sort of good intentioned but not thought through issue that will kill a lot of these proposals, and clearly we want to make sure that is right.

County Court Judgements

Pauline Barnett

We work in two of the most deprived boroughs in East London, Tower Hamlets and Newham. We actually run six loan funds. We are lenders of last resort. Starting off twelve years ago, three private sector sponsors started three loan funds for us and because of best practice (which we are known for now), that's helped us lever in public money to increase our loan fund lending. We work very closely with the banks because we do a 2 to 1 leverage, so over the last year we've loaned out in excess of £1 million and actually levered in £2 million of private sector money. We have huge success rates. There's wonderful things happening in those boroughs. It would have been nice, maybe, for somebody to have come down and spoken to us, spoken to our client base, because it comes with a whole support of business start-up and business support.

Can I just add one more thing quickly? After running Self-Employment New Deal up until a couple of months ago, very successfully, the biggest problem for our client base (and we have thousands coming through the centre each year, we set up a minimum of 200 people into business each year) is that especially unemployed people, the majority of those we deal with, all have County Court Judgements. They don't have any problem with showing a passport and driving licence to a bank (because everybody seems to be able to produce those, we haven't found that a problem) but once you have got a County Court Judgement that hasn't been satisfied, it is almost impossible to get a business bank account opened – even though we have managed it in a lot of cases, that is the biggest obstacle and the main problem that people have.

Response: Patricia Hewitt

I took both of the Policy Action Teams right around the country. We held a number of immensely interesting local consultation meetings and visited a number of credit unions, community finance initiatives and so on, so I'm sorry that we didn't manage to get to you. As we develop in DTI, as we create the new Small Business Service and develop the new franchises for the Business Links that will take over you (as the local delivery channel for the Small Business Service), I think it would be very useful if my officials could visit and talk to you. We need more examples of best practice to ensure that the Small Business Service and the Business Links (who aren't used to doing this) actually understand and learn how to do it.

The County Court Judgements that you mentioned are a very big obstacle indeed. I'm not sure how we solve that problem, but I think what we need to be looking for is a combination. In some cases, it will be an affordably priced loan to discharge the Judgement. In other cases I think it has got to be (and I'm not sure whether this is a regulatory problem, or a problem of willingness with banks, or both) a willingness to disregard the undischarged CCJ when you open up a business account, so that you look ahead and kind of write off the past. We do have to find a solution to that problem, because it is holding a lot of people back.

Mike Young
I just want to comment on something that Fred Goodwin said and then to offer a potential solution for Pauline Barnett's problem. I agree with Fred about the need to develop basic entry level accounts. From the work we have done (not only based on what the Scottish banks are doing but also the banks in England), by next summer there will be a very widespread availability of entry level basic bank accounts of the sort that we are all looking for.

That may crack the supply problem, but we also need to crack the demand problem, and that is going to be about a partnership to deal with financial education. It is often said that people need basic bank accounts because they can get cheaper gas and electricity through direct debits. That's dead right, but for an awful lot of people who are deeply suspicious of banks and bank accounts, imagine what their feelings are about direct debits. They are going to need a lot of education and help and support to get the benefits that they can get from that. But I think that by helping them to do that, by cracking the demand side as well, we can do what Fred said, help them to build a relationship with a bank. And for those that want then to develop into their own business, that's the best way of getting started. If you've got an existing relationship with a bank, because you are a customer there, that's the best way of getting the £500 or the £2,000 that you need to develop a microbusiness. So build up the relationship with a bank.

I thought Pauline's contribution was extremely interesting. I'll certainly take up her invitation to come and visit and find out about things. The CCJ problem is an issue for banks. Statistically, CCJs do give us problems. What about a pilot scheme (I have to say that this is an entirely personal view because my boss is sitting in the audience as well!), maybe using Pauline's scheme, to say get banks to lend to CCJs, but with the benefit of public sector loan guarantees initially, to see if banks are right about the problems with CCJs and to see what level of guarantees can help to overcome that?

Response: Ed Mayo

On the County Court Judgements, over a million are issued each year. There are some good examples from the US about how this can be done, again in partnership with non-profits. There are banks saying, if it is not in the last twelve months, if you've got some reason why this happened outside of your control, we'll take you on, and the lending record market is very good. We have been talking, for example, with the Bank of Scotland about whether we should look at Money Advice Centres or Business Debt Line to see whether you can get referencing to try schemes like that.

Supermarkets, the Internet and Social Exclusion

Jan Parr

I haven't heard anybody talk about supermarkets as places where financial services are provided. I've spent a lot of time over the last year or two talking to people about the financial services they use. It was quite clear from that that supermarkets are somewhere where people trust, much more than the banks, even though I am aware that it is the banks that are providing the services through the supermarkets. Could I urge anybody involved in this field to think of perhaps having partnerships with supermarkets, the places where people go, particularly women, where they feel safe? As somebody said to me, "You can trust Virgin, you can trust Marks & Spencer, you can trust Tesco's, in a way that you can't trust the high street banks".

Bill Eyres

One thing we haven't focused on today is the impact of the internet on banking. If we are talking about social inclusion, then information poverty, the lack of access to the opportunities of the internet, is a real problem. There is no doubt that the internet will revolutionise the way both personal customers and business customers perceive their banking services. At the Co-op Bank, in order to measure the social impact of the way service delivery channels are changing, we have developed nineteen indicators with New Economics Foundation and other stakeholders. As an industry, we really need to adopt this level of transparency if we are going to have a proper dialogue about the social impact of Internet banking on society as a whole.

Rt. Hon. Harriet Harman MP

I would like to offer a few points based on my constituency, which is socially and financially excluded. First, there are many people who arrive in my constituency from West Africa, in estates like the Aylesbury Estate, from a very strong trading background (particularly the women, who would have come from long lines of involvement), but who don't have any idea how to get into the kind of classic high street bank or lending market in this country – but they have a wealth of talent and expectation. I think the problem is partly to do with the personnel. The personnel in the financial services don't know how to read who is going to be a good prospect and find it quite difficult, so I guess that's a personnel issue about recruiting and involving people from those communities that you are going to financially serve.

Next, to pick up the last speaker's point, there are parts of social exclusion which employment, because of its nature, can't reach. That's why I think Patricia's concept of "benefits to business" is so exciting and takes further the "welfare to work" concept. If you think of the people who are most long-term workless and socially excluded, for example people with long-term disabilities or lone mothers with young children, the inflexibility in the world of work often means that they can't get out into the labour market. But with the opportunity of being able to work from home, with new technology and the financial services helping them do that, there's hardly a corner of social exclusion that we can't tackle and support there if we take up those opportunities. I am about to buy my son a Dreamcast machine, which is both his birthday and his Christmas present, and from seeing the ads, I am shocked to discover that he is going to be able to play on that machine with four billion players worldwide. Obviously this shows the huge opportunity there is for everybody to be able to do different transactions at home.

Another point is that there are many businesses arising in socially excluded areas (like, for example, childcare which Patricia mentioned) which are going to be hugely fuelled by the hundreds of millions of pounds coming from the Childcare Tax Credit. In my area, some of the most burgeoning businesses are delivering services of pre-school nursery and after school clubs, often run by young black women who set them up because their own childcare arrangements have fallen down. And yet the Business Link and the TEC don't see them yet as a huge new area of enterprise and business. So I think it is about looking at what sort of businesses are going to develop.

Finally, Jan mentioned about the supermarkets. In my area, and I'm afraid in many socially excluded areas, we don't have supermarkets. They are the next layer up. In fact, often we don't have shops. The council put up red lines on the Old Kent Road, which backs onto a very socially excluded estate. The NatWest Bank branch found that fewer people were stopping, and the four shops on that estate therefore found that fewer people were stopping at the banks. The bank closed down the branch, all the shops closed down, and we were left with not only no financial services on that estate but no shops either. So the issue of local banking activities supporting the local shopping infrastructure, supporting the local community, is a very important issue as well.

Response: Ed Mayo

Three quick points just on the last comments that we have heard. I talked about the pioneers in the co-operative sector to whom social banking now, let alone in ten years, owes something of a debt. But also behind that there is a debt owed to immigrant communities who have really again been the pioneers for this sector. I am interested in how social innovation is now spreading through people who are travelling. The credit unions owe much to groups coming in from Jamaica and the West Indies, from Ireland, etc.; Community Loan Funds to people from the States; developments in Birmingham to returners like Rosalind Copisarow from Poland. It is an interesting comment on where social innovations are coming from.

We have done some work on what are the emerging growth sectors, at least for the social enterprise field. We have identified a series of inner key growth areas which very much include the care economy. There is a lot of creative thinking to be done about childcare facilities, the role of social enterprises in that and the kinds of finances they need to be able to endow an asset which can then form part of community economic development.

The third point was just a counterexample to your example of the bank closing down and then the four shops closing down. The Local Investment Fund whose Board I sit on has recently financed a community owned retail store. This is a new development, somewhere where there are no shops. They have been trading now for about three or four months. One of the things they found which they didn't expect is that crime has gone down by 25% on that estate. I am wondering why that is. Why does going to buy baked beans in a community owned retail store reduce crime? Well it's not the baked beans, it's the foot traffic. It's the people who used to be walking over the bridge and out to Tesco's or the trusted supermarket over the way. They are staying local, and so the foot traffic has increased social cohesion and trust and has reduced crime. Again, a kind of complex social problem that wasn't the purpose. You can do one thing and see it pop up in another way.

Response: Fred Goodwin
We jointly own Tesco Personal and Financial Services and indeed Virgin Personal and Financial Services and I guess I have some insight into those. I think there is a lot to be learned there in terms of the friendliness and accessibility, but I do think they close out a large proportion of the people that don't typically shop in Tesco's or Sainsbury's.

Coming back to the point that was made about the LECs and the TECs, this would connect to my point about flexibility. There is a piece of psychology somewhere that says that public money has to be safeguarded, so that every time there is a bad experience somewhere or an isolated instance, a new rule is introduced across the board. Around many of these schemes we have a plethora of rules that were designed to stop an unpleasant thing which happened once somewhere in the mists of time. You build up layer upon layer of rules, which make it progressively more and more difficult to actually achieve the purpose for which the scheme was originally put in place. The childcare example with the TEC would seem to me a case in point. If you dig in there, I suspect the TEC will be operating off a set of rules which preclude their involvement for some reason associated with something unpleasant which happened historically.

I think the reality in this country and the great irony in it is that actually banks will part with their money more readily than the public sector will part with their money (at a detailed operational level, not at a governmental level). I think some of the flexibility I would be looking for is getting rid of some of these rules or taking more of a risk.

Response: Patricia Hewitt
Well I certainly agree with Fred. I think part of the bigger culture change in Government is about getting an entrepreneurial spirit into Government and into the public sector without simply throwing out the entire necessity for proper accountability for public funds. But we really ought to be able to simplify that and allow much more discretion and much more of a 'can-do' spirit within the proper rules.

I also just wanted to comment on the point about the impact of information and communications technology. We are doing a great deal in Government to ensure that we don't allow a sort of information exclusion to grow up in parallel with financial exclusion. Some of that is about putting access points into deprived communities, whether it's through libraries or neighbourhood centres or whatever, so that people living in very low income estates can get access to the internet and to the skills that they need to access it.

I also think that as we go forward in implementing PAT3, we need to look at how and where we are going to put the business support. Business start-up centres for instance, very small places where people who are just trading on their own account can start up their business in a cheap provision where there is a range of services available. Those services certainly need to include cheap ICT.

We need to look at leasing deals, because the prospect of paying £1,000 to put your PC in is an enormous obstacle for a lot of small businesses, not only those in the areas we are talking about. So we need to look at cheap and affordable leasing deals as well as the provision of ICT within business support centres in disadvantaged areas. There is undoubtedly a role here again for the Business Links as they take forward this agenda, but do it reaching out into disadvantaged communities and ensuring that they are expanding their customer base, both geographically and ethnically. And that they are expanding their staff base, because there is no doubt at all that as I go round the business support conferences, Business Links, small businesses themselves and all the rest of it, I do see an overwhelming number of white, middle-aged, middle-class men. We have got to change that, because it is too small a staff base and it's too small a customer base, and changing that is really central to this agenda.

Social Enterprise

Jonathan Bland

I am very pleased to hear a couple of mentions of social enterprise. I am doing some work with the British Bankers Association to see how we might be able to improve the understanding of social enterprise amongst the banking community. It is perhaps pertinent to say a couple of words to people here who have heard the term but don't know what it is in detail.

One of the things we have heard about is how it can be a very useful vehicle for empowering people and providing opportunities in local communities to get engaged in economic activity as a social aim. But that social success sometimes obscures the enterprise side of what we are talking about. Really, we are talking about people-centred businesses that are and have to be competitive in the market to deliver whatever they are doing. They may start off on a very small-scale basis, providing services on an estate or in a local community, but they can very quickly grow to be quite big and can be very innovative. We have the example in London of Poptel, which is one of our top twenty internet service providers. That is a social enterprise, because it is a people-centred business. It involves its employees in the control of the business and, if you look at its staff, there are women in very technical positions, which is quite unusual for the IT industry.

We have other examples of local services being provided by social enterprises. In London, we have Greenwich Leisure, which is a very innovative way, in terms of best value now, of delivering a local leisure service through a mixed multi-stakeholder form of ownership, involving the employees, involving local users, involving the local authority and the trade unions. That has grown to a business of £10m, with a staff of 400.

So in thinking about social enterprise, we don't just want to think about small-scale things. It is very important in terms of support from the DTI under the new Small Business Service (where the Business Links haven't really understood social enterprise) that 80% of the concept is the same as any other kind of business advice, but the other 20% is very specific. It is about the legal structures, the multi-stakeholder ownership and the management culture that makes a team-based people-centred business really harness people's potential, because that is what it is all about. At the moment, the current Business Link network doesn't have those skills. We have been meeting with some of Patricia's officials, and before that talking with people in the PAT3, about how we can look at improving that, but I just wanted to highlight that if we are talking about the social banking needs, it is very important that we actually understand social enterprise as enterprise.

Banking Services for Microbusinesses

Malcolm Hurlston

Ed Mayo mentioned credit reference agencies. I think they can be part of the solution as well as (as I think was implied) part of the problem. There may well be a remote solution as well as the warm solutions that are being discussed, bringing in the credit reference agencies and perhaps also the retail lenders, because were it not for their brilliance in being able to lend £300 or so to eighteen year olds with no track record, they might be excluded from borrowing as well. There is a remote solution there.

Patricia Hewitt mentioned some of the measures that are going to be taken. Vernon Weaver, who used to run the Small Business Administration, always used to say that in the end, climate is far more important than any particular measure. If you can get the climate for entrepreneurialism going, you can make enormous progress; the measures are almost insignificant and relative to people's feeling that they can achieve something through role models, and obviously as little regulation and tax as possible.

Finally, Fred Goodwin talked about money laundering and other checks. Lenders do, I think, in the end need to check who people are. There is a suggestion before the Home Secretary at the moment that electors should be able to withhold their names from appearing on the commercial version of the electoral roll. That would be very good for their privacy, but may not be too good for their ability to borrow.

Amir Bhatia

We talk about affordable IT solutions, etc. I just want to dwell on affordable banking services to very small businesses, and to draw a distinction between small businesses and microbusinesses. I think the definition of small businesses is from zero to ten employees, but there are individually based businesses that are trying to come up. I don't want to blame the banks for charging whatever they have to charge for the services they provide, but there seems to be a problem where small businesses invariably end up paying much higher rates of interest and a plethora of charges, management fees, commitment fees and what have you. To me, it has always been an anomaly, when you are trying to allow small businesses to grow, that they are burdened with very high charges in interest terms and other banking fees, which in many cases can end up as causes for the failure of those businesses. Now I am probably not expecting the banks to come out with subsidies for small business, but there has to be some mechanism from the Government side, or from whichever side, to subsidise start-ups, etc. for a short period, so that they are not burdened with very high banking charges.

Response: Patricia Hewitt
This is precisely the issue that Don Cruickshank is looking at, as indeed that was really the starting point for the investigation into competition within the banking sector that he is undertaking at the request of the Chancellor. I have a meeting shortly with him to find out how he is getting on on that particular issue, but we are waiting for his findings on that.

Benefits and Credit Unions

Stuart Duffin
I welcome the statement regarding the development and growth of not-for-profit enterprise. We have been researching the policy and practice of paying benefit, whichever form it takes, through credit unions. Could this be a way forward to help stimulate local enterprise and turn the rhetoric round from "work pays" to "benefit works"?

Alastair Grimes

To pick up Fred's point first of all about integration, the integration issue seems particularly important at times of transition between parts of people's lives. The benefits system actually works pretty well if you're on benefits all the time. Where it doesn't work is where you are making that transition from benefit to work, and back out of work into benefits again. It seems to me that the key issue around integration is not a general one, but at a time of transition. If you then look at organisations who can help with those times of transition (and this relates to the point that has just been made), you have a number of agencies in the not-for-profit sector, including credit unions, who can help with that bridge between those two elements in someone's working life.

That leads on to the final point I want to make. Often we look at the effectiveness of programmes (Is the New Deal better than Training for Work? Will the Business Support Scheme be better?) but what we don't look at is the need for effective organisations to underpin those programmes. You won't get effective programmes unless you have effective organisations. The key question then is, how do you invest in those organisations, to make sure that they do become more effective? To go back to the credit union point that you raised, not all credit unions are perfect, but if we invested in credit unions as a sector, I think we would get a significant overall benefit in terms of helping people to make those critical transitions, whether it's from welfare to work or whether it's from benefits into business.

Response: Patricia Hewitt

A lot of this is about building effective institutions and effective partnerships. I think the recommendations we will be getting from Fred Goodwin's Task Force will be very important in terms of building the credit union movement. But the area based programmes that we are putting in place, particularly the ones I mentioned, New Deal and the SRB, are very much about capacity building and small-scale local institution building, because if you try and do this on a sort of top down basis or the public sector agencies coming in to say what is going to happen, it simply doesn't work. All the successful community regeneration and the development of sustainable local economies is based upon and is done through building up the capacity of individuals and families and communities. That has got to be central to how we go forward here.

Loan guarantees

Bill Ulton
The history of loan guarantee schemes has not really been very stellar over the years. Whether they be Government or whether they be private sector, they really haven't worked terribly well. When you mention loan guarantee schemes, are you able to give any clue as to the substance to them or as to the timing of their introduction?

Response: Patricia Hewitt
The Small Firm's Loan Guarantee Scheme which has been going for years in this country is actually remarkably successful. I haven't got the figures, but I have seen some evaluations of it and there is no doubt at all. I am constantly meeting small and sometimes very successful growing businesses who got their first loan because the bank was able to use the Loan Guarantee Scheme. It is a really important part and I think one of the most successful parts of Government's business support portfolio. I think the problem we have identified is that it is not being used sufficiently, or in some cases at all, to leverage money into very disadvantaged areas, and that's what we need to look at.

In terms of other forms of guarantee schemes, I think we need to wait for the imminent publication of the Policy Action Team and then we will take those proposals forward.

Response: Ed Mayo

I expect that the Team will have some great clear ideas about how the targeted loan guarantees could work – that they wouldn't be taking the same approach that the Small Firms Loan Guarantees system used and that they would be done in a flexible way, to create guarantee funds that could be used by accredited agencies who are clearly doing social banking.

This is a time for creativity and experimentation. It is a time for learning. The example of white listing, which Malcolm Hurlston pointed to, again is an idea which could perfectly easily be taken forward, and probably I and many others could talk to you about that. So this is the time for doing all of this stuff so, yes creativity and experimentation, but maybe we should go back to what Fred said as well, and the real tests are integration, flexibility and above all, focus.