

POST OFFICE BANKING

An Impact Assessment and
Equality Impact Assessment

MARCH 2010

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Summary: Intervention & Options

Department /Agency: Department for Business, Innovation & Skills	Title: Impact Assessment on Post Office Financial Services	
Stage: Final	Version: Final	Date: March 2010
Related Publications: Post Office Banking: A consultation on how to develop the banking and financial services available at the Post Office Available to view or download at: www.bis.gov.uk/consultations		

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What is the problem under consideration? Why is government intervention necessary?

Despite significant developments over recent decades, access to financial services continues to be unevenly distributed across the UK – with citizens in rural and deprived urban areas more likely to have difficulty accessing such services than citizens in other parts of the country. At the same time, the Post Office’s traditional revenue streams have declined – as a result of new technology and changing lifestyle choices – whereas its revenue from financial services products has grown significantly.

Government intervention is necessary to help correct these geographical disparities, and can be justified on the grounds of social equity.

What are the policy objectives and the intended effects?

The policy aims to deliver on the Prime Minister’s announcement to bring “*banking services back to the heart of people’s communities*”, by expanding the existing range of financial services available at Post Offices.

This would increase access to financial services and reduce the level of financial exclusion. The Government believes that the Post Office is best placed to achieve this objective, using its existing network of branches. The introduction of new financial services products may also generate additional revenues for the Post Office which could help maintain a more secure and sustainable Post Office network and could reduce reliance on Government funding.

What policy options have been considered? Please justify any preferred option.

1. Do nothing. Although a desire to develop financial services has been announced, this option serves as a useful baseline for comparison.
2. Take forward proposals for a package of banking products to increase the provision of financial services by the Post Office.

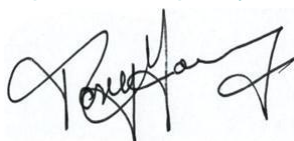
Following consultation, option 2 is the preferred option because if development of financial services did not go ahead, the provision of such services would remain unevenly distributed and would not help increase financial inclusion.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

There will be on-going assessment of the Post Office’s performance. A post implementation review will take place three to five years after the introduction of new products.

Ministerial Sign-off For final/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.



Signed by the responsible Minister:

Date: 26 March 2010

Summary: Analysis & Evidence

Policy Option: 2

Description: Take forward proposals to increase the provision of financial services by the Post Office

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' The Post Office will be analysing costs and benefits of each product before their introduction. Due to commercial sensitivities, it is not possible to quantify them in this IA. This IA sets out the package of products for The Post Office to take forward. The Post Office will therefore be analysing the costs and benefits of each product before their introduction.
	One-off (Transition)	Yrs	
	£ Non-quantifiable		
	Average Annual Cost (excluding one-off)		
£ Non-quantifiable		Total Cost (PV)	£ Non-quantifiable
Other key non-monetised costs by 'main affected groups' Banks may lose some customers who prefer more easily-accessible financial services products offered by the Post Office.			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' The Post Office will be analysing costs and benefits of each product before their introduction. Due to commercial sensitivities, it is not possible to quantify them in this IA. This IA sets out the package of products for the Post Office to take forward. The Post Office will therefore be analysing the costs and benefits of each product before their introduction.
	One-off	Yrs	
	£ Non-quantifiable		
	Average Annual Benefit (excluding one-off)		
£ Non-quantifiable		Total Benefit (PV)	£ Non-quantifiable
Other key non-monetised benefits by 'main affected groups' Consumers would benefit from easier access to financial services, which could improve financial inclusion. Greater levels of financial inclusion could help individuals to better cope with future periods of financial difficulty. There would be additional benefits for sub-postmasters through the sale of other goods, making the network more sustainable.			

Key Assumptions/Sensitivities/Risks It is assumed that there would be take up of new financial services products. It is assumed that the Post Office takes into account risks associated with duplication of products, consumer inertia and the impact of competition from High Street banks when developing their products. If the products perform less well than expected, the Post Office's finances and financial inclusion objectives may be undermined.

Price Base Year N/A	Time Period Years N/A	Net Benefit Range (NPV) £ Non-quantifiable	NET BENEFIT (NPV Best estimate) Estimated cost neutral or beneficial	
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What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			2010 onwards	
Which organisation(s) will enforce the policy?			Shareholder Executive	
What is the total annual cost of enforcement for these organisations?			£ 0	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£ N/A	
What is the value of changes in greenhouse gas emissions?			£ N/A	
Will the proposal have a significant impact on competition?			Yes	
Annual cost (£-£) per organisation (excluding one-off)	Micro £0	Small £0	Medium £0	Large £0
Are any of these organisations exempt?	No	No	No	No

Impact on Admin Burdens Baseline (2005 Prices)			(Increase - Decrease)	
Increase of	£ N/A	Decrease of	£ N/A	Net Impact £ N/A

Key:

Annual costs and benefits: Constant Prices

(Net) Present Value

Overview

1. *Post Office Banking: A consultation on how to develop the banking and financial service available at the Post Office*¹ set out the Government's vision for the future of banking and financial services at the Post Office. It described the banking and financial products and services the Post Office already offers and asked what people valued about the existing range. It also proposed further ideas about the banking and financial products and services the Post Office could offer.
2. The Government Response provides analysis of the responses to the consultation, and details of how the policy is being taken forwards. It provides detail about what the Post Office is doing to develop its financial services offer, including the additional products and services it aims to develop. These include:
 - Access to more banks' accounts
 - Introduction of a Post Office current account and children's savings account
 - Taking forward proposals for a weekly budgeting account
 - A new mortgage product with 90% loan-to-value
 - Further development of the links between credit unions and the Post Office
3. This Impact Assessment accompanies the Government Response and combines both an (Economic) Impact Assessment and Equality Impact Assessment. It provides a degree of market context, explains the rationale of improving access to financial services, and makes a summary of the potential impact of the proposals contained in the consultation document and Government Response.
4. This Impact Assessment is available online from <http://www.bis.gov.uk/consultations>, as is all documentation relating to the consultation. Where possible we will make alternative formats, Braille, large font and other languages available on request. If you require a hard copy please contact the BIS publications order line:

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¹ Available from <http://www.bis.gov.uk/consultations>

Context for the Impact Assessment

5. This Impact Assessment and Equality Impact Assessment takes a view of the potential impacts of the policy proposed in the consultation document and Government Response. Impact Assessments are an important mechanism for ensuring that Government gathers information to enable us to identify the positive and negative impacts that policy proposals might have in certain areas; help ensure that such impacts are not disproportionate; and whether mitigating actions are needed to ameliorate the disparities.
6. The Department for Business Innovation & Skills (BIS) is subject to the public sector duties for disability, race and gender equality under section 49A of the Disability Discrimination Act 1995, section 71 of the Race Relations Act 1976 and section 76A of the Sex Discrimination Act 1975 respectively. In addition we recognise the benefits of ensuring that all government policies are formed so as to avoid, as far as possible, an adverse impact on any particular group. In anticipation of the Equality Bill, which proposes to extend the duty to promote equality of opportunity to sexual orientation, religion or belief, age, gender reassignment and maternity and pregnancy, we aim to show, where possible, the same commitment to the new strands as for the existing ones.
7. This Impact Assessment draws on responses to the national public consultation as well as engagement with stakeholders and research that informed the Consultation Stage Impact Assessment.

Background

8. Post Office Ltd (the Post Office) is part of the group of companies owned by Royal Mail Holdings plc, owned by Government. The Post Office is responsible for managing the network of branches whereas its parent Royal Mail Group Ltd operates the letters and parcels business. The Government plays an active shareholder role through the Shareholder Executive, and works closely with Post Office management to develop overall strategy (including government policy for the network). The Government is not, however, involved in the day to day running of the company. As such, this Impact Assessment focuses on objectives and analysis of the financial banking products set out in the government response. Post Office Limited will take forward delivery of the package of products for which further internal analyses would be undertaken in order to determine the operation of each product.
9. The Post Office provides mail services (postage, parcels); financial and government services (e.g. access to pensions and benefits, car tax, passport checking); and telephony products (e.g. fixed line and broadband services) to consumers and small businesses through its network of branches.
10. The existing range of financial services offered at the Post Office is wider than that of many banks, covering many different needs and many different kinds of customers. Around one third of the Post Office's revenue now comes from financial services and it has the largest share of the UK foreign exchange market.
11. The Post Office is unlike any other financial services provider on the High Street because part of its role is to provide essential products and services through its network of branches that others cannot or do not want to provide. The network which enables the Post Office to achieve this is larger than all the major bank and building society branch networks across the UK combined. The Post Office network supports the Government's social and economic policy objectives to support communities and vulnerable groups throughout the UK, which include increasing financial inclusion, and is protected by the access criteria (see overleaf).
12. Because it is recognised that the Post Office's great strength is its national spread and local reach, the Government has put in place three commitments.
 - Up to £1.7 billion of investment until 2011, including an annual subsidy of £150 million a year, to help support the Post Office network.
 - Guarantees to ensure that the Post Office stays local - the access criteria – which specify the maximum distance which people should have to travel to their local Post Office, and include specific protections for the vulnerable. As a result nationally 93.3% of the population live within one mile, and 99.7% of the population still live within three miles of their nearest Post Office outlet.
 - New, further support for the Post Office network of £180m for the financial year 2011/12 and no further programme of Post Office closures.

THE POST OFFICE ACCESS CRITERIA

Five access criteria apply at the national level:

- 99% of the UK population to be within three miles of their nearest Post Office outlet;
- 90% of the population to be within one mile of their nearest Post Office outlet;
- 99% of the total population in deprived urban areas across the UK to be within one mile of their nearest Post Office outlet;
- 95% of the total urban population across the UK to be within one mile of their nearest Post Office outlet; and
- 95% of the total rural population across the UK to be within three miles of their nearest Post Office outlet.

In addition, the following access criterion applies at a local level to ensure a minimum level of access for customers living in remote rural areas:

- 95% of the population of every postcode district to be within six miles of their nearest Post Office outlet.

13. In recent years the Post Office's traditional revenue streams have declined as a result of changing lifestyles, new technology and greater competition. The exception to this decline is financial services. The Post Office is one of the fastest growing providers of financial services in the UK; since its inception in 2004, the number of people using Post Office Financial Services for services such as investing their money, buying insurance and obtaining credit cards has grown from zero to over 2 million. In addition, many other people use the Post Office's other banking services, such as accessing cash, paying bills or withdrawing benefits or pensions through the Post Office Card Account.
14. The Government is looking to expand the Post Office's range of financial services products to ensure that financial services are placed in the heart of communities, to make them more accessible, to help increase the level of financial inclusion, and to develop further an important revenue stream for the Post Office. On 29 September 2009 the Prime Minister announced that he wanted "*the Post Office to play a much bigger role, bringing banking services back to the heart of people's communities*".
15. The Government launched a national public consultation on the future of Post Office banking on 2 December 2009. The consultation looked at what the Post Office already does in the area of financial services, and where it could go further. It set out the Post Office's existing extensive range of services and explained how they can be accessed and where. It drew comparisons with Post Banks from around the world and asked what the UK can learn from these examples.
16. It also examined some of the ideas that have been proposed for the types of financial products and services that the Post Office could offer, and asked respondents for their opinions on these, as well as suggestions for new products or services that they would like to see offered by their local Post Office.
17. The Government's vision for Post Office Banking builds on the Post Office's history of delivering services in a local and friendly environment to all groups in society. The provision of new financial services would be based on four values – universal, accessible, trusted and sustainable.

18. The Government response² gives further details about the additional products and services the Post Office will offer as part of its expanded financial services offering. These include closer links with credit unions, proposals for a weekly budgeting account and offering a current account, a children's saving account and access to more banks' accounts.

Economic rationale

19. The Government's aims for financial inclusion state that everyone should have access to appropriate financial services enabling them to:
- Manage their money on a day-to-day basis, effectively, securely and confidently;
 - Plan for the future and cope with financial pressure, by managing their finances to protect against short-term variations in income and expenditure, and to take advantage of longer-term opportunities; and
 - Deal effectively with financial distress, should unexpected events lead to serious financial difficulty.
20. The Government has taken steps to increase financial inclusion over a number of years³ and in October 2009 announced that the goal to halve the number of adults living in households without access to a bank account had been achieved. Despite this, evidence in the Financial Inclusion Taskforce's most recent report⁴ shows that in 2007/08, nearly 900,000 adults living in nearly 700,000 households (or 2% of adults representing 3% of households) still had neither a transactional nor a savings account. The evidence also shows that in the same period, 1.75m adults living in nearly 1.3m households (or 4% of adults representing 5% of households) still did not have access to a transactional bank account (current or basic account). These figures can be used as a proxy for the level of financial exclusion.
21. Whilst there is no data to assess how much of this financial exclusion is down to rational choices on the part of the individual compared with lack of access, anecdotal evidence indicates that limited accessibility to suitable financial products and services plays an important role in the level of financial inclusion.
22. As mentioned above, the number of adults without access to either a bank account has fallen since the Taskforce began work in 2005, thus indicating an improvement in the level of financial inclusion. However, the Taskforce "*believ[e]s that further action should be taken to ensure access for those who can make the transition to banking, and to ensure that those with accounts are able to gain full advantage of the benefits of being banked*".⁵
23. It can be argued that there is also an issue regarding financial exclusion due to such services being inaccessible, even if an individual may have a transactional bank account. Despite significant development in the provision of financial services in the UK over the past few decades, access to such services remains unevenly distributed across the country. For example, less than 12% of bank and building society branches

² <http://www.bis.gov.uk/consultations>

³ The Financial Inclusion Task Force advises the Government on financial inclusion policy and monitors and evaluates progress towards the Government's goals for financial inclusion

⁴ Financial Inclusion Taskforce (2009) *Fourth Annual Report on Progress Towards the Shared Goal for Banking* available at: www.hm-treasury.gov.uk/d/fourth_annual_banking_report.pdf

⁵ Financial Inclusion Taskforce (2009) *Fourth Annual Report on Progress Towards the Shared Goal for Banking* available at: www.hm-treasury.gov.uk/d/fourth_annual_banking_report.pdf

are in rural areas, even though 20% of the population live in these areas.⁶ Those living in deprived urban areas also suffer from a lack of access to financial services. In these areas, provision of financial services is 'missing'. This provides a rationale for intervention on the grounds of social equity.

24. Although some of the problems associated with uneven geographical distribution of financial services could potentially be reduced through the use of internet banking, it should be noted that many individuals may have difficulty in accessing internet services. Consumers in rural areas may have limited access to high-speed broadband, and the elderly and other vulnerable groups (including people with disabilities) in particular may be unwilling or unable to access financial services through this channel. Using our proxy from above, individuals who are financially excluded (under the traditional definition) are concentrated in lower income groups; 51% are found in the bottom two income deciles, and 80% are found in the bottom four deciles. Consequently, these individuals are less likely to have access to internet-based banking services.
25. The Government believes that the Post Office is better placed than other institutions to deliver new financial products and services to help increase the level of financial inclusion in the population for two reasons:
 - The size of the Post Office network – as explained in paragraph 11 above, the network gives the Post Office a much greater reach than other providers of financial services.
 - The Post Office's reach to all sections of society – as a provider of products and services to suit a full range of customers, the Post Office is well placed to develop products targeted at those on low income who are more likely to be financially excluded, as well as for other groups.

Options

26. In the consultation stage impact assessment we proposed two options:
 - Option 1 - Consult stakeholders on proposals for the development of financial services to be available at the Post Office. Responses would then be used to further develop, and take forward, policies in this area. This took forward the vision set out in the Prime Minister's announcement of 29 September.
 - Option 2 - Do nothing. Although the desire to develop financial services had been announced, this option served as a useful baseline for comparison.
27. The consultation did not consider options involving other potential providers of financial services for the reasons laid out in paragraphs 24 and 25 above.
28. Option one was pursued. The consultation received 2405 responses, including from consumers and the financial services industry. The majority of responses strongly welcomed the development of banking and financial services at Post Offices. Most respondents felt that the values that the Government proposed for Post Office Banking

⁶ Commission for Rural Communities (2007) *The State of the Countryside* available at: www.ruralcommunities.gov.uk/files/socr2007-fullreport.pdf

broadly reflected its existing approach and would be important for an expansion of its financial services provision.

29. Products suggested in the consultation document received a high level of support, in particular access to other banks' accounts (including business accounts), Post Office current accounts, savings accounts and a weekly budgeting account. Responses identified the accessibility of their local Post Office compared to the local High Street bank branch as a key reason for their support. A number of responses also indicated that the Post Office would be a more trusted alternative to banks.

“Our Post Office is two minutes walk away from home. The nearest bank is six miles away. Our bank is ten miles away. The [Post Office] is much more convenient. Its service is excellent. Its hours are much better. It is more 'secure'.”

“I would also like to see the introduction of a current account as many people feel more comfortable in dealing with the local Post Office rather than a large bank.”

30. This IA therefore analyses two options:

- Option 1 – Take forward proposals to increase the provision of financial services by the Post Office as outlined above.
- Option 2 – Do nothing. Although a desire to develop financial services has been announced, this option serves as a useful baseline for comparison.

31. Option 1 is the Government's preferred option because if development of financial services did not go ahead, the provision of such services would remain unevenly distributed and would not further help increase financial inclusion.

Option 1 – Do nothing

32. Given that option 1 is being taken forward, this serves as a theoretical baseline to measure the impacts of the package of proposals.
33. If option 2 was taken forward, there are unlikely to be further development of financial services products offered by the Post Office. Consequently, access to financial services in the UK would remain unevenly distributed, with citizens living in rural or deprived urban areas less able to access these services. In the absence of any other policy, there would be no improvement in the level of access to financial services.

Option 2 – Taking forward package of financial services products

34. The message which has come through strongly from respondents to the consultation is that people value the accessibility of their local Post Office. This was the most valued aspect of Post Office services and the factor which most determined their use, followed by access to cash or banking facilities.
35. Below is an overview of financial services products which are also being taken forward by the Post Office, ranked in order of preference by respondents. Precise details for each product will be developed by the Post Office on an operational basis, but the following section outlines the basic premise for each product or service.

36. There was strong support for a **Post Office current account**. International comparisons indicate that this is the principal difference between the Post Office's offer and those of Post Banks abroad. The Post Office has now committed to the launch of this account, which will form a central part of their financial services offer and will be launched when market conditions allow.
37. There was strong support for the **ability to access current accounts from other banks at the Post Office**. RBS and the Post Office are in detailed negotiations regarding a commercial deal on providing access to RBS current accounts at Post Offices, and discussions with Santander over access to current accounts are at an advanced stage. This is in addition to the 12 banks which already offer this service for their current accounts. Taken together, this would mean that around 86% of current accounts would be accessible at any Post Office around the country.
38. Government recognises the importance of developing the habit of saving and financial responsibility from an early age, and respondents were enthusiastic about the prospect of a **Children's Saving Account** available at the Post Office. The Government and the Post Office have therefore agreed that the Post Office will launch a Post Office Children's Savings Account in the next twelve months.
39. The Government received strong representations from respondents that there is a role for the Post Office to provide a **weekly budgeting account**. The Government intends to make available a weekly budgeting account through the Post Office which would help people on low incomes to manage their household budgets, and save money by taking advantage of the discounts for using direct debit to pay their utility bills. Work has started on how to make this account a reality, including working with utility companies on the role they can play in developing the account.
40. Government is keen to develop the links between **credit unions** and the Post Office, as many respondents have requested. The Government sees the Post Office as a natural distribution partner for credit unions, **making affordable credit** available to communities which too often are forced to rely on the very high cost loans offered by doorstep lenders and illegal loan sharks. The Government wants to deepen and widen the current relationship, using the nationwide reach of the Post Office to put credit union products, take up of which is currently concentrated in a limited number of neighbourhoods, within the reach of everyone. The Government will continue to work to improve the supply of affordable credit for low-income households, including by supporting third sector lenders. At the Budget the Government announced an intention to consult on options to make sure banks make an appropriate contribution to community lenders. It will propose using a new community levy to be funded by retail banks to support a link between credit unions and Post Offices, allowing people to access credit union loans, current accounts and savings accounts throughout the Post Office's 11,500 branches. The Post Office will also be taking other steps to strengthen the relationship with credit unions, building on local arrangements to create a Best Practice Guide for sub postmasters on developing closer working links with credit unions.
41. The Government recognises the important role that Post Offices play for **small businesses** – with almost 50% of small businesses using the Post Office twice a week. Post Offices are particularly valued as access points for business banking facilities, which will be enhanced by the agreement between the Post Office and Santander, allowing all Business Account holders to access their accounts at the Post Office. In addition, the Government will be exploring how the proposed increased contribution to community lenders made by banks could be applied to allow access to loans from Community Development Finance Institutions (CDFIs), via the Post Office.

The Post Office will explore the development of a Post Office business bank account, which would be available throughout the network. Following responses made to the consultation, the Post Office and RDAs will also explore how they can best work together to serve SMEs in each region.

42. The Government recognises the impact of the current conditions in the housing market and wants the Post Office to play a more active role in mortgage lending, especially for first-time buyers. The Post Office will therefore be offering a **new mortgage**, with a 90% loan-to-value ratio, specifically targeted at first-time buyers. The Post Office will also aim to increase its lending substantially, and to double the value of its mortgage book in this financial year.

Costs

43. The Government currently provides a subsidy of £150m a year to the Post Office, agreed until 2011. This has been approved under European Commission state aid rules and is provided to ensure that services such as mail services and access to benefits, considered to be services of general economic interest (SGEIs), are provided in loss-making branches. Subject to state aid approval, the Government is committed to provide a further £180m to the Post Office in financial year 2011/12.
44. There is a risk High Street banks may lose customers who choose more easily accessible financial services available from their local Post Office. However, the products which it is proposed that the Post Office will introduce are intended to reduce the level of financial exclusion (defined as those excluded due to inaccessibility as well as those considered financially excluded under the traditional definition). Combined with consumer inertia, this is likely to limit the impact on High Street banks.
45. In addition, the Post Office hopes to increase access to other banks' accounts from its branches, so existing customers of those banks are unlikely to change banks; they will be able to continue to use their existing accounts through access from their local Post Office.
46. There is no administrative burden to business. The proposed products could help businesses with their operations through improving the range of financial services to business that the Post Office offers.

Benefits

47. The benefits of this policy can be divided into social benefits brought about from increased access to financial services and financial inclusion and supporting the Post Office network through commercial benefits to the Post Office (and sub-postmasters) from introducing new products and services. As the precise details of each product and service have yet to be finalised by the Post Office, it is not possible to provide a quantitative analysis of the expected benefits of the policy. Instead, the sections below aim to outline the benefits on qualitative basis.

Economic & Social Benefits

48. The Government's access criteria for the Post Office network mean that 99% of the population would live within three miles of a provider of financial products and

services. Any increase in the financial services available at the Post Office would be likely to generate social benefits through improved access to financial services.

49. Financial inclusion brings benefits to both individuals and society. At an individual level, having a transactional bank account enables one to benefit from direct debit discounts offered by utility companies and better cope with future periods of financial difficulty. Financial inclusion can also provide access to credit markets, reducing the likelihood of individuals turning to illegal money lenders, often associated with significantly higher interest rates and debt difficulties, and reducing negative social impacts brought about by such problems.
50. The proposed new children's savings account could help educate children about financial responsibility and increase the level of savings, bringing about long-term benefits to the economy and to society. The same can be said of credit unions which aim to provide accessible savings, low-cost loans and other financial services.⁷ The proposals in this package would improve access to credit unions at Post Offices, making them more accessible.
51. The proposal for a new mortgage product with a 90% loan-to-value ratio would be of great benefit to first-time buyers, who currently find it difficult to raise a deposit larger enough to take out a mortgage and get on the property ladder. The RICS report on the housing market, published in December 2009, highlighted that it remains very difficult to obtain a mortgage with a loan-to-value ratio greater than 75%; where these are available they are very expensive. Consequently, at least four-fifths of first-time buyers are forced to rely on parental support.⁸ A new mortgage product offering 90% loan-to-value would help reduce this credit constraint.
52. As a whole the proposed package of products would increase consumer welfare by offering a greater selection of products and services tailored to different sections of society. According to Consumer Focus, "*[p]rovision of additional financial products and services would help stimulate choice and competition in the banking sector by offering a multi-channel, trusted alternative to High Street banks*".⁹ The competition element is examined in more detail in the competition impact test later in this document.

Commercial Benefits

53. Financial services¹⁰ currently account for about one third of the Post Office's total product revenue of £1.1 billion¹¹ and is an area of its business in which revenues are growing. As proposed new products to be introduced will be on a commercial basis, and will therefore be at least cost neutral in the medium to long-term, there may be some additional benefit to the Post Office. Any additional revenue earned from new products or services could be used to help reduce reliance on Government funding and increase the sustainability of the Post Office network.
54. The provision of additional financial services by the Post Office could see more customers visiting their local branch on a regular basis. There is evidence received in

⁷ <http://www.abcul.org/page/statistics.cfm>

⁸ RICS Economic report, 'UK Housing Market: Battling the Headwinds' (December 2009). Available at: http://www.rics.org/site/download_feed.aspx?fileID=5456&fileExtension=PDF

⁹ 'Consumer Focus response to the BIS consultation on developing the banking and financial services available at the Post Office'

¹⁰ Excluding POCA. For more information about the financial services currently provided by the Post Office, see the consultation document.

¹¹ Figures taken from the Postal Services Commission (Postcomm) (2009) ninth annual report on the network of post offices in the UK, 2008 – 2009.

www.psc.gov.uk/postcomm/live/post-offices/2009_10_8_post_office_network_report_v1_0.pdf

response to the consultation that this increased footfall is likely to result in an increase in sales of other goods, whether Post Office products or part of an associated retail offering which could help boost the profitability of these branches and franchises.

“Transactional products resulting in regular repeat transactions will be key in generating earnings for sub-postmasters – the income stream that will help keep sub post offices open. Not only will each transaction generate income directly, but banking brings customers - who will use other Post Office services or make additional purchases in the shop - through the door. The value of transactional financial services products in generating income for sub-postmasters is illustrated by the success of the POCA. NFSP research found that in March 2009, sub-postmasters earned an average of £202 for POCA transactions.”¹² ”

Risks

55. There is a risk that financial products introduced by the Post Office could overlap with existing products offered by High Street banks. As details of the new products that will be available have yet to be developed by the Post Office, it is not possible to assess the degree to which they may overlap with existing products in this IA.
56. Whilst a degree of overlap would have a positive impact on competition, it might result in limited take-up in well-serviced banking areas due to consumer inertia. Although this may be less of a phenomenon in areas less well served by banks as consumers are likely to welcome better access to financial products, increased access to other banks' accounts through the Post Office may reduce demand for new products. The Post Office will account for this in the development of the products.
57. There is a risk that if products were to perform less well than expected and made a loss, the Post Office's finances and network and the Government's financial inclusion objectives could be undermined.

Implementation

58. The Government response was published on 29 March 2010, stating the Government's intent to take forward these proposals. The exact date for implementation of new products or services is an operational matter for the Post Office and varies for different products. However, it is expected that work to develop the details of such products will start in 2010.

Monitoring and Evaluation

59. As stated in paragraph 8, the Government (through the Shareholder Executive) works closely with Post Office management to develop overall strategy for the Post Office (including government policy for the network) and monitors its performance. The Government is not, however, involved in the day to day running of the company.
60. A post implementation review will be undertaken three to five years after the introduction of new products to assess the extent to which the policy objectives have been met and to examine any unforeseen consequences. Data from the Financial

¹² National Federation of SubPostmasters, June 2009, *Subpostmaster Income Survey 2009*

Inclusion Taskforce and the Post Office could be used to assess any change in the level of financial inclusion and access to financial services.

Enforcement

61. The Post Office works within arrangements that comply with the regulatory frameworks for the various products and services it offers (including appropriate financial regulation by the Financial Services Authority). Any new products or services will be subject to the relevant regulations and the Post Office will ensure necessary compliance arrangements are in place.

Specific Impact Tests

Competition

62. The Government believes that competition is vital in ensuring efficiency in financial markets and in protecting the consumers' interests.¹³ Although the Post Office is in receipt of Government funding, this is provided for the Post Office to maintain its network of branches and is subject to state aid clearance from the European Commission.¹⁴
63. Each individual product in the package of measures proposed by this policy will have a different effect on competition.
64. It is expected that the weekly budgeting account, if one were to be introduced, and the children's savings account would be unlikely to have a significant impact on competition as they would be filling a gap in the market. Improved access to credit unions is also expected to have a negligible impact on competition as the Post Office will be facilitating access to an existing market (albeit a relatively small one). In the current economic climate, the same can be said of the mortgage product although any gap in the market may be of a cyclical nature and this should be re-examined in light of credit market conditions at the time of its introduction.
65. An expansion of banking services offered by the Post Office would increase the level of competition in this area, offer more choice to consumers and improve accessibility to such services. It is anticipated that any short-term impact on High Street banks is likely to be limited for the following reasons:
- Banks have previously closed rural branches for commercial reasons and the Post Office will be filling this gap in the market
 - Consumer inertia amongst existing account holders
 - Access to other banks' accounts at the Post Office
66. However, in the medium to long-term the Post Office may increase its market share at the expense of other providers as individuals who would currently open an account at a High Street bank may choose to instead open an account at their local Post Office. The extent to which this will happen will depend upon the exact nature of new products and services offered by the Post Office, and how they compare to competitor products, although is likely to be relatively small due to the low proportion of customers this would involve.

Small Firms

67. The Post Office already offers a range of banking services for business including: business banking in branches; Post Office payout; cheque authority cards; cash collection services; and business insurance. An initial screening showed that any further development in financial services would benefit small businesses by offering them greater choice and greater accessibility. Responses to the consultation showed a high level of support for an increase in business banking services available at Post Offices.

¹³ http://www.hm-treasury.gov.uk/d/reforming_financial_markets080709.pdf

¹⁴ http://ec.europa.eu/competition/state_aid/overview/index_en.html

68. Existing research shows that one in five SMEs visit the Post Office every day and 25% use existing financial services offered by the Post Office.¹⁵ SMEs are therefore likely to benefit from a policy that aimed to broaden the scope of the banking and financial services offered and to make the Post Office network more sustainable in order to keep it at its present size. Anecdotal evidence and responses to the consultation confirmed that this is likely to be the case.

“Small businesses are vital to the country's economy so any increase in the provision of business banking facilities will be beneficial to all. Time is particularly precious for small businesses (often one man bands) who lose business whilst away from their work premises undertaking banking duties often at a great distance at present.”

69. The majority of Post Offices operate on an agency model and are therefore small firms in their own right. Responses from both representative organisations and sub-postmasters supported an expansion of banking services available in at the Post Office. They noted that products that bring people into Post Office – for example the regular withdrawal and deposit of cash – are particularly important for the sustainability of the network as people often buy additional products from an associated shop (see also rural proofing impact test).

Carbon Assessment

70. The policy is unlikely to have a major impact on the emission of greenhouse gases, but there is the possibility of a positive impact if the introduction of the policy were to result in fewer vehicle journeys.
71. Many respondents to the consultation (particularly those in rural areas) noted that it was more convenient to do their banking at the Post Office as it was nearer than the nearest bank branch and therefore did not require a car journey.

“It is very important for me to carry out banking at my local Post Office, as I can walk to the [Post Office] which means I don't have to use my car and I therefore reduce my carbon footprint which helps with Climate Change.”

Sustainable Development

72. The policy supports the second sustainability principle “Ensuring a Strong, Healthy and Just Society (meeting the diverse needs of all people in existing and future communities, promoting personal well-being, social cohesion and inclusion, and creating equal opportunities for all)” and is consistent – or at least does not conflict with - the other four sustainability principles.
73. The provision of a wider range of financial services at Post Offices could help meet the definition of a sustainable community i.e. well served - with public, private, community and voluntary services that are appropriate to people's needs and accessible to all. Many respondents to the consultation noted that their local Post Office was an important part of the community, particularly in rural areas. Further analysis is included in the rural proofing and equality impact assessment.

Legal Aid

74. There would be no impact on Legal Aid because the policy does not create new offences or sanctions for individuals.

¹⁵ <http://www.fsb.org.uk/policy/images/post%20bank%20one%20page%20briefing.pdf>

Other Environment

75. The policy is unlikely to have a major impact on other aspects of the environment. No responses to the consultation commented on environmental aspects of the proposals apart from the potential impact on carbon emissions (covered above).

Health

76. The policy is unlikely to have any negative effect on health or wellbeing. However, there is the possibility of a positive impact if, through supporting the existing network of Post Office branches and increasing the availability of financial products and services, people were encouraged to travel on foot (or cycle) to their local Post Office instead of using alternative means of transport to visit their local bank branch. A number of consultation responses commented that individuals valued their Post Office as they were able to walk there, rather than needing to drive or use public transport. One respondent also noted that the face to face contact that the Post Office offers has a potential health impact in reducing isolation.

Rural Proofing

77. The policy is likely to have a positive impact on all communities and in particular those who lack convenient access to banking facilities, including many rural areas.
78. An expansion of the current range of financial services available through the Post Office could help maintain the existing rural Post Office network¹⁶ by providing additional income for the Post Office and for sub-postmasters. The extra income and footfall could also help maintain any associated retail business, which in many cases is the only retail outlet in the local community. This was noted in many responses to the consultation.
79. The expansion of financial services would be likely to directly benefit customers in rural areas (including people from vulnerable groups, such as the elderly and the disabled, owners of small businesses, the self-employed and home workers). Customers would be able to access a wider range of financial services than hitherto at their local Post Office (including Outreach¹⁷) rather than having to travel further afield to access their nearest bank or building society branch. Even if a service is not directly available from a local Post Office branch, due to limited size or capability, customers could be provided with information about the product and assistance in accessing the service from elsewhere. Many responses to the consultation from people living in rural areas noted that the local Post Office was closer than the nearest bank branch.

Human rights

80. The policy is unlikely to have a major impact on human rights. No responses to the consultation commented specifically on this issue.

¹⁶ As at 30 June 2009 there were 6,587 Post Offices in the rural network (or 55% of the total UK Post Office network).

¹⁷ Post Office Outreach services are a way of providing Post Office services in communities where a traditional Post Office is not viable or practical. These enable the Post Office to maintain a service in smaller communities.

Equality Impact Assessment – Specific Tests

81. An initial screening of equalities tests for race, religion and belief, age, gender, and disability, showed that no significant negative impact was anticipated in any case. Responses to the consultation supported this assessment, and highlighted the ongoing importance of access to Post Office services for older and disabled groups. Further analysis is set out for each equalities stakeholder grouping.

Race

82. The provision of certain financial products and services through the Post Office network does not constitute unlawful discrimination on the grounds of racial equality. The issue under consideration is whether an extension of the existing range of financial services would either promote the equality of opportunity or good relations between people from different racial groups.
83. Initial screening on the potential race equality impacts of the policy showed that there would be no significant impact. No further comments on the potential impacts on racial equality were received as part of the consultation process and no adverse impacts from the policy on the grounds of racial equality are foreseen.

Religion and belief

84. Initial screening on the potential impact of the policy on equality between individuals of different religions and beliefs showed that there would be no significant impact. No further comments on the potential impacts of religious equality were received as part of the consultation process and no adverse impacts from the policy on the grounds of racial equality are foreseen.

Age

85. Initial screening on the potential impact of the policy on age equality showed that a significant impact was unlikely, but that there could be a positive impact on all consumers and that this might also be particularly true for older people. Responses to the consultation highlighted the importance that many older people place on access to Post Office services, and the potential benefits to children of a Post Office children's saving account.
86. Older people regularly use Post Offices, including to access banking services or to collect their pension. Older people are also more likely to have mobility issues; they are likely to welcome the convenience of being able to access banking and financial services through their local Post Offices. Responses to the consultation supported this assertion.

“In 2006 Age Concern undertook surveys and consultations with older people to establish why they valued their post office. The results overwhelmingly confirmed the importance of post offices to older people. Access to financial services at post offices came second only to the provision of a shop in the services offered by post offices they rated as most important. Of those responding to the survey, 44% used the post office to collect their pension, 43% for access to cash and 56% used it to pay their bills”

87. Some responses to the consultation also noted the potential of a Post Office children's savings account to help children learn about managing their money, and to provide local access to a savings account for them.

“I felt that when our children had their [Post Office] accounts and managed them themselves, it was very educational. Because the [Post Office] was nearby they could go there after school and have some independence in their own money-management.”

88. Therefore, no adverse impacts from the policy on people from any particular age group are foreseen.

Gender

89. Initial screening on the potential impact of the policy on gender equality showed that there would be no significant impact. No responses to the consultation noted the potential of an adverse gender impact.
90. The access to a wider range of financial services at Post Offices could benefit women more than men as they make up a significantly higher proportion of older people, including those with a disability.

Disability

91. Initial screening on the potential equality impact of the policy showed that there would be no significant impact. However, there would be a positive impact on the lives of all people, including disabled people.
92. Consideration was given as to whether the proposals would be likely to:
- promote the equality of opportunity for disabled people;
 - eliminate discrimination or harassment of disabled people;
 - promote positive attitudes towards disabled people;
 - encourage participation of disabled people; or
 - constitute more favourable treatment of disabled people.
93. There was a particular focus on whether the proposal would promote equality of opportunity and encourage participation of disabled people. Access to key services is a particular issue for disabled people, and there is evidence that suggests disabled people are more likely to be financially excluded than the general population. Several responses to the consultation noted the importance for disabled people of having easily accessible financial services.

“Many blind and partially sighted people find it difficult to travel long distances so rely on their local post office for the collection of benefits or pensions, for the payment of bills and for other financial services. Our members tell us that Post Offices are important to them, helping them to maintain financial independence. We know that visually impaired people would like greater access to the services currently available through Post Offices. Inaccessibility of certain services determines the extent to which blind and partially sighted people are able to use them.”

94. The Government’s existing access criteria for the Post Office also offer particular protections for the vulnerable. Several responses to the consultation noted the importance for vulnerable people of having easily accessible financial services. Within outlets, both the Post Office and sub postmasters take the reasonable steps to enable access in accordance with the appropriate general legislation.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

