

BRIEFING FOR SoS's MEETING WITH CONSUMER FOCUS BOARD: 16 MARCH 2009

Post Office Network

Lines to take

Government's vision for the post office network

- We have provided £1.7bn to support a network of around 11,500 branches to 2011. This includes £150m a year to support some 7,500, primarily rural, branches which are loss-making for Post Office Ltd.
- We will continue to subsidise this socially and economically important part of the network beyond 2011 in recognition of vital role such post offices play in the communities they serve.
- The Network Change Programme was necessary, but understandably unpopular. All closure decisions now taken. Programme has helped to establish a better balance between demand and capacity.
- We are committed to a stable and sustainable network of post offices throughout the UK.
- We now want to see a period of stability for the network. Funding is in place to sustain it at around the current level. The scope for new business opportunities is being explored through a mix of Post Office and Government initiatives.
- The financial viability of the network will be strengthened by the award of a new Post Office card account contract to 2015 to POL. This will generate a key income stream. As importantly, it will generate footfall which is vital to the viability of subpostmasters' associated businesses.
- It will be further strengthened by the introduction of a wider range of products and services especially in financial services. The Post Office's trusted brand, geographic and demographic reach with face to face contact are 'Unique Selling Points'

Network Change Programme

- At the end of the programme the network consists of around 11,500 post office outlets – more than all the major banks and building societies combined.
- On average at the end of the programme, over 90% of customers will see no change to their local post office.
- At end January 2009, 93.3% of the total population across the UK were within 1 mile of their nearest post office outlet (access criterion requires 90%) and 99.7% were within 3 miles (access criterion requires 99%).

- Without continuing public support in the form of the £150m annual network subsidy payment, a purely commercial Post Office network would have fewer than 4,000 branches.

Post Office Card Account

Consumer Focus is commissioning research to establish what POca holders and others at the margins of financial inclusion want this product to offer. Using the findings, it will investigate whether there is a case for POL to develop an 'evolved from' POca product, which would offer flexible functionality and prove attractive to existing POca holders and to other low-income consumers. This could help increase financial inclusion by offering a product tailored to the needs of a group of consumers underserved by traditional financial services providers.

- For the longer term, POL's aim is to develop a product or group of products with greater functionality than the new POca to which POca customers would naturally migrate.
- The Government has agreed a new contract for the Post Office card account (POCA) with Post Office Ltd (POL). The contract will run through to March 2015, with the option of a 2-year extension beyond that.
- We have asked POL to ensure that they offer some modest enhancements to the existing POCA to ensure it provides a better service to customers. They have already introduced a facility to correct mistakes. The new product will offer some further enhancements which should include: a simpler opening process for customers; faster clearance of payments into a POCA; and access via some Post Office-owned cash machines.
- Difficult to envisage adding new functionality such as direct debit onto the POCA. This risks unpicking the November decision to award the new contract to POL.

Creation of a 'neighbourhood bank'

Consumer Focus favours the development of the Post Office network as the 'neighbourhood bank' to support a range of policy objectives, including financial inclusion, and sustainable communities. They see trust in banks as having been severely undermined, particularly for low-income consumers with the Post Office, as a trusted institution with unparalleled reach, ideally placed to become a neighbourhood bank.

- Consumer Focus should ensure that views are fed in to the Business and Enterprise Select Committee inquiry.

- From a Government perspective, we're clear that we want POL to increase its range of financial services. The Post Office is developing new products.
- There are a number of views about what a People's Bank or Neighbourhood Bank might look like. But need to bear in mind that the Post Office is insolvent so cannot get a banking licence. It operates a Joint Venture with the Bank of Ireland which is working well. It seems logical to build on this successful partnership and develop new products through this venture.

Only if raised

Q. What will happen to consumers if Bank of Ireland goes bust?

A. Government doesn't speculate on hypothetical situations affecting individual institutions. But we should bear in mind that Post Office savers benefit from the protection of the Irish Deposit Protection Scheme, and the Irish Government's unlimited guarantee until September 2010.

Background: POL offers Post Office-badged savings products, the funds from which are deposited with Bank of Ireland. The Irish Deposit Protection Scheme covers deposits up to E100,000 compared to the UK scheme limit of £50,000. In addition, the Irish Government guarantees unlimited deposits until September 2010.

Background

Consumer Focus came into being on the 1st October 2008, replacing Postwatch as the statutory consumer body covering postal services.