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Bank row looms over basic account target

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Plans by the Treasury to provide accounts for 3 million households without access to banking services are expected to be announced next month in a move that is likely to sour the relationship between the high street banks and the government.

The Treasury is expected to set out targets for the number of basic accounts each bank must open in the pre-budget report, which is due next month or early December. It is believed that the targets will be based on each bank's share of the current account market.

The major banking groups are being softened up for the move after being summoned to the Treasury in recent weeks to be told they must do more to recruit customers to the so-called basic accounts which offer simple banking services without overdrafts.

However, the banks are thought to be unhappy about the plan and some are believed to be ready to fight the demand unless the government forces it upon them through legislation.

The basic accounts were set up in 1999 as part of the government's agenda to tackle financial exclusion. At the same time the government set up the post office-based "universal" bank account aimed at those who receive social security but **do not have bank accounts.**

The banks were forced to stump up almost £ 200m to help create the universal bank and some of them are believed to be frustrated at being asked to do more to open basic bank accounts - which are loss-making.

The Treasury signalled its interest in this area in the budget when it said that despite the introduction of basic bank accounts the number of households operating outside the mainstream financial services had "not fallen significantly".

The 3 million households who do not have current accounts face higher costs in paying the bills because they do not receive any of the discounts associated with direct debits or standing orders. Around 1.5 million households have no mainstream financial services products at all, according to statistics cited by the Treasury but compiled by the Department for Work and Pensions.

According to the banking industry, basic accounts are being opened. The British Bankers' Association, the banking industry's lobby group, calculates that 150,000 new basic accounts are opened every quarter. Since April last year, 834,000 accounts have been opened and the BBA is forecasting that when it publishes its next set of data it will be able to show that 1 million new basic accounts have been opened since April 2003.

The BBA refused to comment on the situation while discussions were ongoing with the government. A spokeswoman said: "The Treasury is having constructive discussions with the British Bankers' Association and the banks on financial inclusion."

But one source said: "The Treasury are threatening to introduce targets and individual banks are very unhappy. The banks see this as a trust issue. They paid into the post office bank and (at the time) were told (by the government): 'If you give us the money and set up basic accounts you will have fulfilled your social responsibilities'."

While both the accounts offered by the post office and the banks are aimed at people opening accounts for the first time, their features are different. The accounts offered by the banks allow direct debits and standing orders to be set up, while the post office universal accounts do not.

In the budget, the Treasury had pledged to make proposals by the

summer; however, that deadline has slipped and by the spending review in July the government said it was working with the banks to identify "a challenging target which specifies the reduction in the **unbanked**".

The spending review also mentioned other plans to try to reach **people without bank accounts** which the government believes are more likely to use the "alternative credit market" and pay rates of interest many times those of a standard overdraft. At the time the government said it wanted to "explore mechanisms that allow profitable loans to be made available to those on low incomes at a much lower rate of interest".