

Cynulliad Cenedlaethol Cymru / National Assembly for Wales
Pwyllgor yr Economi, Seilwaith a Sgiliau / Economy, Infrastructure and Skills Committee
Mynediad at Fancio / Access to Banking
EIS(5)AB24
Ymateb gan FSB / Evidence from FSB

About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales, with around 10,000 members. It campaigns for a better social, political and economic environment in which to work and do business. With a strong grassroots structure, a Wales Policy Unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

Introduction

FSB Wales welcomes the opportunity to contribute to the Economy, Infrastructure and Skills Committee inquiry into access to banking in Wales. This is a matter of considerable concern to our members with the rate of bank closures in Wales and the challenges it brings causing significant disruption to many of our members.

FSB has undertaken a significant research in this area in the past including our UK-wide publication *Locked Out: The Impact of Bank Branch Closures on Small Businesses*¹ and our campaign in Wales on the future of Welsh towns.

Q. The current position regarding access to banking services in Wales, to include issues relating to financial inclusion and digital inclusion.

Trends in branch closures across the UK

Alongside changes in consumer behaviour and rapid developments in new technology, the pace of branch closure programmes has primarily been motivated by substantial cost efficiencies for banks, which can be partly achieved by transferring more services onto digital platforms. A steady increase in new entrants to the banking sector over the last few years, many offering customers an exclusively digital experience (without the expensive legacy IT systems which are still integral to the operations of some banks), has also increased the commercial pressure on some banks to reduce costs.

According to the Competition and Markets Authority's (CMA) analysis below, in 2013 there were 10,208 bank branches operating in the UK. This fell to 9,661 by the end of 2014.¹¹ The Campaign for Community Banking Services estimates that at the end of 2015 this figure stood at 8,340

¹ FSB Wales. 2019. *Locked Out: The Impact of Bank Branch Closures on Small Businesses*. [Online]. Available at: [https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-bank-branch-closures-\(final\).pdf?sfvrsn=0](https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-bank-branch-closures-(final).pdf?sfvrsn=0) (accessed 17th May 2019).



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Figure One: Total number of branches in the UK

Source: Competition and Markets Authority, August 2015

	2013	2014	Year on Year change
England	8,208	7,799	-5.0%
Scotland	1,123	1,037	-7.7%
Wales	596	562	-5.7%
Northern Ireland	281	263	-6.4%
UK	10,208	9,661	-5.4%

Further information provided by the British Bankers Association among others to a House of Commons Briefing paper highlights just how significant the trend has been across the UK, with the big six in particular reducing their bank branch presence significant.² (Also of note is the decline in post office branches, which is significant later on in this response).

UK Bank, Building Society and Post Office Branch Numbers

As at December

		1997	2000	2005	2010	2013	2014	2015	2016	2017
Barclays	1	2,541	2,261	2,029	1,658	1,560	1,488			
HBOS	2	1,361	1,166	1,064	964	956	958			
HSBC		1,668	1,668	1,513	1,311	1,172	1,079			
Lloyd's Banking Group						1,297	1,290			
Lloyds TSB	3	2,865	2,410	1,930	1,949					
NatWest		1,754	1,643	1,631	1,549	1,398	1,286			
Santander UK	4	1,051	977	712	1,175	998	921			
Big Six' total		11,240	10,125	8,879	8,606	7,381	7,022			
Other banks total		2,109	1,936	1,704	1,395	1,502	1,349			
Challenger banks total	5				83	819	845			
Total Banks (BBA figures)		13,349	12,061	10,583	10,084	9,702	9,216			
Total Banks (business Count data)					14,855	11,335	10,960	10,745	10,340	9,690
Building societies		2,537	2,361	2,148	1,672	1,548	1,563	1,551	1,519	na
Post Offices		19,020	18,393	14,609	11,905	11,077	11,696	11,634	11,643	11,659

Notes

1 includes Woolwich and Bristol and West

2. Includes Bank of Scotland, Halifax & Birmingham Midshires

3. Includes Lloyds TSB, bank of Scotland & Cheltenham & Gloucester

4. From 2009 figures include Bradford & Bingley and from 2010 Alliance & Leicester

5. Includes Metro, Handelsbanken and TSB from 2013

Sources: British Bankers Association; Building Societies Yearbook 2017/18; NOMIS Database; PostComm

² House of Commons Library. 2019. *Bank Branch Closures*. Briefing Paper No 385



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Bank branch closures by institution 2007-2017

Bank	Number of branches		% Change
	2007	2017	
Co-operative Bank	355	95	-73%
HSBC	1,501	625	-58%
Clydesdale/Yorkshire	330	170	-49%
Santander	1,286	841	-35%
RBS (inc. NatWest)	2,278	1,518	-33%
Lloyds Banking Group (Halifax, HBOS, BOS)	3,042	2,038	-33%
Barclays	1,810	1,309	-28%
Nationwide	763	611	-20%
Total	11,365	7,207	-37%

Source: Retail Banker International

Whilst this decline is in itself of concern, this does not highlight the geographical discrepancies in relation to closures. The House of Commons research paper goes on to note that 1,500 communities across the UK have lost all banks with a further 840 only having one bank and only 1,100 having 3 or more.

Of further concern noted in the paper is that this trend tends to impact on more economically deprived areas with research from Nottingham University suggesting that *"the least affluent third of the population has borne the brunt of two thirds of net closures"*³. Furthermore, the comparison website Choose which conducted further research into this matter which was also included in the House of Commons Briefing concluded:

"The thing that immediately jumps off the page here is that most closures appear to be concentrated in Wales, the South West, the North East, the North of Scotland, and also certain pockets in and around London. Put differently, they appear to be concentrated in poorer areas less profitable to the major banks, betraying a logic that sadly will be useful in predicting where future closures may arise."

It is therefore clear that Wales is likely to be one of the worst hit areas of the UK in terms of bank branch closures. Indeed, our rurality is likely to provide a doubling of the impact because as opposed to many other parts of the UK, our mobile and broadband coverage tends to be poorer, particularly in rural areas, meaning there is little alternative to in branch banking.⁴

Q. The variety of ways in which branch closures and access to free ATMs can affect local communities (for instance the impacts from a business, tourism, social, demographic and regeneration perspective).

³ Ibid , P 7

⁴ Ofcom. 2018. *Connected Nations 2018: Wales Report* [Online]. Available at:

https://www.ofcom.org.uk/_data/assets/pdf_file/0016/130822/Connected-Nations-2018-Wales.pdf (Accessed 17th May 2019)



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In order to understand the impact of bank branch closures on SMEs, FSB undertook a series of focus groups across the UK to inform our report *Locked Out*. In Wales, a focus group was held in Conwy that drew out some specific concerns. The main findings were as follows:

Low awareness and confidence in the Access to Banking Protocol – Small businesses affected by branch closures receive limited communication from their bank with regard to support and signposting towards alternative banking services. Awareness of consultation or engagement exercises on behalf of banks is effectively zero.

During our focus group activity, a member from Conwy noted:

"In the letter we received telling us our branch was closing they listed a number of Post Office branches we could use instead. However, a couple of these branches had already closed down as well. They listed one Post Office in the wrong address - it had moved about 12 months earlier. Their information is not up to date, which just proves they're not researching the local area before they announce closures."

FSB member, Conwy

Importance of access to cash and cheque clearing facilities – In spite of the increasing range of payment methods used by small businesses, cash is still vital to the operation of many local economies. Reduced footfall as a result of customers being unable to access cash is having an economic impact on local economies.

Unreliable service quality of ATMs – The limited provision and unreliability of ATM machines in some communities is a serious problem. There have even been several instances of villages and towns literally running out of money during peak periods of economic activity. One such example is Aberaeron which has also recently since seen the closure of its last bank. The withdrawal of cash machine facilities in the town led to an FSB member business taking it upon themselves to install cash machine facilities in their business to ensure that a town, heavily dependent on tourism, had any access to cash facilities at all.

This latter point of the importance of cash to tourist economies is an important one. Foreign tourists can often incur significant charges for each credit card transaction and so will prefer to use cash. The non-availability of cash facilities therefore within areas heavily dependent on tourism, has the potential to impact tourism businesses and other local businesses.

Inconsistent service offering across the Post Office network – Business banking services provided at some Post Office branches and franchises are too limited. Some services, such as cash and cheque clearing facilities, also appear to be processed more slowly than in bank branches. Other services, such as inter-account transfers and currency exchange, are not available. As the future of the network moves away from full-service post offices to franchises there is concern about the impact on small business



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access. This lack of access to such services has a direct impact on small firms, particularly those whose business is dependent on tourism.

During our focus group a member said the following:

"We recently paid cheques in at the Post Office and after ten days they still hadn't cleared. When we asked them what was going on, they said they couldn't follow up our query for another ten working days. There didn't seem to be any regard over how that might affect us."

FSB member, Conwy

Availability of deposit facilities – the withdrawal of frontline banking facilities has meant a substantial reduction in the ability of businesses to deposit cash. We have heard numerous concerns from FSB members having to drive substantial distances – in some cases, round trips of up to 70 miles to deposit cash takings from their business. This not only has an impact on time – with businesses in some cases having to close their premises to deposit cash, but also represents a safety and security issue for individuals and indeed an issue for insurance. One member previously related significant concern at having to ask a staff member to drive to deposit a significant amount of cash. Employers recognise the duty of care they have for the security of staff and so understandably, this is a real concern.

High cost of small electronic transactions – Some small businesses do not recognise the benefits of investing in new payment technology, such as card machines, due to the cost of fees on individual transactions.

Poor internet connectivity in areas affected by branch closures – Internet access to online services is often challenging due to unreliable connectivity. Activities such as processing a bill payment or registering for a service are often compromised as a result.

Concerns about cyber fraud and security – Some small businesses are concerned about the risks of accessing banking services online. A lack of confidence in the cyber resilience of digital services leads to some small businesses avoiding relevant communication channels altogether.

Branches are recognised as valuable for advice - Small businesses identify branches as an important source of advice, particularly in advance of major banking decisions. Closures create an advice gap in some communities with limited access to alternative support.

Digital skills gap - Small businesses identify a lack of digital skills as a key obstacle to their doing more online. This was a more significant issue for older small business owners. Partly as a result, businesses in rural areas are disproportionately vulnerable to both financial and digital exclusion – particularly where branch closures have recently taken place.



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Less lending to SMEs? - As well as the concerns above raised directly from our members, we are not yet certain of the impact of bank branch closures on SME lending and entrepreneurship. Research carried out by *Move Your Money* suggests a significant impact. From analysing bank branch closures mapped against postcode lending data they estimate closures dampen SME lending growth by 63 per cent, which climbs to 104 per cent for areas with their last bank in town closing. They estimate this impact to be £1.6m less lending per year for postcode affected.⁵

To understand the potential process, benefits and challenges involved with establishing a community bank with multiple branches in Wales.

FSB Wales has little information upon which to judge whether there are benefits or challenges associated with establishing a community bank with multiple branches in Wales. Thus far, we have not been consulted on any proposals and have not been able to assess whether such an institution could have a positive role to play in relation to SME banking.

If such a bank were to be created we would welcome it if it was able to create more competition and reduce the impact of bank branch closures on our communities.

That said, we believe any new bank should have a very clear business plan and should be self-sustaining. If such a bank were to be operated by public subsidy, we would question whether it would be better to task to the already existing Development Bank of Wales with some of these functions. The Development Bank has gained strong reputation amongst SMEs according to our research and is going from strength to strength in terms of its activity.⁶

We would highlight to the committee that Wales' credit unions are also able to fulfil a similar role in terms of lending direct to SMEs but few have been able to do so viably and without subsidy to date. We would be concerned if public resources were to be used to create another, potentially competing mechanism that could damage the progress made by the Development Bank over recent years.

FSB Recommendations

In our report *Locked Out* we made a number of recommendations to government to help reduce the impact of bank branch closures. Whilst many of the actions needed relate to UK Government, we believe Welsh Government should proactively lobby on behalf of

⁵ Travers Smith, Fionn, 2016. *Abandoned Communities: The Crisis of UK Bank Branch Closures and their Impact on Local Economies* [Online]. Available at:

https://gallery.mailchimp.com/c9b157c9d89ca0bdb156c5128/files/Abandoned_Communities_V2.1.pdf#page=4
(accessed 17th May 2019).

⁶ FSB Wales. 2018. *Supporting Success: Business Support Beyond 2020* [Online]. Available at:

[https://www.fsb.org.uk/docs/default-source/fsb-org-uk/final-business-support-beyond-2020-\(english\).pdf?sfvrsn=0](https://www.fsb.org.uk/docs/default-source/fsb-org-uk/final-business-support-beyond-2020-(english).pdf?sfvrsn=0)
(accessed 17th May 2019)



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businesses in Wales to mitigate the impact of bank branch closures. In relation to devolved areas, there is little precluding Welsh Government being proactive in this area.

- **Banks should better communicate details of all relevant engagement activities**

Details on local engagement activities and impact assessments are often hard to find. Banks' communications to affected customers should enclose comprehensive information on all of these activities.

- **Post Office information needs to be accurate and up to date**

Banks should clearly detail any limitations to alternative banking services after a bank branch closes, and should also do more to communicate with the Post Office to ensure information signposting is accurate and up to date.

- **Transport information should be included**

The numbers and schedules of bus services and other transport links to named alternative banking sites should be similarly communicated to affected customers as part of the Protocol.

During the focus group we held a member commented: "*Parking is a real issue as there is obviously a charge for using car parks. This is another cost to banking which is often not factored in when you have to travel to the next town to deposit cash on a weekly basis.*"

- **Conduct an economic impact assessment of bank branch closures**

An analysis of the impact of branch closures on economic activity in severely affected areas should be produced. Such a study should identify what costs are being imposed on businesses in terms of productivity and whether they are forcing small business owners into inefficient practices. This could be used to identify what the future priority services and areas of the UK should be.

- **Post Office needs to create a standardised service that matches the specific needs of businesses**

FSB recommends that the Post Office develops a more consistent and standardised small business service across the UK as soon as possible, for all branches including crown, main and local models, subject to them securing referrals agreements with a number of individual banks as soon as possible. Particular care is needed in the provision of the most used services by small firms.

- **Improve small business access to the digital economy**

The UK Government's proposed Universal Service Obligation (USO) for broadband should include small business premises and increase in line with consumer requirements over time. Clearly, as the development of banking is increasingly centred on mobile services, improvements to 4G connectivity – particularly in



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rural areas – must also be a priority. Welsh Government’s mobile action plan and successor to Superfast Cymru should look to address these issues.

Conclusion

FSB Wales welcomes the Committee’s investigation of bank branch closures and access to banking more generally. This is an issue that has a considerable impact on SMEs particularly in deprived and rural communities. Whilst we accept that the nature of banking is changing, indeed in many respects this should be encouraged, we believe the consequences of this change need to be managed to ensure firms aren’t put at a disadvantage. Whilst this isn’t necessarily a devolved issue there are many supportive policies that Welsh Government could consider to help mitigate negative impacts.