

Evidence from UK Finance

Introduction

1. UK Finance is the collective voice for the banking and finance industry. Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.
2. We welcome the opportunity to provide evidence to the Committee's inquiry into access to banking. Looking after every customer, especially those in vulnerable circumstances, is a priority for our members. Ensuring that people have access to banking and other financial services is a vital part of this.
3. We need sustainable solutions to meet the needs of customers, which is why the industry has worked to deliver the following:
 - All high-street banks have arranged for everyday banking services to be available through 11,500 post offices across the UK under the Banking Framework Agreement.¹ This has been supported by the implementation of a five-point plan, in agreement with the UK government, to raise consumer awareness and promote the Post Office as an integral channel for day-to-day banking. Banks have also extended the services available via the Post Office, e.g. Business banking, and have recently renegotiated a new Framework Agreement, which will deliver substantially increased funds for the Post Office.
 - The industry is investing in the existing ATM network to ensure continuity of service when ATMs are no longer commercially viable. LINK's Financial Inclusion Programme and related commitments are key to ensuring that the UK's cash infrastructure continues to deliver free access to cash for consumers regardless of the continued decline in cash usage.²
 - For many years RBS and Lloyds Banking Group have used mobile bank branches to reach communities as an alternative to bank branches.
 - We have implemented the Access to Banking Standard to provide information and support to customers affected by branch closures. The Standard is independently monitored by the Lending Standards Board, whose last report in September 2018 showed there had been good compliance from the industry.³
4. UK Finance has contributed to the Access to Cash Review and are working in response to its recommendations. We agree that business as usual is unsustainable given the decline in cash usage both in wholesale processing and transit, and in retail access.
5. We think about cash distribution in its widest sense. This includes access via bank branches, ATMs, post offices, mobile branches, retailers, and other distribution and collection points. We are actively considering sustainable models for future wholesale cash supply.

What challenges are there to accessing banking services in Wales?

6. The way customers are choosing to do their banking is changing rapidly. Growing numbers are opting to use new technologies to manage their money at a time and place convenient to

¹ Subscribers provide details of the services available via the Post Office on their websites.

² <https://www.link.co.uk/initiatives/financial-inclusion/>.

³ <https://www.lendingstandardsboard.org.uk/resources/access-to-banking-standard/>.

them. Branch closures are a visible sign of these changes as online and digital services are more widely adopted. These changes are not confined to banking or particular geographies, but form part of a wider trend being seen across many different sectors and countries.

7. At the same time, while branch visits have fallen by a quarter since 2012, banks want all customers to be served, meaning the decision to close one a branch is never taken lightly.
8. We recognise it can be difficult for some customers to regularly visit a bank branch in parts of Wales. To the extent rurality is a contributing factor, parts of England, Scotland and Northern Ireland face a similar problem. Banks are implementing a number of digital capabilities to open up access to customers, including cheque imaging, voice biometrics and remote/video banking.
9. When customers need advice on their accounts, telephone banking is often the most convenient way to receive this information quickly and can be particularly important in rural locations.
10. Banks are investing in telephone services to enable easier and secure ways to access services. For example, investment in voice recognition will speed up the security process for telephone banking. This will also make it easier for vulnerable customers to use telephone banking as they will need to remember fewer security details when banking over the phone.
11. There are now more ways to bank than ever before, with most using more than one channel to do their banking. As customers migrate away from branches for day to day banking there are fewer reasons to visit a bank branch. Branches will remain important in the overall mix of customer channels, but will serve far fewer customers than previously.
12. We know that when a bank branch closes, often the cash machine is also removed. However, a bank may choose to keep an ATM in the area if it is deemed commercially viable and/or reflects the banks' view on overall ATM coverage. In more rural locations Lloyds Banking Group and RBS will deploy mobile branches to maintain a face to face banking presence.
13. Closure decisions are made after applying a number of lenses, including the continued availability of access to cash in the community, whether that be via other nearby banks, ATMs or post offices. In circumstances where banks believe the closure of a branch (and removal of the ATM) would leave a community without easy access to cash they consider other ways of providing a free to use ATM within the community.
14. This might be located in the closing premises or in a third-party location (shop, garage, council building, etc.). In these circumstances banks can look for the support of local councils in helping to identify suitable locations for such ATMs.
15. The Access to Banking Standard, first introduced in May 2017, sets out how customers should receive timely and improved notification and support once the decision has been made to close a bank branch. The Standard sets important expectations of how customers should be supported and kept informed throughout any closure process so that no customer is left behind. The Standard also requires firms to provide assistance to those who need it, to access online or mobile banking services or to explore alternatives.
16. In its independent review of industry's performance against the Standard between November 2017 and March 2018, the Lending Standards Board found that overall compliance by the banks is good. Its summary report made several recommendations so banks can continue to improve how customers are served, and we are working with our members to support their delivery. The Lending Standards Board also produced individual bank specific reports with feedback on improvements provided to each firm.

17. There is a difference between accessing cash, which is typically the main reason that people visit branches, and more complex interactions such as taking out a mortgage or loan. Access to cash is provided through a number of routes, such as ATMs, bank branches, post offices and cashback in retailers. As such, most communities have access to cash in some form or other. It should be noted that the Post Office's network across Wales is larger than all of the banks and building society branch networks combined. For some high street banks, almost 90 per cent of the total number of interactions in their branch network can be completed in a post office.
18. The use of branches for more complex interactions is declining substantially. For example, the ability of mortgage brokers to quickly provide quotes from across the market means people typically go to a mortgage broker rather than directly to a bank. One of our members, a high street bank, has reported that three quarters of its mortgage sales were through mortgage brokers. Access to financial services is not just achieved through bank branches, but by a range of methods. The provision of financial services is also being extended by challengers to the traditional banking model.
19. LINK's Financial Inclusion Programme has been improving and protecting access to cash for the most deprived communities since 2006. It provides subsidies to ATM operators that run free-to-use machines in these locations, with a total of 2,763 sites currently covered. Of these, 1,875 have a free ATM and 888 are without a free ATM. The remaining 8,743 deprived sites across the UK already have a free ATM without the need for a subsidy.
20. The LINK Board has recently announced changes to the operation of its ATM network (including the associated interchange fees). These changes are separate to the issue of branch closures and the Payment Systems Regulator has said, "We will intervene if we believe the current broad geographical spread of free-to-use ATMs is threatened".

How practical are alternative methods of accessing financial services such as online banking or mobile branch banking?

21. The convenience of non-branch options is such that the majority of customers now use more than one way to bank, including non-branch-based options. As a result, all banks report significant reductions in the level of activity across their branch network, and technology now means that many remaining transactions do not need to be undertaken in a branch at all. Although individual banks may have slightly different operating models, it is common for customers to have a mix of the following options for their banking activities:
 - Telephone banking
 - Internet banking
 - Mobile app banking
 - Transactions via the Post Office
 - Cheque imaging
 - Webchat
 - Video banking
 - ATM access
 - Mobile branch banking
22. The above demonstrates the point that customers now have more ways to bank than ever before.

23. There are 930 Post Offices in Wales, 68 per cent of which are in rural locations. Across the UK as a whole, 93 per cent of people live within a mile of a Post Office and 99.7 per cent of people live within three miles of a Post Office.
24. Banks are working hard to ensure that their customers have a range of options available to them, whether that is via telephone, internet, mobile app, use of the local Post Office or via a bank branch. For the majority of customers (but not all) these options are more convenient than the traditional branch network. Many customers have already moved to digital banking options, but some have not been unable or unwilling to do so.
25. The industry is committed to supporting customers and ensuring none of them, particularly in more vulnerable groups, are left behind as banking moves to digital platforms, in common with other services across the private and public sectors. For example, banks are offering support and training customers to improve their digital skills, helping them take advantage of internet and mobile banking.
26. Technological innovation can help customers access financial services where they cannot readily access physical branches. Different firms offer a different range of services and products, but some key examples include:
 - banking apps offering increasing functionality, for example payments, statements and cheque imaging;
 - customer-service support by video-conference;
 - online 'chat' facilities with bank colleagues;
 - product and financial guidance; and
 - financial management and budgeting apps.
27. As a general point, it is our view that the key elements to overcoming barriers to achieving good consumer outcomes and greater financial inclusion in Wales and the UK as a whole are:
 - broader collaboration—a joined up approach between all stakeholders (firms, regulators, the UK and devolved governments and consumer organisations) to ensure that all customers have the chance to access the services they require, with as few barriers as possible. For example, NatWest, Lloyds Bank and Barclays are piloting the UK's first shared business banking hubs. The hubs have been specifically designed to enable businesses that manage cash and cheque transactions to pay in large volumes of coins, notes and cheques and complete cash exchange transactions.
 - financial education — enhanced financial literacy and capability, often an important prerequisite to tackling exclusion;
 - improved awareness of alternative routes to entering the financial system and accessing services; and
 - smarter communication of the rationale behind banking decisions and the range of alternative options that may be available to an individual.
28. Financial inclusion is a key consideration for the banking and finance industry and one that becomes ever more pertinent as we enter a more digitalised age. The advent and continuous evolution of digital as a communication and engagement model across the private and public sectors has transformed consumers' engagement not just with technology but also with their financial service provider. At the same time, while the move toward digitalisation of financial

services offers many benefits—increased access to services at all times of the day or night, lower costs and improved accuracy and efficiency, enhancing customer outcomes—it is vital to ensure that no one is left behind.

29. There is strong potential in new digital solutions such as Open Banking, which can be used to improve product innovation, encourage budgeting and cut costs. For example, Nationwide’s Open Banking for Good Challenge has picked seven fintech start-ups to take part in a challenge to develop Open Banking based applications and services that help financially vulnerable people.
30. Co-design with customers can be the key to addressing vulnerability and inclusion issues.
31. Our recent report “Financial Inclusion in a Digital Age” explored how digital and a collaborative approach to understanding consumer benefits and how these could be attained in the short, medium and long terms can help deliver an enhanced vision of inclusive customer journeys and outcomes.⁴
32. There are challenges ahead, but there are also significant opportunities for the industry to leverage inclusive-design principles to achieve better access, inclusion and support for existing and potential customers. Cross-industry collaboration and potentially government intervention will be central to delivering on the digital opportunity.

ANNEX

Key stats: cash (UK Finance *unless otherwise stated*)

There were 13.1 billion cash payments in the UK in 2017, a fall of 15% from 2016.

Debit cards overtook cash as the most frequently used payment method in 2017. Despite this, cash was still used for 34% of all payments. (In 2007, that figure was 61%.)

49 million people used ATMs in 2017, with nine in 10 users withdrawing cash from them at least once a month.

There were 2.6 billion cash withdrawals at ATMs in 2017, 2.3% less than in 2015. The total value withdrawn was £187 billion, down by 3%. LINK transaction volumes in the year to date (excluding

⁴ <https://www.ukfinance.org.uk/policy-and-guidance/reports-publications/financial-inclusion-digital-age>.

withdrawals made by customers at their own banks' or building societies' ATMs) are down by 8.5% compared to 2018. LINK transaction values in January (same caveat) were down 5.4% compared to January 2018.

ATMs were by far the most common method of acquiring cash, accounting for 85% of all cash acquired in 2017.

There were 258 million transactions acquiring cash using methods other than ATMs, such as debit-card cashback, withdrawals at counters using cards, passbooks and cheque encashment. This was a decline of 4% compared to the previous year.

The volume of ATM withdrawals decreased by 5% from 2016 to 2017 and was down by 11% from its peak in 2012.

LINK reports there were 63,200 ATMs in the UK at the end of 2018, a reduction of 5,400 (-7.9%) from 2017 but still comparable to the then-record levels in 2007-10.

Most of the fall reflected the downward trend since 2007 in the number of pay-to-use ATMs, falling over the year from 14,000 to 11,100 (-20.7%). The number of free-to-use ATMs dropped by 2,600 (-4.8%) to 52,000 from the 2017 record high.

At the end of 2017, free-to-use ATMs accounted for 79% of all ATMs in the UK but over 98% of all ATM withdrawals (in volume and value).

In 2017, there were 52,104 ATMs located not at a bank or building-society branch, a slight increase from 2016.

59% of ATMs in the UK were provided by independent deployers (IADs) rather than banks and building societies.

3.4 million consumers rarely used cash. 2.2 million consumers mainly used cash. (Even among these, 92% had a debit card, and 72% used payment methods other than cash to pay their regular household bills.)

Cash payments are forecast to decline to 6.4 billion in 2027, accounting for 16% of all payments, but will remain the second-most-used payment method in the UK.

Key stats: Post Office

99.7% of the UK population lives within three miles of a post office.

Post Office opening hours have increased by 200,000 per week as part of the modernisation programme.

Extended hours include early mornings, late evenings and Sundays. The Post Office is the largest retailer to be open on a Sunday, with over 4,000 branches.

99% of UK personal-banking customers and over 75% of business customers can do their day-to-day banking at the Post Office.

In 2018, the Post Office carried out 110 million banking transactions across its network—an average of over 200 a minute and a 6% increase from the previous year.