The Financial Inclusion and Markets Centre

Promoting finance that works for the economy, environment, and society

Access to Banking Services Review: Call for Evidence

Submission by The Financial Inclusion and Markets Centre (FIMC)

About The Financial Inclusion and Markets Centre

The Financial Inclusion and Markets Centre is a dedicated unit of the Financial Inclusion Centre which focuses on financial services policy and regulation, financial market reform, and evaluating the economic, environmental, and social utility of finance. The new unit also covers work evaluating the impact of developments at the intersection of finance and technology including AI.[1]

[1] About | The Financial Inclusion Centre

Introduction

We are pleased to submit a response to this Call for Evidence. We would be very happy to provide further details on our submission or discuss any of the points we raise. If that would be helpful, please contact Mick McAteer, Co-Director, Financial Inclusion and Markets Centre mick.mcateer@inclusioncentre.org.uk

We are unable to respond to each of the questions in detail due to limited resources. The timeframe for responding to this call for evidence was very short and we are having to respond to numerous consultations from the various regulators. Moreover, most of the relevant research is already in the public domain. We have not commissioned new research and rely on existing published research. Our submission therefore consists mainly of our views rather than new evidence.

Customer Needs and Use of In-Person Banking Services
1.17 What specific in-person services remain essential ?

FIMC considers accessible banking services should be treated as a utility service rather than a discretionary consumer service with the market determining which services are provided and how services are provided. Indeed, we would say there is a strong case for treating access to banking as a universal service given their importance not just to consumers, but local economies and communities.

As the FCA recognises: '*While promoting digital inclusion is critical, it is equally important to ensure that non-digital access to essential financial services is maintained. For those who are not digitally active, access to bank branches, cash, and other in-person services remains vital*.'[2]

In addition to access to cash, critical services include deposit facilities (especially for small businesses), and face-to-face advice on important personal finance issues such as account opening, mortgages, access to credit and financing options (consumer and business), and dealing with scams and frauds.

1.18 Are there any services for which digital alternatives are insufficient? What are they?

Each of the services outlined above. We would reframe the question slightly as whether these critical services could or should be delivered solely via digital alternatives. While digital banking has undoubtedly grown in popularity and has delivered real benefits for consumers and the economy, it is clearly not the best option for a significant minority of people who are digitally excluded and/ or find using digital services challenging.

[2] Financial Lives 2024: Key findings from the FCA's Financial Lives May 2024 survey, P76

There is also citizen-consumer choice and preference to consider. A consumer-centric banking system should allow the option of physical services rather than require citizen-consumers to conform to the needs of the market.[3]

Moreover, there is also the issue of retaining an alternative means of accessing banking services (particularly cash) in the event of a major system failure. The European Union and a number of European countries clearly recognise the risk of allowing digital banking services to become a single point of dependency.[4]

1.19 What are the benefits of being able to access banking services in person?

In the year to May 2024, 9.7 million (18%) adults regularly used a branch; this rises to 40% of digitally excluded adults, and 31% from low-income households.[5] Age UK's research found that three quarters of people aged 65 and over wanted to carry out at least one banking task in person (equivalent to 7.86 million people if scaled up across the population), while 39% were not managing their money online at all.[6] There are a range of benefits of accessing banking services in person:

- Access to cash remains important for a significant minority of consumers who are digitally excluded and/or find digital services challenging. The ability to engage with a person for many consumers is not a luxury but a necessity. Which? research found that more than half (52%) of disabled banking customers say closures have had a negative impact on them – the main factors were difficulty with phone banking, security features and physical accessibility.[7]
- In person services can help consumers deal with difficult financial problems including scams and frauds. Consumers can find it difficult to navigate purely digital support when dealing with a possible or actual scam or fraud.
- In person services can also help the 'helpers' of those who struggle with digital banking or banking generally. Research found that 11 million adults (almost one in five) help someone else with their digital banking annually.[8] Other research found that a key driver of people needing to help others such as relatives is branch closures.[9]
- For small businesses, access to in-person banking can help with choosing the right financing options. Moreover, maintaining the presence of staffed bank branches

[3] According to Age UK research, three quarters of account-holders aged 65+ want to carry out at least one transaction in a branch and nearly a third of older people with a bank account (31 per cent) - equivalent to 3.25 million people - feel uncomfortable with online banking, despite its growing popularity in recent years. As bank branches continue to close, a new Age UK report reveals that 4 in 10 over 65s with a bank account do not manage their money online

[4] It is interesting that Sweden and Norway are rethinking the idea of cashless society. Sweden and Norway rethink cashless society plans over Russia security fears | Sweden | The Guardian The European Commission has advised that citizen's '72-hour emergency kit' include enough cash to cover a week of essentials. Stockpile 72 hours of supplies in case of disaster or attack, EU tells citizens | European Union | The Guardian

[5] Financial Lives 2024: Key findings from the FCA's Financial Lives May 2024 survey, p66

[6] Age UK, op. cit. p3

[7] Bank branch closures and poor websites risk excluding disabled people - Which?

[8] Lloyds Bank 2024 Consumer Digital Index, p24

[9] hidden-heroes-devon-fields-consulting.pdf, P13

means that a bank's first hand knowledge of the needs of local economies and communities is retained at the local level, rather than fully centralised.

1.20 Are there any differences between personal and business in person banking service needs?

Some service needs will be the same eg. access to cash services. But, others may be different. For example, a consumer (or helpers and relatives) may be more likely to need support on a complex personal financial matter (eg. paying bills, sorting out scams, dealing with probate issues) whereas a small business may be more likely to need support with financing options. However, regardless of the service needs, access to in-person support from suitably qualified bank staff based in accessible locations is a requirement.

Groups Requiring In-Person Access

1.21 Which customer groups most require in-person banking and why? Examples may include:

• Vulnerable consumers • Older or younger customers • Digitally excluded people • SMEs and cash-intensive businesses

We think each of these groups require in-person banking for the reasons outlined above. We would add those who help relatives and friends with financial matters – the 'helpers' described above.

1.22 Is there any geographic variation (rural, urban, deprived areas) to dependency on in-person banking?

Yes, research by the Consumer Council for Northern Ireland (CCNI) highlights that bank branch closures have a bigger negative impact on people in rural areas and vulnerable consumers including those with a disability or on a low income, and older consumers.[10] Ninety percent of those people on low incomes said that they were impacted by branch closures. For affected older consumers, 54% stated that the impact on them or their local community had been a major one. Fifty three percent of affected rural consumers said the same. Of those consumers with a disability affected by a closure, 94% said the closure had an impact on them, with 70% of these saying the impact was a major one.

Geographical impacts are not limited to Northern Ireland. Analysis by Which? of its constituency-level branch closure tracking data shows 56 parliamentary constituencies with no bank branch left at all, and a further 101 down to their last one.[11]

[10] Vulnerable consumers and those in rural areas most impacted as 27% of bank branches in Northern Ireland close within 3 years | Consumer Council
[11] Bank branch closures: is your local bank closing? - Which?

1.23 Is there any clear evidence of unmet needs for particular groups?

The groups mentioned above are all affected by unmet need.

Consumer Detriment

1.24 What evidence is there of detriment arising from reduced access to in-person banking services?

It is not clear what this question seeks to answer that hasn't been addressed by the questions above. If certain groups of consumers are denied access to, or find it difficult to access, critical banking services designed around their needs then, by definition, consumer detriment occurs.

1.25 What are the quantitative and qualitative impacts?

We are not sure what 'quantitative' means in this case. If it is numbers of people affected, then the numbers are referenced above. If the consultation is asking whether the harm has been quantified (in terms of estimating welfare loss for certain groups directly caused by restricted access to the banking services discussed here) then we are not aware of any research that has attempted to quantify this. Nor are we aware of any research that attempts to quantify the impact on small businesses of access to finance being restricted as a direct result of restricted access to in-person business.

Indeed, we are unclear as to how the direct impact of restricted access to in-person banking services on specific groups could be estimated with any degree of certainty without large scale well resourced studies. However, we would urge the Review team not to use this lack of quantitative analysis as a reason to rule out necessary interventions.

The qualitative impacts will mainly be the psychological impacts of failing to have problems resolved. Scams and frauds, in particular, can have profound immediate emotional impacts and longer term mental health impacts. Similarly, failure to resolve complicated financial problems can result in increased anxiety.[12]

1.26 Are there any particular impacts on:

• Financial inclusion • Ability to manage finances • Business operations?

Yes. With regards to financial inclusion, we make the point that inclusion is not just about the number of people with a specific product or service; those products and services have to be supported if they are to enhance the financial well-being of consumers. Access to support and advice is a prerequisite if consumers are to be able to use products and services

[12] Other qualitative impacts of financial exclusion generally rather than restricted in-person banking specifically are covered in this research commission by the FCA: Exploring financial exclusion

to enhance well-being. If consumers do not have access to that support and advice, then that has exclusionary impacts.

Similarly, as covered above, lack of in-person support can make it difficult for financially vulnerable groups to manage their finances, which in turn can cause or contribute to anxiety and distress.

We also make the point, above, that access to in-person support can help small businesses obtain advice and guidance on financing options.

1.27 What is the distribution of this detriment (who is most affected and how much is it affecting people)?

We are unclear as to the meaning of this question. Is the review asking for an estimate of: i. the total welfare loss/detriment experienced by different groups as a direct result of limited access to in-person banking services; ii. how much detriment is experienced by each group; so that iii. a conclusion along the lines of 'older groups experience X% of the total detriment, people with a disability Y%' can be reached?

As with Q1.25 above, we are unclear as to how this could be done in a meaningful way without well-resourced research and analysis.

1.28 What evidence is there of detriment arising from any particular geographic distribution?

See Q1.22, above

Current Provision and Market Trends

1.29 What have been the trends of branch closures and service reduction up to this point?

According to Which?, banks and building societies have closed 6,871 branches since January 2015. That represents nearly 70% of those open at the start of 2015.[13] An average of 53 a month have been closed. The rate of closure does appear to have eased since the peak of 867 closures in 2017. But, it certainly hasn't stopped. Which? has already logged 314 closures scheduled for 2026. The number of ATMs has also fallen by 40% since 2015.[14]

Which? constituency-level data shows 56 parliamentary constituencies with no bank branch left at all, with a further 101 down to their last one.

In terms of bank performance, Lloyds Banking Group has closed the most of any banking group (1,611), narrowly ahead of NatWest Group (1,565), while Barclays has shut more branches than any single bank (1,236). HSBC closed 744, with Santander closing 612. In terms of major providers, Nationwide has closed a comparatively small number, 95.

[13] Bank branch closures: is your local bank closing? - Which?
[14] LINK / The ATM Network

1.30 How have service providers made their decisions regarding closures and service reductions? What have been the driving factors?

This is a question for providers. However, we would say the main driving factors have been supply side. That is, the banking sector consciously moved from providing large scale physical, in-person banking services to digital banking in response to the expansion of internet based service provision which allowed for cost cutting measures and better returns on investment. In other words, it has been a primarily commercially driven trend.

Moreover, it is important to consider the main enabling factor, the fact that government and regulators did not treat banking as a utility/universal service and allowed commercial institutions to determine service coverage.

1.31 Has falling demand for certain services impacted the availability of in-person banking services?

We would say that it difficult to disentangle supply and demand in the case of people who would benefit from the maintenance of in-person banking services. Of course, the majority of consumers now use digital banking services for part or all of their banking needs.

But, we don't know whether the deliberate reduction of in-person banking services has then reduced demand for services amongst those who would still benefit from in-person banking services (because those services are no longer easily available, those groups have had to reduce their usage) rather than reduced demand from these groups causing banks to reduce supply.

1.32 What role do alternative channels play in providing services? How effective have they been, including:

• Banking hubs • Post Office branches • Mobile branches

Alternative channels have indeed made a useful contribution. But, these are not sufficient for meeting the needs of excluded groups. There has been criticism of the slow roll out of banking hubs[15] and the services offered can be fairly limited.[16] The process for selecting hub locations has also been criticised.[17]

The numbers of hubs and Post Office branches offering full banking services do not match the number of branch closures. In terms of banking hubs, a total of 282 have been recommended compared to the 2,247 branches that have been closed.[18] If the number of

[15] Bank Closures and Banking Hubs - Hansard - UK Parliament
[16] Are banking hubs the answer to disappearing branches? I visited one to find out - Which?
[17] Are Banking Hubs the answer to bank branch closures? | Citizens Advice Scotland
[18] LINK / Bank branches & Banking Hubs

banking hubs was increased to 1,000, it is estimated that this would create value of £178 million for consumers and SMEs.[19]

Future Trajectory and Innovation

1.33 What is the likely future (including 5-10 years and 10+ years in the future) of in-person banking services provision under current regulation?

It is not possible to predict with any degree of certainty what the future trajectory will be. But, in the absence of direct government and regulatory interventions to treat banking as a utility/universal service it is logical to assume that the reduction of in-person services will continue, disproportionately affecting vulnerable citizens and communities.

Of course, in some cases developments such as the FCA's Targeted Support regime may encourage banks to keep physical branches open in areas with large numbers of customers with significant sums on deposit. Targeted support is a deregulatory measure which allows banks to, in effect, digitally cold call customers with deposits to sell them higher revenue generating investment products but with liability for redress reduced. Once customers have been digitally cold called, inviting them into a branch for a face-to-face closing of a sale may well be attractive for the banks.

1.34 Are there any new developments that could potentially offer solutions?

1.35 What is the role digital, hybrid, and assisted digital models can play in the provision of in-person banking services?

We presume that when the review team talks about solutions it means technological innovation. If so, then we think these solutions have little to offer financially vulnerable groups and communities. The solution is to treat banking as a utility/universal service and ensure that the location of in-person banking is determined by consumer and community needs not left to the market to decide.

1.36 How can or should competition be maintained between different business models in offering banking services?

This is not a matter for market competition. Market forces and competition in financial services can, in certain cases, benefit consumers and the economy. But, in other cases market forces and competition have negative impacts. The reduction in in-person banking is a case in point. As mentioned above, meaningfully addressing this issue requires a different framing - that is, treating banking as a utility/universal service.

[19] The-value-of-banking-hubs-for-consumers-and-SMEs_12.06.24.pdf

1.37 Are there different roles to be played by digital challenger banks and traditional retail banks?

It is difficult to see how digital challenger banks can play a meaningful role in maintaining access to a comprehensive network of in-person banking services due to the nature of their business model. However, we support the introduction of a Financial Inclusion Levy and there is merit in considering whether the larger digital banks contribute to this levy given how they have helped drive the large scale reduction in in-person banking services.

1.38 What are the potential risks of further reductions to in-person access?

The main risk is the exacerbating of the detriment and problems affecting vulnerable consumers and communities outlined above.

Cross-Cutting Themes
1.39 We also invite any further evidence regarding the following cross-cutting themes:

• Impacts on small and medium-sized enterprises (SMEs) • Interactions with wider financial services policy and regulation • Comparisons with international jurisdictions

Unfortunately, we have nothing additional to add to the evidence highlighted above.

This marks the end of our submission.

Financial Inclusion and Markets Centre (FIMC)
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