HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

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Dear Gordon,

ECONOMY, JOBS, AND FAIR WORK COMMITTEE REPORT ON BRANCH CLOSURES

I read with interest the Committee's report on the impact of bank branch closures on the Scottish economy. While financial services are a reserved matter, and the UK Government is accountable to the UK Parliament for these issues, I know that branch closures can be a significant disappointment for consumers across the UK, so I wanted to write to the Committee setting out the actions the UK Government is taking to address some of the issues raised in the report. The report is wide-ranging and includes many recommendations for industry and the Scottish Government. I hope the Committee can appreciate that this letter only addresses those conclusions and recommendations which fall under the UK Government's purview.

Branch closures

While the Government welcomes the innovations banks are introducing to respond to changes in customer behaviour – as more of us choose to bank on demand, online or via an app, rather than visit a branch – the Government also believes that the impact of branch closures on customers must be understood, considered and mitigated where possible. Government maintains it is imperative that customers, wherever they live and especially the most vulnerable, still have access to face-to-face banking services.

At the same time, however, the decision to close a branch is a commercial decision for the management team of the bank, and Government policy is not to intervene in those decisions. Governments should not be in the business of dictating the commercial, operational or management decisions of business. These decisions are rightly the responsibility of Boards and management teams, who are best placed to set strategy and commercial direction and to make day-to-day management decisions.
In order to achieve a balance between commercial flexibility and protection for consumers, both of which are vital pillars for a well-functioning banking system, the Government supports two important industry responses to branch closures: the Access to Banking Standard and the Post Office’s Banking Framework Agreement. Both initiatives have the Government’s full support, and banks are aware that the Government expects their involvement to be genuine and unqualified. Government will continue to monitor the effectiveness of these policies to ensure they are delivering for consumers.

Access to Banking Standard

The Committee heard that the Access to Banking Standard is an industry agreement which asks that banks notify communities at least 12 weeks before a closure takes place and produce an impact assessment which clearly explains the decision for the closure. The Standard also requires banks to make clear to customers the alternative options available to continue to access their banking services. This should include provisions for the most vulnerable customers. The Access to Banking Standard is monitored and enforced by the independent Lending Standards Board (LSB).

Government welcomed the LSB’s oversight of the Standard, when it was introduced by industry in July 2017, and considers the scheme to be working effectively at present. The Government agrees that it is imperative that the Access to Banking Standard delivers for customers, so the Government will continue to monitor the effectiveness of the Access to Banking Standard, and LSB oversight of it, to ensure that it maintains the right balance between providing commercial flexibility and consumer protection.

However, the Government does not believe there is a case for introducing a scheme of statutory regulation. Commercial firms are best placed to make commercial decisions. Having the flexibility to respond to changes in the market is what makes the UK’s financial services sector one of the most competitive and productive in the world.

The role of the Post Office

The Committee also heard about the Post Office’s Banking Framework Agreement with 28 high street banks, which enables 99% of personal banking customers and 95% of small business customers to carry out their everyday banking at one of the Post Office’s 11,500 plus branches. All customers can withdraw cash, deposit cash and cheques, and check their balances, while business customers can also get change.
The Government recognises the important role that post offices across the country contribute toward ensuring access to banking services. Last December, Government announced £370m of investment for the Post Office over the period April 2018 to March 2021. This will enable it to continue to modernise and invest in new technology and services, including financial and banking services. Furthermore, at my encouragement, the Post Office and UK Finance agreed to a detailed programme of work to raise awareness of the Banking Framework services, to ensure that as many customers as possible can benefit from them. Government will pay close attention to these activities to assess their effectiveness.

Access to cash

Though the Post Office provides continued access to everyday banking services where a branch has closed, particularly for those who depend on cash, the Committee expressed concern that branch closures will limit access to cash for business and personal customers. I can assure the Committee that the Government recognises that widespread free access to cash remains extremely important to the day-to-day lives of many consumers and businesses in the UK. Government has been engaging and will continue to engage with the regulators and industry, including LINK (which maintains the ATM network), to ensure that it is maintained. At Spring Statement, the Government also launched a public Call for Evidence on cash and digital payments which, amongst other things, sought to find out how cash usage and need varies.

To help ensure continued access to cash, the Payments System Regulator have also set out three requirements of LINK: that LINK must maintain the current geographical spread of ATMs; that any changes made to the interchange fee (the fee paid by the ATM-user’s card issuer to the provider of the ATM) must be incremental to allow LINK to monitor the impact and take action if the impact is not as expected; and for LINK to focus more on their financial inclusion programme, to continue to fill gaps in the network.

The Committee may be interested to know that LINK has recently decided to cancel its third interchange fee reduction, due in January 2020, and put on hold its fourth reduction, due in January 2021, pending a further review next year. The PSR has welcomed these adjustments to future interchange rates, having stated that LINK must carefully review its decisions on interchange fees to reflect changing market conditions.

Financial inclusion
The Committee’s report raises concerns that changes to the way we bank will have a negative impact on financial inclusion. I would like to reassure the Committee that the Government is deeply committed to tackling financial inclusion and, working together with the Financial Conduct Authority, we are demonstrating leadership in this area. The Government is taking steps to ensure that everyone has access to useful and affordable financial services, including banking, savings products, insurance products, affordable credit and payment systems. It is also ensuring that the UK is an attractive place for financial technology firms who offer innovative ways to access mainstream banking and finance.

To progress this work, we have established the Financial Inclusion Policy Forum, co-chaired by myself and Guy Opperman, Minister for Pensions and Financial Inclusion, and attended by ministers from other Government departments, regulators, industry and consumer groups. The Forum’s mission is to ensure that people, regardless of their background or income, have access to useful and affordable financial products and services. It will provide leadership in tackling financial exclusion, monitor progress on initiatives by both Government and regulators, and ensure collaboration across Government and with the sector, as well as sharing of best practice.

Following the Forum’s first meeting on 19 March 2018 we have set up a subgroup, which is currently looking at access to affordable credit. Driving forward the work in this area will be a key focus for the next Forum meeting in October. Tackling financial exclusion is a key priority for this Government, and many areas are being considered for future Forum meetings, including the ones highlighted in the Committee’s report.

Credit Unions

One of the key ways of promoting financial inclusion is to ensure there a range of providers in the marketplace who can cater for different customers with different needs. As such, the Government shares the Committee’s view that credit unions play a valuable role in the financial services landscape, particularly for vulnerable members of the community. The Government supports the credit union sector and wants to see it grow and thrive.

At Autumn Budget 2017, Government committed to raising the geographical common bond limit for credit unions from 2 to 3 million. This change came into effect in April 2018. Government is also considering how credit unions may be best supported to improve the range of digital services they provide, and welcomes recent collaborations between Fintech firms and credit unions.
All changes to credit union legislation must be considered alongside the need to maintain an appropriate regulatory regime for credit unions. A looser legislative framework would likely require increased regulation which might be inappropriate for small, community based institutions.

Government appreciates that bank branch closures can be difficult for communities and thanks the Committee for their report. The Government cannot reverse the changes in the market and in customer behaviour; nor should it determine firms’ commercial strategies in response to those changes. However, the Government will continue to take positive action to maintain access to vital banking services, to promote financial inclusion, and to ensure banks support communities across the UK when their local branches close.

with best regards

John

JOHN GLEN