



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Economy, Jobs and Fair Work Committee

**Tuesday 5 June 2018**

**Session 5**



The Scottish Parliament  
Pàrlamaid na h-Alba



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**Tuesday 5 June 2018**

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**ECONOMY, JOBS AND FAIR WORK COMMITTEE**  
**20<sup>th</sup> Meeting 2018, Session 5**

**CONVENER**

\*Gordon Lindhurst (Lothian) (Con)

**DEPUTY CONVENER**

\*John Mason (Glasgow Shettleston) (SNP)

**COMMITTEE MEMBERS**

\*Jackie Baillie (Dumbarton) (Lab)  
\*Colin Beattie (Midlothian North and Musselburgh) (SNP)  
\*Kezia Dugdale (Lothian) (Lab)  
\*Jamie Halcro Johnston (Highlands and Islands) (Con)  
\*Dean Lockhart (Mid Scotland and Fife) (Con)  
\*Gordon MacDonald (Edinburgh Pentlands) (SNP)  
\*Fulton MacGregor (Coatbridge and Chryston) (SNP)  
\*Gillian Martin (Aberdeenshire East) (SNP)  
\*Andy Wightman (Lothian) (Green)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Gordon Buchanan (Castle Community Bank)  
Cathy Greig (UKCreditUnions)  
Karen Hurst (Association of British Credit Unions Ltd Scotland)  
Martin Kearsley (Post Office)

**CLERK TO THE COMMITTEE**

Alison Walker

**LOCATION**

The David Livingstone Room (CR6)



## Scottish Parliament

### Economy, Jobs and Fair Work Committee

*Tuesday 5 June 2018*

*[The Convener opened the meeting at 09:30]*

### Decision on Taking Business in Private

**The Convener (Gordon Lindhurst):** Good morning and welcome to the 20th meeting in 2018 of the Economy, Jobs and Fair Work Committee. I ask everyone to turn off electrical devices or turn them to silent.

Item 1 is a decision on whether to take items 3, 4 and 5 in private. Do members agree to take those items in private?

**Members indicated agreement.**

## Impact of Bank Closures

09:30

**The Convener:** Do members have any declarations of interest?

**Kezia Dugdale (Lothian) (Lab):** I am a member of Capital Credit Union, which is a member of the Association of British Credit Unions Ltd, and I am also a member of Castle Community Bank.

**John Mason (Glasgow Shettleston) (SNP):** If we are declaring credit union interests, I declare that I am a member of Parkhead Credit Union.

**The Convener:** This morning, we continue our inquiry into the impact of bank closures. I welcome our panel of witnesses, who are Karen Hurst, policy officer with ABCUL Scotland; Gordon Buchanan, general manager of Castle Community Bank; Cathy Greig, chair of UKCreditUnions; and Martin Kearsley, director of banking with the Post Office. Welcome to all four of you and thank you for coming. I understand that Martin Kearsley has one of his colleagues, Mark Gibson, in the public gallery, and who he may confer with on particular issues as we progress.

The microphones will be dealt with by the sound desk, so there is no need to press any buttons. Feel free to come in on any questions, but do not feel that you have to answer all of them. There will be an opportunity to submit further evidence in writing after the session if you feel that you would like to add something to what you have said.

I will start with a general question on the impact of bank closures. Will you comment on the impact of bank closures on businesses, individuals and the wider community economy in areas that you are familiar with?

**Gordon Buchanan (Castle Community Bank):** We have been doing some work with a local group in Juniper Green and Currie that is concerned about the fact that there are literally no branches available in that part of Edinburgh. There are no Bank of Scotland or Royal Bank of Scotland branches, as the last Royal Bank of Scotland closed recently.

The chair and I attended a couple of public meetings and noticed a strong concern, especially among the local business community and the elderly community in those parts of Edinburgh. For the business community, there is a concern about being able to bank cash because, if a branch disappears, there literally is nowhere for them to do that. For the elderly community, there is a concern that they are used to going into their branch and transacting with somebody face to face. Many of them are not even happy using an automated teller machine, never mind online

banking. We picked up real concern from those two sectors of the community in that part of Edinburgh.

**Martin Kearsley (Post Office):** We have certainly seen significant growth in our business in supporting communities as bank branches close. We offer cash services to the local community; we do not set out to replace a bank. There are many services that the banks have to continue to offer through their products, such as mortgages, life insurance and pensions, for which people need proper independent financial advice.

The Post Office's role is to support the communities that we are placed in. We have about 1,400 branches across Scotland. We have modernised over 700 of them in the past few years and the network is as stable as it has been in decades. In 2009, we had about 1,440 branches and the figure is now 1,403 or so. Therefore, we have a stable network that is there to support the communities.

We offer cash services: cash withdrawals and cash deposits. When a bank branch closes, if there is still a bank branch in the town, we see a marginal increase in the business over our counters. When the last bank closes, we see significant change, with something like a 10 per cent increase in cash withdrawals. Our logic for that is that all of us as individuals will find other ways to withdraw cash, either through supermarkets, cashback, ATMs or going to the next branch.

However, to go back to Gordon Buchanan's point, local businesses need a counter in order to pay in cash, and we have seen about a 25 per cent increase in business cash deposits over the past year as a result of bank closures. It is becoming a very important part of our business. We focus on three business areas. Obviously, mail is the main one, banking is second and travel is third. Our banking business is growing significantly as a direct result of bank branch closures.

**The Convener:** Is that increase in banking transactions economically viable for the Post Office?

**Martin Kearsley:** If we look at the percentage or the ratios of the different types of transactions, we find that withdrawals account for about 80 per cent of all the transactions that we do. Those withdrawals are well remunerated. They are quick and easy transactions and they normally happen at the end of some other transaction. A customer will come to the counter, post parcels, and at the end of the transaction the postmaster will say, "Would you like some cash today?" It is a very straightforward add-on transaction.

Business deposits are a challenge. Because that area has been growing significantly, we

recognise that we have to rebalance how we remunerate our postmasters. Business cash deposits coming in require counting and preparation for remittance, and we also expect postmasters to at least be the first stop in detecting counterfeits and frauds. Therefore, there is a much heavier load on the postmasters in handling business deposits. That is the area that is growing fast and where we are looking to rebalance. We recognise that remuneration for business cash deposits coming in is currently out of balance and we are working to fix that.

**Cathy Greig (UKCreditUnions):** I know from my role in the Vale of Leven Credit Union and from working with other credit unions that they now have to keep more cash in their premises because they cannot bank it easily and, when members come in to take out money, they cannot give them a cheque and send them to a local branch because there is no local branch now. Therefore, credit unions are now paying more insurance to keep more cash on the premises. Members of credit unions are having to travel further to make deposits into their branches. For one credit union, there is a 15-mile there and back journey to deposit cash into a bank, because there are no banks in the area.

We work with schools a lot and try to teach children how to save, but we cannot follow that up by saying, "Now you have your money, you take it to the bank and put it in there." We have to do that on behalf of the pupils, because they would have to travel. The closedown of the banks makes it difficult to make cash deposits.

We have people coming into credit unions to draw out £5 to travel to their bank when they have trouble with their account, because they cannot manage the computer and they want to speak to a human being. We have people coming in and lifting a small amount out of the credit union to help with the travel to get to the bank.

**Karen Hurst (Association of British Credit Unions Ltd Scotland):** I reiterate what Gordon Buchanan and Cathy Greig said. We represent most credit unions in Scotland. I was with a bunch of them last night and I asked the same question and most of them agreed that they have seen a significant increase in inquiries in communities where the banking service has been withdrawn and where people are looking for alternatives.

As Cathy Greig said, the situation prompts some challenges and difficult questions for credit unions. There are issues with cash handling. Transactional accounts are not cheap to provide, so our credit unions are looking at what they can offer while acknowledging that there are limitations to what they can do.

**The Convener:** Thank you.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** Over the years, we have seen many bank closures, and it appears that the high street banks are, on a continuing basis, pulling back from the high street. We have towns and villages that do not have banks at all. Does it not create an investment opportunity for the Post Office and credit unions to move in behind the retreat of the banks and take advantage of that?

**Martin Kearsley:** The term “taking advantage” is possibly a bit too much. We would emphasise that, obviously, there is an industry in huge change—probably a once-in-a-generation change—and that reflects the way in which all of us consume banking services these days, which is the same as the way in which we consume any other service: we research online, look at reviews and make choices. The banks are making a change and, without apologising for them in the slightest, they are reflecting the change in how we consume banking.

That gives us an opportunity, maybe not to take advantage but to support the communities that we serve and to be the place where cash can be deposited and accessed. There is no need to travel to the next town, because people absolutely can go to the post office in their town. Over the past few years, we have invested a significant sum in modernising the Post Office network in Scotland. As I said, we have modernised nearly 800 of the 1,400 branches. We have moved to change the way that we handle banking transactions. We have note counters and time-saver pouches to allow business customers to deposit cash more quickly instead of having to wait while the money is counted at the counter. We are starting to work with credit unions to offer broader services to a wider group of customers, so that they do not have to withdraw £5 to travel to the bank.

In doing so, we are also working with national and regional Government to raise awareness, because the problem is one of awareness. Forty-five of the branches that are closing under the RBS closure plan are within 100 yards of a post office. Far be it from us to force people to use a post office, but if we can make it a welcoming, secure and safe environment that is beneficial to the postmaster and the community, there is no need to travel several miles to go to the nearest bank branch. For those daily transactions that keep the local economy fuelled, there is the post office.

**Karen Hurst:** I will give the credit union perspective on some of the challenges. As a sector and particularly as a trade association, we are keen to move forward, to grow the sector, to become more relevant to our members and to provide a wider range of services. The problem is

that we all live in an economy where there is an expectation that banking services—things such as current accounts and cash services—are free. There is no expectation that those will be paid for. Therefore, they need to be subsidised from elsewhere, which a bank will typically do by providing other services.

We are unique in financial services in that, under the legislation, we are limited in our interest rate and, more important, we are restricted in the range of services that we can provide. For example, we cannot provide credit cards or insurance. A priority for us as a trade body is to try to get reform of the Credit Unions Act 1979 to allow us to be more relevant to members. In the meantime, it means difficult decisions, as Cathy Greig says, as to how much cash we can keep on our premises and what we can offer with transactional accounts. As I said, we hope to move forward and to grow the sector so that those decisions become easier, but that has to be seen as a journey, as there is no easy solution.

**Gordon Buchanan:** We are seeing a transfer of savings from the big banks to credit unions. I think that people are disillusioned with the bigger banks because of the bank closure programme and perhaps the way in which they are in general treated by the big banks. They are voting with their feet as far their savings are concerned. The maximum deposit that we can accept is £15,000 but, anecdotally, a number of people are walking in the door with cheques for £15,000 and saying that they are leaving RBS or Santander because of the way that they have been treated. We are picking up on that.

On Karen Hurst's point, the idea that we can somehow start offering money transmission accounts and current accounts with direct debits and standing orders is very difficult, because those accounts tend to be very expensive to run. Karen Hurst picked up on the point about cross-selling. The banks would probably say—there is some truth in this—that they do not make any money from running current accounts. The current accounts provide them with data about other services that they can cross-sell to people, such as insurance or mortgages or the like. As Karen Hurst alluded to, it is hard for credit unions to step into that space without significant funding from central Government.

09:45

**Karen Hurst:** Legislative reform is also needed, because the current legislation does not allow the sector to offer those services.

**Colin Beattie:** In previous evidence, people have talked about challenger banks, which are quite small, and whether they could step up and

step in. The feeling was that, simply because of their size and the investment that is needed to open an all-singing, all-dancing branch of a bank, that was a complete no-no. However, is there a lower-key approach? The Post Office in part has already done that, but is there any solution that in a combination would replace the services that banks currently offer on the high street?

**Martin Kearsley:** The points that my fellow panellists have raised about the vulnerable and potentially the weakest members of our society and how we serve them are very relevant. We are within a mile of 99.7 per cent of all deprived urban areas. We would all recognise that we have post offices in some of the deeper parts of most villages and towns, and our role of serving those members of the community is significant and growing.

I will give the committee an example, on which we are working with the Department for Work and Pensions. At the moment, there is the Post Office card account—POCA—which is of huge value to some very vulnerable people, such as those with chaotic lifestyles, those without credit history and those who cannot get access to a normal bank account. The DWP wants people to move from the POCA, but there is no option apart from going to a bank account, which, as my colleagues have said, is an expensive proposition, and many of those customers cannot make the jump or get past the know-your-customer regulations.

We are working with credit unions and challenger banks to allow them to offer a branch network that essentially replaces the investment that they would need to make—they do not have to create a branch network, as there is already one of 11,500 branches, with 1,400 in Scotland. We can offer services over the counter that any normal bank branch would offer, to keep the cash going. To that end, we are working with the credit unions to move from full-service bank accounts down through basic bank accounts and into credit union accounts, which will give a lifeline. They will be proper transactional accounts, with a six-digit sort code and an eight-digit account code, so that universal credit can be paid into them and direct debits can be set up from them. The customers who can make that step can access the lower-rate utility bills that others enjoy. In a way, we are eroding the poverty premium by giving access to those customers. We are very proud to work with the credit union organisations and the challenger banks to bring that into service in the next six months or so.

**Colin Beattie:** Your focus on that particular aspect is about helping the vulnerable members of society, which is really important, but a huge block of people are also looking for alternatives. They are disaffected with the banking services that they

receive and with the attitude of the banks, so they are looking for an alternative. Is the Post Office a credible alternative? Do you have the level of investment that would allow that?

**Martin Kearsley:** We have, in our servicing of all partner banks, credit unions, building societies and anyone who wishes to make use of a counter service to transfer cash. To create a post office bank, for instance, with the banking regulations and legislation as they are currently, billions would have to be invested in the Post Office to create a strong enough balance sheet that would pass banking regulations about proving capital adequacy and supporting the financial services compensation scheme. Investing that much money would require us to have many millions of direct customers and we could only get those from the existing banks in the communities that we already serve.

There is a circularity involved in saying, “Let’s just create an alternative from scratch.” The challenge is that we would effectively alienate all the customers that we already serve by trying to move them across to the alternative. There are some real challenges in trying to create what might be called a viable alternative to replace the daily services that we already offer.

Although we continue to watch and try to understand how we could modify in order to create something like that, we would require significant investment to overcome some serious barriers.

**The Convener:** Gordon Buchanan wants to come in.

**Gordon Buchanan:** I want to pick up on a point about the POCA, and the DWP’s efforts to get people to close their accounts and move to normal bank accounts. We might come on to talk about this later, but when a branch closes, the ATM also goes. People do not just lose access to the branch; they do not have physical access to their cash.

When people are successful in opening a bank account with RBS or whatever and they move from a POCA, they are often given a basic bank account with a cash card rather than a debit card, so the only way that they can use their funds is by using cash. It is an important point about branch closures—the ATM disappears at the same time.

**John Mason (Glasgow Shettleston) (SNP):** I am particularly interested in some of the post office issues but other questions will come up. Is Post Office money a bank or is it linked to a bank? You have a relationship with the Allied Irish Bank, but you can also go into other bank accounts. Could come in with whichever bank I am with and do some transactions?

**Martin Kearsley:** Yes.



**John Mason:** How does all that fit together?

**Martin Kearsley:** You are quite right about Post Office money, although the relationship is with Bank of Ireland. Post Office money is a rebranded set of Bank of Ireland products. You could quite happily have a current account, mortgages, insurance, life insurance, pensions and so forth with the Post Office. Those are separate products but we sell them through the Post Office.

In the past few years, we have tried to sell them over the counter, but as many of you will know, you walk into a post office with a transaction in mind, such as “I want to do what I am doing today and go somewhere else. I am in to post something.” Saying, “While you are buying a stamp, would you like a mortgage?” is a pretty significant leap. Selling in-store does not work too well.

Nowadays, we might start the journey in the branch but it is completed online or through conversations with help centres and so forth. That is Post Office money: a separate set of products that we sell to customers who wish to have a Post Office product. However, they are essentially Bank of Ireland products.

**John Mason:** Is that product for individuals and businesses?

**Martin Kearsley:** It is for individuals, not businesses. It is for personal consumers.

On the partner banking side, we offer what we call the banking framework, which we created a few years ago. Essentially, for 20-plus years, ever since the days of Girobank—which morphed into Santander over time—we have provided cash-in and cash-out services for all banks.

Those services have become incredibly fragmented in the past few years. There are different banks, different requirements, and various different services, such as barcodes, magstripe cards, or chip and PIN. About two years ago, we standardised all that and said to all the banks, “If you wish to use a post office, your customers will have to be chip and PIN.” It is essentially the same as using an ATM—the card and PIN go into the machine with the amount of money, and away we go.

We have standardised and simplified the service and we offer it to all banks. We say to about 99 per cent of our personal customers and about 95 per cent of small businesses, “You can access your current account through any post office.” They are the two different types of service. One is a partner banking relationship and one is a specific set of products that we can sell.

**John Mason:** I do not know if I am unusual, but I do not go into my bank looking for a mortgage or insurance or any of those things. I want to put my

money into or take it out of my current account and that is it. Are there any limitations on what you can do? Businesses suggested that there were limits on how much change they could get or how much they could deposit at a time. Are there limits on those and, if so, why?

**Martin Kearsley:** With apologies to the panel for the detail—and do please stop me if this gets too detailed—we offer an ad hoc walk-in service for all businesses. About 92 per cent or 93 per cent of all business deposits are less than £2,000. You can walk into any post office and deposit up to £2,000 into your account anywhere in the country.

Many businesses that go way above that each week. Approximately 4,000 of our 11,500 branches take in more than 80 per cent of our business deposits. Those branches are the ones in which we invest in fortress counters. You might recognise the Perspex windows and a specific area where business deposits can be made. We direct customers who have larger sums of money to those branches each week.

We also locate those branches for the customer through a location exercise. We work with the bank and the customer and we introduce the postmaster to the business. We tell the customer that if they want to deposit £20,000, £30,000 or £50,000 a week on a Thursday, they will have to go to a certain post office. It will welcome them, take the money securely, put it in the safe and dispose of it. Therefore, there is a limit of £2,000 for any post office but, in specific areas and across those 4,000 branches, we can take any sum that the business cares to deposit. In that case there are no limits; it just has to be arranged.

There are again no limits on cash. If a small business wants to withdraw coin and cash for an opening float or maybe to pay cash to temporary workers through the summer season, they can draw out any amount of cash they wish. We ask for 48 hours’ notice so that we can provide a block of change—house-brick sized lumps of coin—when they come in. We can deliver that to the branch or it can be collected by the customer. It just requires pre-arrangement for some of the larger sums.

We are back to the point about awareness. If a small business does not know how to operate its account through us, we are very happy to help but the banks and the Post Office and the Government need to raise awareness collectively.

**John Mason:** That is very helpful, thank you. I would like to talk about the credit unions now. You have all said a little bit about credit unions. Am I right in saying that there is a huge variety: that some are pretty big and almost like a bank and some are absolutely tiny and seem to provide very

few services? Am I misunderstanding that or is that correct?

**Karen Hurst:** That is correct. There is a huge variation among credit unions, as you say. The smaller ones probably just do the savings and loans, which is credit unions' *raison d'être*.

**John Mason:** For example, the Police Credit Union is based in my constituency and it strikes me as quite a big, professional thing. I do not know what it is called in Glasgow now, but there is a huge one that used to cover everyone in Glasgow or the council.

**Karen Hurst:** There is the Scotwest Credit Union and Glasgow Credit Union, which is the biggest credit union in the United Kingdom

**John Mason:** Am I right in saying that it provides more services than my little Parkhead one?

**Karen Hurst:** Yes, it will, although as I said earlier the challenge is the legislation. The main act that binds us is the Credit Unions Act 1979, which says that we can offer savings and loans and a couple of services around that. For example, if you take out a loan, you would typically get insurance as part of that package. In most cases, your savings will also be insured.

A few credit unions also offer mortgages, but it is very few. Obviously they can do transactional accounts but the challenge is around the cost of that and how they make it sustainable.

**John Mason:** Do some do debits and standing orders?

**Karen Hurst:** Many do offer direct debits, yes, although not for a current account, as you might expect with a bank. A prepaid card is usually offered through the credit union. Many people have their benefits and sometimes their salaries paid into the credit union account. That is transferred on to the prepaid card and your payments can come off that. It can be used in the way that you might use a debit card.

**John Mason:** Could I pay my television licence or that kind of thing through my credit union account?

**Karen Hurst:** No.

**Gordon Buchanan:** The problem with a lot of the prepaid cards is that the cash machines where people use them charge £1.50 or £2 for taking money out of the hole in the wall. Therefore, again the people who are the most vulnerable and the least able to afford charges are being charged for using prepaid cards.

**Karen Hurst:** It has been invaluable for the sector to be able to offer a service to people who would otherwise not be able to access bank

accounts. That is mainly why we have embraced it, because so many of our members were making a purchase and this was what we could see as the best solution.

**John Mason:** How many people in Scotland are members of credit unions? Two of the committee have declared today that they are. I do not know if that means that all the others are not.

**Karen Hurst:** It is about 7 per cent of the population.

**John Mason:** That is quite low.

**Karen Hurst:** Yes. It is better than the rest of the UK. It is about 2 per cent in England and Wales.

**John Mason:** Is it higher in Ireland?

**Karen Hurst:** Membership is higher in Ireland. The credit union sector is very well developed there.

**Kezia Dugdale:** I think that it is as high as 24 per cent in Northern Ireland—that is the most recent figure that I have seen.

Good morning, panel. I have been in the Castle Community Bank office in Granton and the one in Craigmillar and I was delighted to be at your opening in Leith two weeks ago. Why have you opened a branch in Leith when everybody else is moving out?

**Gordon Buchanan:** Precisely because everybody else is moving out.

**Kezia Dugdale:** How do you make money from it?

**Gordon Buchanan:** We make money from lending. We are there as a savings and loans business. In that regard, I pick up on what Karen Hurst said. We do not offer any of the other services. We do not offer prepaid debit cards, because we think that being charged to take money out of the hole in the wall is a nonsense. We provide savings and loans, and we basically make our money on the lending. We will lend from a minimum of £250 up to £7,500, and we see a whole raft of people.

10:00

**Kezia Dugdale:** The communities that I named are fairly deprived communities. Will you explain for the record why it is important to credit unions that people with means are also members and use credit unions to borrow?

**Gordon Buchanan:** Yes. We are conscious that credit unions are sometimes seen as being poor men's banks and lenders of last resort. We want to get away from that. We are there for everyone in the community in Leith. It is a very

diverse community. There is a lot of poverty and a lot of wealth in that part of Edinburgh, and we are there for everybody.

It is really important that people who have a choice about where they borrow from consider credit unions as a source of funding for their new car or their new kitchen. We offer interest rates that are competitive with those of the big banks, and that lending to people who have a choice allows us to do more lending to people who do not have a choice.

**Kezia Dugdale:** In all honesty, despite my being a Co-operative MSP, one of the main reasons why I joined Capital Credit Union, first, was that it was harder to take my money out, so I was less likely to spend it. *[Laughter.]* Now that you are as competitive as banks, it makes a lot of sense for me to borrow from my credit union as well. However, I guess that, in order to appeal to more middle-class communities rather than just serving poor communities, you need to have the same functionality as high street banks.

A couple of years ago, a huge amount of money went to ABCUL to modernise your information technology systems. Will you talk to us about how that is working? Is it now possible for people to access their credit union accounts on phones, for example, in the same way that I might expect to access my Bank of Scotland account? What functionality is missing compared with the high street banks?

**Gordon Buchanan:** There is definitely a need to keep pace with that technological advance. We do not have an app. The kind of money that would be required in order to develop an app is prohibitive for us given the capital that we have. We have a strong online presence, and it is about to get stronger as we will soon be launching a new website where people will be able to apply for loans online and get an instant decision. However, we cannot accept deposits online and people cannot transfer money online.

**Kezia Dugdale:** The money that went to ABCUL to modernise information technology was Government money. Is there not a role for Government support in helping to modernise some of the IT infrastructure?

**Karen Hurst:** To be honest, that project proved to be pretty challenging. It is still on-going, although we are no longer in contract with the DWP.

I think that things are moving in that direction. When our members get together at conferences and so on, that is certainly the direction of the conversation. It is something that even the smallest credit unions are now exploring and working to improve on. It is difficult without having the margins that a bank might have. We would

certainly encourage any Government that felt that it could do so to talk to the sector about investment in that area. There are a lot more options out there and a lot more credit unions are exploring it. It is definitely the direction that we want to move in.

**Kezia Dugdale:** One of the reasons why I was so happy to see Castle Community Bank set up in Leith is that there are 11 payday lenders in the centre of Leith. Some credit unions, such as Capital Credit Union, provide things such as fast cash, whereby people can access up to £500 a day in the same manner as they would access a payday loan, but I know that there is a debate in the credit union community about whether you want to promote such unsustainable forms of finance.

How important is it for you to enable people to access same-day lending in small amounts so that you can compete with companies such as BrightHouse, versus trying to focus on more sustainable lending? Perhaps we could hear from Cathy Greig on that.

**Cathy Greig:** Two years ago, my credit union launched the instant loan, whereby a member does not necessarily have to have a saving history to join and access funds from the credit union. That was because we had a leaflet drop in one of our poorer areas from not a payday lender but a doorstep lender. We went behind them and did our own leaflet drop.

**Kezia Dugdale:** The Provvie.

**Cathy Greig:** That is it.

**Kezia Dugdale:** I can say it; you cannot.

**Cathy Greig:** If someone takes £500 from the credit union, they will pay back £536. If they take £500 from Provident, they will pay back nearly £1,000. There is no comparison. However, the credit unions need to be at a level where they are geared up to do that. They need to have things in place to be able to assess loans. Sometimes, they need staff. A lot of credit unions do not have paid staff but work with volunteers. It is quite a responsibility for a volunteer to take on to assess a loan or put in a new product.

Most credit unions are trying to move along that line, because we are trying to combat illegal moneylenders, which can be a problem in a lot of our areas. We have paid money to a member to help them to pay off, and we have reported it on. Credit unions have a big responsibility in that area. In our experience of the credit unions that we work with, most are trying quite hard to help to combat the issue of high-interest lenders.

**Martin Kearsley:** I want to comment on a couple of things that my colleagues have said. Gordon Buchanan mentioned that there are a

number of things that credit union customers cannot do online. They cannot withdraw cash or get access to their accounts apart from seeing what is in there. It is important for us to try to help the credit unions to be able to offer services at sensible interest rates. We have just heard about some of the more extreme examples.

In the POCA customer base, there is a large group of remaining customers who have some very significant balances. In aggregate, there is about £1.5 billion-worth of credit balances of customers who are being encouraged to move elsewhere. In moving from POCA to credit union accounts, they will take their balances with them. As that £1.4 billion breaks down into individual amounts, it will move with the customers—with their accounts—to new providers.

To be able to provide access to credit union customers from post offices in all of the deprived areas that we have just talked about is one of our fundamental starting points. If we can assist the POCA customers in moving to credit unions, taking their credit balances with them, that will give the credit unions an opportunity to earn more from the balances and therefore to offer better and different loans and other products. Again, that will help to break down some of the poverty principles.

It is about offering a branch network to an organisation that offers ethical finance to the most vulnerable people. I think that we all have a role to play in how that is delivered into those communities.

**Kezia Dugdale:** Let us not think that it is just about poor people.

**Martin Kearsley:** It is not. I am sorry—I did not mean to imply that. Some of the people with POCA cards are very wealthy. As Gordon Buchanan said, this is not about a bank for poor people. It is an ethical choice.

**Kezia Dugdale:** Thank you.

**Jackie Baillie (Dumbarton) (Lab):** On the back of what Martin Kearsley has just said, I observe that it is not that long ago that the Post Office was closing down branches as well. A degree of caution is required. That is not necessarily the entire answer, because some communities have nothing at all.

First, I have some questions for the community bank and the credit unions. It sounds from what you are saying as if there is a desire to provide more services. I need to understand, as the committee does, what is stopping you. Is it legislation? Is it financial support to develop infrastructure?

**Cathy Greig:** It is a mixture.

**Gordon Buchanan:** It is both of those things.

**Jackie Baillie:** What needs to change?

**Karen Hurst:** We have a couple of priorities, as a trade association. First, as I mentioned, we are seeking legislative reform at Westminster to enable us to offer a wider range of services. We also have some concerns about the recently introduced capital requirements. There is a new requirement for the larger credit unions to hold 10 per cent of capital. For those that are on the cusp of that, or at the threshold, it is a difficult chicken-and-egg situation. They cannot get the capital without serving more people, but they are restricted in how many more people they can serve, because they do not have the capital.

We also need investment in the sector. As I said, capital is a big issue. We have been working with Lloyds Bank for a number of years, and it has invested a lot of money in credit unions that lack capital, with smaller grants for things that will help them to grow, such as technology. That is coming to an end, although the Department for Digital, Culture, Media and Sport has a new £55 million financial inclusion fund and we are working with it to try to have some similar arrangements in place to support the sector and help it grow.

The Scottish Government announced last year in the programme for government that there would be a credit union awareness campaigns, and we are looking to work with it on that. I think it will be launched later this year.

Sometimes, visibility is the biggest challenge. As we discussed earlier, 7 per cent of people in Scotland are members of a credit union. That is better than the figure for the rest of the UK, but it is still very low. There is huge potential to grow our sector and offer savings and loans to more people, but with a long-term view to being able to provide a wider range of services.

**Jackie Baillie:** I take it that there is agreement across all three of you on that point.

**Witnesses indicated agreement.**

**Jackie Baillie:** The Scottish Government used to have a development fund for credit unions. Does that exist any more?

**Karen Hurst:** I do not know.

**Gordon Buchanan:** The Carnegie United Kingdom Trust recently launched a loan fund and has put £1 million into it; I believe that the Scottish Government has matched that £1 million. That is the only loan fund that I am aware of at the moment.

**Jackie Baillie:** I am old enough to remember that there used to be one. If my memory is right, there was much more than £1 million or £2 million in it; I think that it went into double figures. It strikes me that the capital investment in

infrastructure that you are talking about, such as the development of apps or digital platforms, that would benefit all credit unions, could conceivably be done by Government.

I would like to tease out some of the bank issues, because of course credit unions bank with banks. How helpful are banks at working with you as a customer of theirs, given that you are a local branch?

**Cathy Greig:** It varies depending on which one you bank with. Can I mention individual banks? Is that allowed? Bank of Scotland is quite good with the credit unions. It does not charge for depositing money or writing cheques, whereas other banks do. Some charge as much as 30p or 40p for a credit union to write a cheque for a member to take their money out, which impacts greatly on the credit union's profits.

Credit unions also have to pay so much per £1,000 to deposit money. I am not sure how accurate this is, but from what I gather, a credit union that joins Bank of Scotland now will be charged, whereas the bank does not charge credit unions that have been with it for a while. We have been banking with Bank of Scotland for nearly 40 years and we have a good working relationship with it, but I work with other organisations that are struggling to manage the banking fees.

**Jackie Baillie:** So credit unions are picking up the slack in towns where the banks have left and are even being charged for the privilege of paying money into the bank.

**Cathy Greig:** Yes.

**Jackie Baillie:** That is extraordinary.

**Cathy Greig:** We are also in the unique position that our money is not protected in the bank, because we lost the potential for compensation. If the credit union went bust, the members would get their money back, but if the bank where the credit union holds its funds goes bust, the credit union would probably go because there is no compensation for the credit union's funds.

**Jackie Baillie:** If we want to see credit unions spreading across communities in future and going where banks do not go, we need to strengthen the financial and legal framework that they operate under.

**Cathy Greig:** That is it.

**Jackie Baillie:** I suppose that we are reacting now to the immediate branch closures. Despite what various committees and Governments have said, I have no doubt that the branch closures will continue. Do you see yourselves as the bank branches of the future? Are you capable of replacing those branches? Do you want to?

**Martin Kearsley:** We do not replace bank branches—we do not set out to do that. This is not about us supporting banks in any way; it is about us supporting the communities that we serve. As I mentioned earlier, our real focus is on ensuring that the money that revolves in the local economy stays in the local economy. That is proven in numerous reports. Obviously, if the money moves out of town, it is not coming back.

Our role is very firmly to support communities in those daily transactions that they all need to survive. It is not about providing other bank services, for example a Lloyds mortgage or a Bank of Scotland pension. Those services still have to be supported by those individual banks. Our role is to support communities by giving access to those bank accounts through our counters. Therefore, we welcome being a branch but not necessarily being a bank.

10:15

**Karen Hurst:** We would see credit unions as part of the solution, but I am not sure that we would see ourselves as the solution.

**Gordon Buchanan:** If you wanted us to be the replacement for the retail banks, the problem is that, first, it might require all the credit unions to merge and become one credit union. Karen Hurst is laughing. That is a huge ask in the first instance.

Secondly, in doing so, credit unions would lose their local community focus. Because of the capital structures and liquidity and so on that would be required for that, which Martin Kearsley alluded to, that merged credit union would become like another mega bank and would lose its identity and community focus, which are important qualities.

On Karen Hurst's point, we are part of the solution but I do not think that credit unions will be able to replace the high street banks.

**Jackie Baillie:** So your message is to keep bank branches open.

**Gordon Buchanan:** Absolutely.

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** On that message of keeping bank branches open, I wonder if there is potential for the Post Office to continue to provide a service to the community. You mentioned that there are 1,400 branches in Scotland. How many of them are run by sub-postmasters—as in franchises—as opposed to being main post offices?

**Martin Kearsley:** I do not have that information, I am afraid, but I will write to you.

**Gordon MacDonald:** Would you say that it was a substantial proportion?

**Martin Kearsley:** It is a substantial proportion. Of our 11,500 branches across the country, there are 300 owned branches—you may have known them as Crown post offices, but they are now called direct-managed branches, or DMBs. Of the remainder, probably 80 or 90 per cent would be agencies, where independent businesses run post offices in retail outlets and convenience stores. The rest would be in third-party partners, such as WHSmith, McColl's and so forth. I will come back to the committee with a written response on that.

**Gordon MacDonald:** Do the main post offices and the sub-postmasters provide the same level of service?

**Martin Kearsley:** As I explained earlier, certain services are absolutely ubiquitous. Every customer of every bank can get every service in every post office. Where we have particular outliers—typically larger businesses that want to deposit their cash through a post office—we will make specific arrangements. However, as I said, up to that £2,000 limit, you can use any post office. Up to that amount of cash and coin each day, you can use any post office. For withdrawals from your bank up to the amount that your cash card will allow, you can use any post office. There is a ubiquity of service across our estate that should be possible in every post office.

**Gordon MacDonald:** What conversations take place with a local sub-postmaster when a bank branch closes? We have had wholesale bank branch closures in my constituency. The banks always say, "We've got an arrangement with the post office", but when you ask the sub-postmaster, nobody has spoken to them. What steps are put in place by the Post Office to contact the sub-postmaster when a bank branch closes?

**Martin Kearsley:** To a certain extent it depends on how willing the bank is to communicate with us. With some banks, there is very close communication. In those instances, we work with the bank to identify our nearest four or five post offices and we talk to each and every one of those postmasters or postmistresses about the services that are likely to come to their branch, in which case we are well geared up. In several other cases the banks are less communicative, in which case announcements just happen and we are caught out. We do not have that level of communication with them, so we have to run around after the event and talk to the local postmasters and mistresses and explain what is happening. It does depend very much on the bank's willingness to communicate.

In the vast majority of cases, we have something like 12 to 14 weeks' worth of notice before a local bank branch closes. In other words, it is after the bank has made the announcement, discussed it with Unite and various other

stakeholders and it has become public knowledge. We hear about it and start to work with the postmasters in that area.

**Gordon MacDonald:** In that 12 to 14-week window, what do you do to raise awareness in local communities of services that are available to the community if a bank branch closes?

**Martin Kearsley:** At the moment we work with the closing bank. Typically, we put our postmaster or mistress in touch with the closing bank branch manager. For some of the most vulnerable customers—for example physically disabled, mentally challenged or financially less aware customers—we literally walk them to the post office, introduce them to the staff and show them what services they can access. We make sure that they are very specifically handled in the migration.

Moving on to the general population, the bank typically writes to every one of the customers in the local area and informs them of the closure. Again, it depends on the bank. The worst instances have been a piece of paper with a handwritten arrow on it saying, "The post office is around the corner." We try to do better than that.

We write to the customers and, with our own branch managers, we run campaigns in the branches. We put up information sheets specifically addressing bank ex-customers: "You can now bank at the post office." I think that there is far more that we should all be doing when there is a bank branch closure. You may be aware that the Economic Secretary to the Treasury in the UK Government has challenged the banking community and the Post Office to do much more to raise awareness. It is something that we fully support.

General awareness in the population that you can bank at a post office is 30 to 40 per cent. We would rather that it was 60 or 70 per cent, or as high as we can get it. We would like to ensure that everybody knows that when a bank branch closes, the post office is there for them.

**Gordon MacDonald:** You have indicated that the vast majority of post offices are franchises—they are part of another business. There are concerns out there about a lack of privacy, about security and about staff training. What are you doing to address those issues?

**Martin Kearsley:** To take them in reverse order, on staff training, everybody who operates the post office system and uses a post office terminal has to go through training before they can serve customers. Our systems support something like 300 different types of product. We train counter staff on every one of those before they serve customers.

On security, I recognise that there is a privacy issue—and quite rightly. In a small branch, you might have someone who is purchasing convenience goods right beside someone who wants to withdraw a couple of hundred pounds. There is a time and a place for that conversation. It is challenging, but we have to recognise the physical infrastructure that we sometimes work in.

In general, security has improved. There have been fewer instances of theft, crime or violence in the past two or three years as we have moved to a more open-plan model. It is the same with banks and other organisations that offer financial services. I do not know why, but where there is a counter and there are people on either side of the counter, for some reason there is more attempted crime than there is with an open-plan model. I think that that is to do with there being less money kept in an open-plan area; the rest is in a time-locked safe. The statistics are interesting and it is probably worth investigating further why that is the case. We certainly see that that open-plan model is more secure.

**Gordon MacDonald:** In terms of the network itself, you made a point of saying that between 2009 and today the number of branches stayed fairly level at 1,400. You have modernised only 800 branches. Do you intend to modernise the other 600, or is there a danger of more branches closing? My reason for asking relates to something that Jackie Baillie said. In 2002, there were 1,999 branches in Scotland, so 25 per cent of the network has already been cut. If you look online, you can see that 40 sub-postmasters have their business up for sale at present, including one at Buckstone in my constituency. The estimated fees that sub-postmasters can earn are as little as £2,500 per annum. How stable is that network of 1,400 branches?

**Martin Kearsley:** It is a big challenge. I cannot speak for some of my colleagues in terms of the overall product mix and remuneration but, as I have mentioned, in terms of banking, which is my area of responsibility, I recognise that business deposits are the main challenge for postmasters. We are working to address that in physical ways as well as fixing the remuneration issue.

There is no doubt that the post office model, just like every other retail model, is under pressure on the high street, and we have to continually look at it to make that business model viable. To a certain extent, we are mandated to be in the high street: our Government mandate is that 99.7 per cent of the population should live within 3 miles of a post office, and that is what we deliver to. To support that, we need postmasters to take up the challenge, and we need to make that viable for them. I have no issue with your question, in that, in some instances, it is difficult to make that work.

You asked whether we are going to carry on refurbishing and renewing the estate, and absolutely we are. However, it is almost as if there is a diminishing graph, if you like. We have done the vast majority that want to take advantage of the fund and get modified and modernised. We are now working our way through the tail—and it is a large tail: it goes out to the Highlands and Islands, and to the tips of Cornwall. In some of our remote locations, we need to create a business model that will sustain the post office, so we therefore renew and refresh it and keep it going.

**Gordon MacDonald:** My final question is for Gordon Buchanan. The post office in Juniper Green in my constituency closed before the bank branches closed. It was heartening to hear that Castle Community Bank is considering putting in a mobile bank. Can you give us any more information about that?

**Gordon Buchanan:** We are still in discussions with RBS around the provision of one of their used vehicles, but I hope that that will happen very soon. The idea is that we will use our vehicle for two purposes: to promote the bank and to provide mobile banking services in areas that are not currently served. However, I understand that RBS has now decided to provide some limited services in your constituency. Watch this space. We are getting there with RBS. Some things move slowly, but we are confident that that will come to pass very soon.

**Andy Wightman (Lothian) (Green):** My question is for Martin Kearsley. You spoke about the prospects of establishing a Post Office bank, which I think was one of the services for which there was demand in the consultation on Post Office services that was carried out in 2016. You said that the risk was that your existing customers might see that as a threat. You also talked about Post Office money, which is backed by the Bank of Ireland, provides your ATM network and already provides banking services. Do you not think that customers perceive Post Office money to be a threat to their existing banking service? How actively are you trying to persuade customers to join what is in effect a bank, albeit that it is not run by you?

**Martin Kearsley:** Some tens of thousands of customers have a Post Office current account right now. You are quite right that when we worked with the banks to put the partner banking relationships in place, they were very concerned, because they thought that if they started to shepherd customers into the post office, we would migrate them all on to a Post Office account. However, they all became comfortable over the period when we were putting that partnership together. We are all faced with marketing and advertising every minute of every day, and they saw that it was unlikely that

a customer would go into a post office to withdraw some cash and say, "I've never thought about a Post Office account before—I think I'll change." It is not something that is at the front of someone's mind when they are thinking about getting £50 out for the weekend, paying a bill or whatever.

In fact, that has been borne out. Since we started serving the banks in the post offices, we have seen very little migration. We recuse ourselves, if that is the right word—we prevent ourselves from saying, "I see you have an RBS card. Have you ever thought about getting a Post Office account?" We do not poach at the counter; we just fulfil the transaction that the customer wants. If, while they are in the post office, they see around them all the advertising for pensions, travel insurance, travel money and so on, and they think, "I'm away next week; I'll get some travel cash out", of course they can use that service, but it is not that they are thinking specifically of swapping over their bank account. We do not try to force people to make that move. It is a personal choice. We serve them at the counter for the transaction that they want.

10:30

**Andy Wightman:** Although I do not recall everything that you said, in your comments in response to Jackie Baillie's questions, you talked about setting up your own bank. You argued that that would be difficult because it would be perceived as poaching customers.

**Martin Kearsley:** I apologise if that was the impression. Maybe I can clarify what I was trying to say. If we were to invest a significant sum of money in creating a post office bank, we would need to create the return to make that worth while. To create the return, we would need several million customers, if not many millions of customers. We already serve those people in every post office anyway, but how would we go about moving a large group of customers from their existing banking relationships, which extend across all the banks, to a Post Office account?

It would be financially challenging to put in that kind of investment to create the post office bank shell—and then where would we find the customers from? All we could do is take them from the group that we already serve, so it becomes a self-defeating thing in the end. It is not something that we can make financially viable at this stage. The situation is constantly under review, and we will always look at new ways in which we can best serve the communities that we are in, but right now, with the banking regulations as they are, I do not think that we could create a post office bank that would be strong and sustainable enough without the support of many millions of customers using it.

**Andy Wightman:** Thank you—that helped to clarify things.

Can you say something about your relationship with the Government, its intentions and aspirations, and the financial support that it provides?

**Martin Kearsley:** Do you mean the Government's relationship with the Post Office in general, or with banking in particular?

**Andy Wightman:** I am asking about banking in particular.

**Martin Kearsley:** We work very closely with our stakeholder, UK Government Investments, on encouraging and raising awareness of banking services—we work through UKGI and into the Treasury. The Economic Secretary to the Treasury issued a letter to post offices and to the banking community saying, "You need to do more to raise awareness. How are you going to do that? You cannot just leave communities when their bank branch closes. You need to tell people about the alternatives." We work very closely with UKGI, the Treasury and the DWP in servicing the POCA account—those are the three main departments that we work with.

**Andy Wightman:** We have heard evidence from some small businesses that they do not see the Post Office as a viable alternative to their local bank branch. From what you have said this morning, it seems that you are a viable alternative. What work have you done with the small business community to demonstrate the services that you can provide? How aware are small businesses of those services?

**Martin Kearsley:** That is a very good question. I have read through the submissions, and—to be very charitable—I would say that some may have been looking back at things as they were in the past, rather than looking at how we have tried to change things. I recognise that in Scotland, with the Royal Bank of Scotland and the Bank of Scotland, which is part of Lloyds, it is only recently—over the past year or two—that we have been able to bring on board and serve in post offices the small and medium-sized enterprises that are with those banks, so that is a new or emerging area. Across the UK we have served small business customers for many years. Santander's small business customers, for instance, cannot use a Santander branch; they can only use a post office.

**Andy Wightman:** Is it Santander's policy to keep its branches for big businesses?

**Martin Kearsley:** That is certainly the policy. The issue may be IT related. The systems in its branches came from a different generation and do not support the business community. However, we



support 100 per cent of Santander's small businesses, and we support them exceptionally well. We handle more than 30 million transactions a year for them. We have well-developed ways for them to deposit cash into their Post Office accounts.

We are increasingly providing such services for the banks that have recently joined us, such as RBS and the Bank of Scotland. We are improving things for postmasters by providing note counters, especially with polymer notes coming through; there is less chance of counterfeit notes, but people still have to count the cash. We have told the business community, from which we are getting great buy-in, that we only support full coin bags. That makes it easier: the postmaster is no longer counting lots of pennies, 2ps and 5ps—we only have full coin bags, notes are counted and counterfeits are found. Postmasters will no longer be liable for the counterfeit notes that come through the system. The offer to them is that if they find them using those facilities, they are no longer liable for them. We are trying to make things better for the postmasters in providing those services to businesses.

**Andy Wightman:** That is helpful. Thank you.

**Jamie Halcro Johnston (Highlands and Islands) (Con):** What are the barriers to the Post Office providing more services or supporting credit unions and credit union customers in being able to access services through your branches?

**Martin Kearsley:** We talked briefly to the credit unions before the meeting. We have been working with some credit union aggregators, which are companies that take different types of output from individual credit unions, mostly electronic. There is not a great deal that we can do for those that use a cashbox and a notebook—we cannot serve some of the smallest credit unions in post offices. However, for those in larger areas that have electronic systems that feed out information, we are working with some of the aggregators to provide access to accounts—typically, they are proper transactional bank accounts—in every post office across the country. We are looking to deliver that service over the next few months. That is about trying to offer a wider branch network to credit unions, which do not have a network.

**Jamie Halcro Johnston:** That would not be limited. For example, it would not be the case that only your branches in Glasgow would offer services to Glasgow credit unions. You are talking about nationwide access.

**Martin Kearsley:** Absolutely.

**Jamie Halcro Johnston:** What is the credit unions' opinion?

**Karen Hurst:** We very much welcome that development. It is an exciting opportunity and we look forward to working with the Post Office to encourage it. You referred to barriers. The only barrier is that credit unions are not a chain. They all have different systems, their own priorities and their own resources. It would be a neat solution if you could access all credit union services at post office branches. It will be difficult to get to that point, but we welcome the direction of travel.

**Jamie Halcro Johnston:** Will credit unions have to work more closely together or perhaps standardise some of their services to allow that wider access model in future?

**Karen Hurst:** If we are to overcome some of the technological challenges that I mentioned, it is inevitable that we will need to work together. That is not always easy to do, particularly as some credit unions compete for the same customers, but I agree that it is probably something we would like to see more of.

**Jamie Halcro Johnston:** My next question is for the credit unions and the Post Office. What are the particular challenges in delivering services or attracting customers in rural or remote areas such as those in the Highlands and Islands or other parts of Scotland?

**Martin Kearsley:** We face a supply chain challenge in making sure that all those communities have the same access to cash that we offer the rest of the country. On basic cash services, we also offer cheque handling and coin changing, and we are constantly working with organisations such as the Federation of Small Businesses on new services that, in that transactional spirit, would be valuable to small businesses. For instance, in the Highlands and Islands it can take an extra day or two to get cheques physically into the system so that we can get them to the bank and processed.

One of the submissions talked about how the Post Office loses cheques. I would like to defend the Post Office and challenge that. We handle many millions of cheques every year—the number is growing very rapidly as there are fewer and fewer places where people can deposit them. We are seeing growth of 50 to 60 per cent in cheque handling each year. We still accept cheques for smaller or less mainstream banks. At the central distribution centre, which is an industry centre called Intelligent Processing Solutions Ltd, the cheques are literally posted out to the bank. In some cases—maybe one in several hundred thousand, if not one in a million—those go adrift.

We offer a very secure service for physically handling cash and cheques. The challenge that we have is to get the service out there. When it comes to the furthest isles, for example, that

happens by boat—you can imagine that the physical nature of the service means that it takes time.

**Jamie Halcro Johnston:** I am from Orkney and we have a small post office where I live. One of the issues is the opening hours, which are very limited and probably would not suit businesses. Is that something that you may review in the future to see whether there could be longer opening hours that are more business and consumer friendly?

**Martin Kearsley:** We are looking at a number of areas. As I said in an earlier answer, about 4,000 branches handle the vast majority of business deposits. We are open as a network about 400,000 hours a week more than we were several years ago. There are 4,000 branches open at the weekends, including Sundays. We open late into the evening, which helps businesses that would otherwise have to shut on, say, Thursday afternoon to drive to the nearest town to do their banking, which loses them 5 per cent of their week. We all know that the high street is under pressure and that if businesses lose 5 per cent of their trade, that might well be their profit for the week gone. If we stay open longer so that someone can bank on their way home or at the weekend, we are offering a lifeline to those local businesses.

In the future, we will look to automate in the broadest part of the network. That might mean having a box with a sign saying “post office” rotating on the top of it that has some sort of automated device into which cash deposits can be made; it would not just be an ATM for cash withdrawals but would offer services 24/7 in secure locations.

**Jamie Halcro Johnston:** I will come back to the credit unions in a second, but I want to push on this. With the changes that will be required as you have new customers joining, a topical issue at the moment is IT resilience. Are you having to improve your systems to meet increased demand?

**Martin Kearsley:** I do not want to create a hostage to fortune, as we have clearly seen the challenges in the last week. In particular, over the weekend we were on standby with cash delivery ready to go if those problems carried on and there was a demand for cash across the country. The salient point for us all was that we are not yet a cashless economy and we should not become a cashless economy. Cash will be king for a number of years to come. Even in eight or nine years' time, 30 per cent of the transactions in the country will still be cash based.

**Jamie Halcro Johnston:** You said that you were on standby. Was that just your own action or was it done in consultation with the banks?

**Martin Kearsley:** That was just our own action. We were thinking about how, if the situation carried on and people could not buy fuel and food, we could keep the ATMs going, open the branches longer and supply cash. This was off our own bat and was just to keep things going.

Your point about the IT system is very relevant. None of us running large national infrastructures can say with certainty that there will never be a problem. All that we can do is plan for the worst cases that can happen, by building in contingency, disaster recovery and business continuity plans. We have those very well advanced and well developed in terms of what we do if our system cannot operate.

**Jamie Halcro Johnston:** Bearing in mind what Jackie Baillie and Gordon MacDonald said about potential branch closures—a number of post offices have closed in the Highlands and Islands—I imagine that you will have projections for the number of post offices in future. Will the number increase, decrease or stay the same?

**Martin Kearsley:** Our plan at present is an increase. To give further detail—I thank my colleague sitting in the public gallery for helping with that—there are 133 post offices still to be modernised across Scotland. We have modernised 774. There are 21 directly managed branches in Scotland. Of the remainder, we support 485 with a community fund in excess of £10 million; in fact, there are two separate funds. With one of them, we pay to keep what might be the Highlands and Islands post offices open; it is almost the last phone box-type model. There are certain branches that will never make a profit but which are fundamental to the community they serve, so we pay to keep them open. We support them with a community fund of circa £10 million to help organise retail businesses in support of the post office. If you run a convenience store, we will help you with displays and how you set out the floor space in your premises. That is what that community fund is for; it makes sure that we keep those community businesses going.

10:45

**Jamie Halcro Johnston:** Can I ask Karen Hurst about some of the particular issues facing people in the Highlands and Islands? You spoke earlier about 15-mile round trips. That is a fairly standard trip and possibly a short one in some parts of the Highlands and Islands—just a doddle for many. Can you tell us about some of the issues that people may face and issues that the credit unions may face in setting up?

**Karen Hurst:** I am not sure that I have a very good answer. In the Highlands and Islands, the biggest credit union is Hi-Scot Credit Union. It

seems to be seeing good growth. It is a strong credit union although, to be honest, I am not sure that it is providing the cash and other services that people would be looking for if their banks closed. I am not sure that I have a good response on that.

**Cathy Greig:** My credit union is not as rural as that, but we have areas that are outwith our common bond and the credit unions are trying to adapt. People can email, telephone or pay by BACS. As long as cheques are payable to the credit union, they can post cheques in. Because of the new rules on money laundering, credit unions cannot accept cheques that are made payable to the member; that has caused quite a lot of problems in the community because children get cheques from grandparents. We can no longer process these cheques, but if the cheque is made payable to the credit union, they can post it in and it will be credited to their account. We try to pay cash the next day if we receive an email or a text.

I imagine that every credit union is using the same technology just now. We are all trying to upgrade to have apps and IT that appeal to the younger generation. We are trying to do that ourselves at the Vale of Leven Credit Union, but it costs a lot of money. It comes down to finances. We are trying to give rural people the best service. Right now it can be through a telephone call to say, "I need my money in my bank," or through an email. That is how most credit unions are still dealing with the rural areas; we are doing the best we can in the circumstances.

**Gillian Martin (Aberdeenshire East) (SNP):** We have asked most panels a similar question to see what different responses we get from the various stakeholders in this bank branch closures inquiry. In your opinion, what, if anything, could the Scottish and UK Governments do to ameliorate the negative impact of the bank branch closures? From your perspective, it might be help to occupy the space that is left, if that is what you want to do. I will throw the question open to you all.

**Cathy Greig:** We have outgrown our office. I have a credit union in Alexandria, beside Balloch. We have £4 million in savings, 4,000 active members, 1,000 junior savers and just over £3 million out in lending, but we are compact in our premises. We heard that the Royal Bank of Scotland was leaving the high street. We approached RBS and the council and we approached the agent acting on behalf of RBS, but we got absolutely nowhere until RBS moved out and left the place like a bomb site. There were bare wires and the electronic doors were all disconnected. It was estimated that it would cost £100,000 to make the building usable, so it will lie empty in our community. It is not suitable for retail because it has tiny windows. That will be an empty building in our community until whenever.

There is no joined-up approach between the agencies or between the banks and the councils. Nobody seems to know what anyone else is doing to help any other company that could use these buildings. The bank just rips them out and goes.

You also have the ATM. RBS has left its ATM and whoever takes the building must keep it. That can be a restriction sometimes as well, because if the credit union or anybody else moves in, it has to build in a secure area for the ATM.

**Gillian Martin:** Should the UK Government place restrictions on what banks can and cannot do when they vacate a building, or is that going too far?

**Cathy Greig:** I do not think that the bank should just be allowed to strip the building bare and leave it like an ugly parasite in the town centre. It looks awful and it will be like that for long enough, because the rent and rates on it will be prohibitive for anyone else who is thinking of taking it over. The council is not getting an income out of it. It is lying empty. We would have moved into it if the bank had left it in a half-reasonable state. It is a council-owned building and somebody should have been watching to see what was happening when the bank moved out.

**Gillian Martin:** Does anyone else have any thoughts on what either Government or local authorities could do?

**Gordon Buchanan:** Picking up on that particular point, I note that the RBS branch in Juniper Green, in Mr MacDonald's constituency, has closed. Professor Beevers, who gave evidence to the committee last week, has been trying to speak to RBS about taking over that building in some way to use it as a community hub. We have been thinking about how we could fit in with that, but I know that he has got nowhere with that. My suspicion is that it will eventually be demolished and some flats will be built on the site, if planning permission is granted.

In general, there are steps that could be taken—I have noted a few things. I am not suggesting a full public inquiry on every bank branch closure, but legislation could be passed that means the banks have to consult the local community before they close the branch.

**Gillian Martin:** Do you mean a change to the access to banking standard so that it is not voluntary and so that it includes a consultation?

**Gordon Buchanan:** I know that RBS will talk to the local community on a voluntary basis, for example, but I think that it should be laid down in legislation that banks have to consult. As I say, I am not suggesting a full-blown public inquiry on every branch closure, but I think that consultation is important.

Secondly, the banks should be required to provide funding in the communities where they close branches to open up a community bank or a credit union. The credit union or community bank is not going to replace the services that the retail bank was offering, but it will provide somewhere for small businesses to deposit cash, for example. That is another example.

Cathy Greig said that whoever took over the bank building would be obliged to keep the ATM. This is a really important point that I mentioned earlier. When the branch goes, the ATM goes. I think that the retail banks should be obliged, if they are going to close the branch, to maintain an ATM either in that branch or in an adjacent building and be responsible for maintaining it, filling it and giving people access to cash in that community. Those are the things that I noted in answer to that question.

**Karen Hurst:** I would reiterate some of what I have touched on already. We see it very much as a journey, but we hope that both Governments will continue to support the credit union sector to grow and become stronger and—hopefully—to play a bigger role. The main things that the UK Government could do are to reform the Credit Unions Act 1979 to help us be a bit more relevant to our members and to consider some of the capital requirements.

**Gillian Martin:** Specifically, what reforms would you like to see?

**Karen Hurst:** At the moment, the Credit Unions Act 1979 sets out that credit unions can do savings and loans and not much else. They can offer some additional services around that, such as insurance on loans and savings. We would like to be able to provide a more holistic financial service to our members, for example offering credit cards or contents insurance and that sort of thing. In countries where the credit union sector is much better developed, personal lending is a tiny percentage of what credit unions do, whereas in this country it is almost all they do. We think that there is potential for the sector to grow if we could get that reform in place. We think that the newly introduced capital requirements for larger credit unions are restrictive and are making it difficult for them to grow.

With the Scottish Government, the main issue is visibility. The Scottish Government has been very supportive. I mentioned the campaign that it is going to launch later this year, but I think that it should continue to help us get into workplaces and so on to serve people who might not think of joining a credit union but who would probably find that it is to their benefit. There is also potential for some investment in the sector if it was looking to do that—not so much in grant funding or on-going funding, because we place a great deal of

importance on being sustainable, but in things that it is difficult to raise funds for, such as capital and technology.

**Gordon Buchanan:** Am I right in thinking that the Financial Conduct Authority is amenable to the services that a credit union offers being extended? It does not say that you can do what you want, but it says that you can extend your services and offer other products; for example, Capital Credit Union is offering mortgages.

**Karen Hurst:** There is a debate going on right now as to whether the act needs reform or whether it is within the FCA's ability to interpret the act in a way that we would like. I think that we would like it to be a bit looser in its interpretation but, ultimately, we feel that reform of the act will end up being required to decide that finally.

**Fulton MacGregor (Coatbridge and Chryston) (SNP):** I will follow on from Gillian Martin's line of questioning around processes that could be put into place if there is to be a bank closure in a community, which I totally agree with. Do you think that, at the very least, if a branch that is closing is the last bank in town—a phrase so often used—a duty should be placed on the bank to look for some form of community use for the building or the site if it is viable?

**Gordon Buchanan:** Absolutely, yes, and this is what we are picking up on. Often I believe that these bank branches are owned by the bank. When the site is owned by the bank, I am sure that, in the majority of cases, the bank will be looking to sell the land for housing; I am sure that is what is happening in most cases. I agree with you. I think that there should be some responsibility on the bank to consult the local community and, if it is the last bank in town, to do something with that building that does not just involve the bank making even more money out of the branch being closed.

**Fulton MacGregor:** There should be some sort of legal definition of what is the last bank in town. My understanding is that it is only a concept that has been used.

**Gordon Buchanan:** That could lead to a rush to get out of the town, so that you are not the last bank in town. We would not want to make the responsibilities of the last bank in town too draconian because, otherwise, there would be a rush to not be the last one.

**Martin Kearsley:** I can absolutely confirm that point, as we have seen exactly that. A couple of banks over the past few years have said, "We will not leave—you can rely on us." Unfortunately, with the rush to the exit, they have discovered that they are the last bank in town and they have then changed their mind, because the public are using banks only for cash in some areas. We have all

seen someone with a clipboard who is desperate to talk to us as we walk into the branch, head to the cash point, take some money out and walk out again—they cannot do anything with their clipboard and they cannot talk to us, because we are in for one task only. That has accelerated exactly as you say. The banks are saying, “We do not want to be here any more. We said that we would be the last, but we cannot be, so we are going as well.”

On whether there should be some sort of community role for the buildings not related to financial services, absolutely there could be something that says that a bank must do something for the local community, especially on high streets that are under pressure. In terms of financial services, I suggest that that community hub is best served by a post office. We are there. Within 100 yards of 45 of the closing RBS branches, there is a post office.

**The Convener:** Are there any final words from any of the other panellists? If not, thank you very much for coming today.

10:59

*Meeting continued in private until 12:56.*



This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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