



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Jobs and Fair Work Committee

Tuesday 12 June 2018

Session 5



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ECONOMY, JOBS AND FAIR WORK COMMITTEE

21st 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:

Sir Mark Boleat (Link Scheme Holdings)
Mary Buffee (Link Scheme Holdings)
Willie Coffey (Kilmarnock and Irvine Valley) (SNP) (Committee Substitute)
Thomas Docherty (Which?)
Professor Russel Griggs OBE

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament
Economy, Jobs and Fair Work
Committee

Tuesday 12 June 2018

[The Convener opened the meeting at 09:30]

Interests

The Convener (Gordon Lindhurst): Good morning and welcome to the 21st meeting in 2018 of the Economy, Jobs and Fair Work Committee. I ask everyone present to turn electrical devices to silent. We have received apologies from committee members Gordon MacDonald and Gillian Martin. I start by asking Willie Coffey to declare any relevant interests.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I have no relevant interests to declare other than what is already recorded in the register of members' interests.

Decision on Taking Business in
Private

09:30

The Convener: Item 2 is a decision by the committee to take items 5, 6 and 7 in private. Do we agree to take those items in private?

Members *indicated agreement.*

Impact of Bank Closures

09:30

The Convener: We turn now to our inquiry into the impact of bank closures. On our first panel we have two witnesses, Professor Russel Griggs OBE, and Thomas Docherty, the public affairs manager of Which?. Welcome to both of you.

I will start with a fairly general question before we move on to more detail. What has been the impact of bank closures, in your view, on individuals, the local economy and local customers? What are the impacts, both positive and negative?

Professor Russel Griggs OBE: I did my work two years ago, and I went back and spoke to the communities that had lost their banks, if I can put it that way. What is interesting is that there is no long-term empirical evidence to show that there is any effect. If you go back and speak to a lot of the communities, you find that they have moved on, as most communities do. They find other ways to do things, so although there was a heavy impact at the time the communities and businesses have found other ways of doing what they were going to do. In fact, when I went to see one community I was told, "It's pointless even having the discussion, because we've all moved on now and we don't want to go back to where we were."

The closure of a bank branch probably has a short-term effect, but the evidence that I saw as I went round and visited 20 or 30 places across the United Kingdom was that it settles down again and people go back to doing what they used to do, but just in a different way. It is interesting that they do not tend to move banks. I remember sitting for an hour and a half at a meeting down in England and getting lambasted by a group of customers about their bank; I asked them at the end of it how many had changed and they all said, "Oh, we're not changing. It's a really good bank. We like the bank, but this wasn't what we wanted it to do." They have found different ways of doing things.

The Convener: Have you set out your detailed findings somewhere?

Professor Griggs: Yes, you can read my one-year-on review, "Access to Banking Protocol", which you will find on the UK Finance website.

The Convener: Your view is that there are immediate impacts but no long-term impacts.

Professor Griggs: Not from the evidence that I have seen to date.

The Convener: Thomas Docherty, do you share that view?

Thomas Docherty (Which?): The first thing that I would say is that Which? does not object to the principle of bank branch closures. It has to be a commercial decision. You may remember that, four or five years ago, after the Nationwide Building Society had taken over the Dunfermline Building Society and two other building societies based in England, at the end of a five-year moratorium there was a closure process. In Dunfermline High Street, for example, it was indefensible from a commercial point of view, to have a Nationwide brand and a Dunfermline brand 270 yards apart, and nobody—not the member of Parliament and not the members of the Scottish Parliament—would say that that was sustainable.

The problem, as Professor Griggs said, is that a proper study has not been done by anybody of what the longer-term impact would be of the rate of closures. By the end of this year, more than 250 branches will have closed in Scotland in the four years from 2015. From memory, I think that 43 branches closed in 2015, 44 closed in 2016, 83 closed last year and 84 are scheduled to close by the end of this year.

When we start to get that scale of closures, somebody should be stepping up and carrying out the proper investigation that Professor Griggs has talked about. Of course, the people who are most likely to be affected are older customers and customers who are more vulnerable. Online banking is growing but, according to UK Finance only 56 per cent of customers currently use online banking, so what is happening with the other 44 per cent? How are their needs being serviced?

Professor Griggs: As some members will know, in another part of my life, I have just finished doing 26 consultation meetings around the south of Scotland, involving 650 people. Across all those 26 meetings, the issue of bank branch closures did not come up at all, other than in one place—it was Melrose, I think—where one of the people in the audience asked whether the building would be free to be used for something else once the bank had closed. The communities that we went round did not raise any issues at all.

The Convener: What were those meetings about?

Professor Griggs: They were about the new economic development agency for the south of Scotland, what businesses could do and what issues businesses were having at the time across the whole of the south of Scotland. The meetings were wide open for anybody to say anything.

Thomas Docherty: I do not dispute what Professor Griggs is saying; all I would say is that, as members will know, the people who attend such meetings are not by nature the vulnerable customers. That is a problem with anecdote-based

decision making. Robust evidence needs to be gathered.

The Convener: Would you say that there is an impression among people that what they say makes no difference to whether the banks close branches and therefore why would they raise the subject?

Professor Griggs: Probably—yes.

Dean Lockhart (Mid Scotland and Fife) (Con): Good morning to our guests. My question is about the available alternatives to banks and how suitable and viable they are. We have heard from witnesses about the services that are available from the Post Office, mobile banking units, credit unions and building societies. How might those alternatives plug the gap where bank branch closures have happened in local communities? In your answer, will you talk about the different groups that are affected, such as retail, the elderly and possibly small businesses?

Professor Griggs: The challenge with the Post Office is that the network is so diverse—it includes everything from normal post offices to little branches in places such as Nisa shops. At the moment, the Post Office is not as good as it could and should be, although the banks are working to make the process easier. For example, for a post office or indeed a Nisa employee, there are eight different ways that people can pay in and take out money, depending on the bank. To me, that has always seemed overcomplicated. The banks could do a lot more to make the process at post offices simpler.

If the process is made simpler and done properly, it can resolve a lot of the issues that businesses are talking about, to do with putting cash in and taking cash out. Part of the challenge is about the amount of money that each post office will take, as they are not all legally bound to take the same amount of money—it depends on the situation and whether they have the appropriate instruments.

I have a mobile bank in my community, which is Sanquhar down in Dumfries and Galloway. We have one branch that is open four days a week, and the Royal Bank of Scotland comes with a mobile van every week. That seems to work quite well for those who want to use it.

A lot of people are looking at whether not just credit unions but community banking are ways forward. However, I have not seen any examples of where that has happened outside London, although I know that there are one or two franchises that are beginning to look at such provision in the south-west of England.

To me, the biggest issue, which I know the banks are working on, is making people aware

that they can use a post office and how they can use it, and then making it simpler for people to do so.

Thomas Docherty: There are some corporate differences between building societies and banks but, from a customer point of view, there is no difference in the retail offer. With post offices, we find ourselves in a kind of catch-22 situation. To be able to pay money into a post office, you need a personalised paying-in slip from your bank. Where do you get those slips from? You get them from your local branch. That issue needs to be addressed.

Our other proposal is that more could be done through automated teller machines. Link Scheme Holdings is not enthusiastic about that, but it could be mandated to provide more services at ATMs, for example the facility to deposit cash. There is not one alternative but a combination of three or four options.

Dean Lockhart: The Federation of Small Businesses has expressed concern not only about the gap for small retailers in terms of cash in, cash out but the wider range of services that businesses can access at a bank branch, such as lending and business advice. Do you agree that, if a bank branch closes, there will be a gap for small and other businesses that used that branch, even if there is a post office nearby?

Professor Griggs: It is interesting. My knowledge of the banks, which is quite extensive in this area, is that only one bank will lend to small businesses from a branch. A business would normally have to book a meeting with a specialist, who would have to come from elsewhere anyway. Branch closures should not impact on the way in which a small business can borrow, because most of it will be done on the telephone or by appointment with a specialist. When it comes to lending, I am not sure that branch closures make a great difference.

Thomas Docherty: Dean Lockhart has hit on an important point. It is about services in the round. For too long, we have dealt with bank branch closures over here and ATM closures over there, but it is about the combination of the two. We have no view on the political structure, but there are two different regulators: the Financial Conduct Authority, which is responsible for banks, and the Payment Systems Regulator, which is responsible for ATMs. We are working closely with the FSB and asking how, if bank branches and ATMs are taken away, small businesses will pay cash in. There were 15 billion cash transactions in 2016, which is the most recent year for which we have figures. Cash transactions are still the single most popular form of payment; 44 per cent of consumer transactions were in cash in 2016. If 250 bank branches are being closed in Scotland

and if, by Link's own figures, up to 700 ATMs are going from the Scottish network at the same time, things will become much harder for consumers and businesses.

Professor Griggs: Without disagreeing with Thomas Docherty, because he is right about the importance of cash, I note that its use is going down. Cash is drifting down and being used less over time. However, it is still quite important.

I talk to the retailers in my own little community, and the other issue is about them getting help to look at what the alternatives are. Our RBS branch shut some time ago, but some retailers still travel to bank with RBS, which they would not really need to do if they were given better information about how to bank in another way. We have a post office in Sanquhar, so they could go in there. They could theoretically use another bank, but it is much better to bank at a post office if they can. As Thomas Docherty said, they have to certify themselves to do it.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I would like to expand on the issue of ATMs. We have taken evidence from businesses that indicates that something like 85 per cent of their transactions are still in cash and that that level is pretty stable. We have talked about the need to be able to put money in and take money out and the impact that that has on businesses. How integral are ATMs to individuals and businesses in that process?

Professor Griggs: ATMs are quite critical now to businesses. The quicker we move to the more sophisticated types of ATM that can do inputs as well as outputs, the better.

That will not help with coins but it will help with notes.

In Scandinavia—I cannot remember whether it was Norway or Sweden—the Government bought and now operates the ATM infrastructure. It did so on the grounds that it can choose how to do it. It charges the banks a fee for using the ATMs so that everybody is guaranteed free service and the Government can decide where the ATMs go. That was done with the co-operation of the banking community and it appears to work quite well from what I can gather. The Government operates the network on a cost-neutral basis and the fees that come in from the banks allow it to pay for the infrastructure.

09:45

My understanding is that, after all the fuss about branch closures, RBS has guaranteed that it will not take an ATM away from anywhere if it is further than 1km from the next ATM. It is leaving

the ATM in Barra, for example. That type of discussion is helpful and ATMs are important.

Colin Beattie: Mind you, several years ago, RBS said that it would never close the last bank in town, and that did not last too long.

I am not sure what proportion it is, but a number of businesses have indicated that they use their own resources to top up the cash machines themselves. That must help with the cash position.

Professor Griggs: Not that I am aware of.

Colin Beattie: No?

Professor Griggs: No, and one of the reasons why I am shaking my head is that, if there is an ATM in a bank building and someone wants to use that building, Loomis and G4S and all the other people who deliver the money will make it quite difficult for them to operate around the ATM. What you have said is news to me.

Colin Beattie: The practice seems to be in some of the small grocer shops that have an ATM.

Thomas Docherty: That might be a question for Link, which I know you are speaking to later. I cannot imagine how it would work, but I am not the expert.

Colin Beattie: I am interested in finding out a bit more about that.

You have talked about ATMs closing, and so on. How do we protect vulnerable customers in this whole picture? We are talking about remote ATMs closing down, presumably because there is not the required volume of use. Nevertheless, the customers who are using them are probably the most vulnerable in our society. It seems to me that ATMs are withdrawing into the urban environment from the rural environment and we seem to be getting this gap in the population.

Thomas Docherty: We would like to see an end to the approach whereby the FCA and the PSR operate in silos in effect. The whole thing needs to be seen in the round. The bank branch and the ATM need to be taken as a pair.

There are three things to say about that. We want robust piece of work to be done to show what the long-term impact of a closure is, particularly on vulnerable customers. We are very clear that it is not just rural ATMs and branches that are at risk. Branches often come out of financially challenged urban areas in which cash is particularly important.

Colin Beattie: I thought that there was a system for giving compensation to keep ATMs open in such areas.

Thomas Docherty: There is a very specific criterion for very rural areas. As the committee will hear when Link gives evidence, it has been unable

to tell us which of the ATMs in Scotland or across the United Kingdom are at risk. My local Asda has three cashpoints side by side, all of which are operated by the same bank. No one would object to one of those three coming out, but that is not what we are talking about.

We are talking about rural cashpoints and those in more deprived areas. We are clear that it is not a case of rural areas versus urban areas; they are more likely to come out of financially challenged areas.

There are three things that need to take place. First, there needs to be a robust piece of work. Secondly, the PSR needs to challenge Link about the effect of its decisions. So far, the PSR has been unwilling to challenge Link about its decision to cut the payments that it receives. Thirdly, the FCA needs to do more. The 2015 access to banking protocol says that there should be consultation with communities before banks shut, but that has not led to any changes in the decisions. I do not need to tell people around this table that communities lose confidence in consultations if they consider them simply to be a process that is gone through with no changes coming at the end.

Professor Griggs: To return to the question about rural areas, if I recall correctly, whichever Scandinavian country it was bought the ATM infrastructure so that the Government could control where it was. As I have said, that was done with the co-operation of the banks. The challenge here is that the infrastructure is not owned by one person; it is owned by a multitude of people, all of whom can make different decisions.

Thomas Docherty: The 2006 task force, which was chaired by John McFall, the then chair of the Treasury Select Committee, highlighted the need for low-income areas to access free-to-use cashpoints. That access, which is even more important in 2018 than it was in 2006, is at risk.

There is a huge variation in the figures on how many cashpoints are at risk. KPMG, which advises Link, has said that up to 18 per cent could be at risk. Link's figures are that up to 11 per cent of cashpoints could be going. That is 700 cashpoints in Scotland, which is nine or 10 per constituency.

I suspect that, if you had to go around your constituencies and start picking the nine or 10 cashpoints that you thought should or would go, it would be interesting to see which ones would be at risk.

Colin Beattie: I think that it was mentioned that 44 per cent of bank customers do not use online banking.

Thomas Docherty: That is correct.

Colin Beattie: We can surmise that a proportion of those people will be in the more vulnerable bracket.

Thomas Docherty: Absolutely.

Colin Beattie: How does the withdrawal of ATMs affect them? If they do not bank online, presumably some of them will be able to cope with an ATM, although, frankly, as you become older, it becomes more difficult to deal with even basic technology.

Professor Griggs: Remaining branches will, in the future, go back to being much more of an advice centre than anything else. As you go through the process of looking at how people interact with their finances, you see that, in the end, what people want most is advice or somewhere to go for help, and not necessarily somewhere to do a transaction, because they can do that at a lot of the sophisticated ATMs. Therefore, the nature of branches will change anyway. The models of what those branches look like across the UK are interesting. Branches are returning to being places where people go for advice rather than to do transactions. I guess that getting advice is the biggest challenge for those people whom Thomas Docherty was talking about.

Thomas Docherty: We do not have Scotland-specific figures—our figures come from UK sources—but there are 2.7 million consumers at UK level who rely overwhelmingly on cash, and we can roughly calculate what the figure would be in Scotland. I suspect that it would be disproportionate. Those people will be most affected by any reduction in bank branches and ATMs.

People predominantly prefer banking in person to online banking for three reasons: convenience, which, frankly, many of the banks are doing their best to try to take away, connectivity and confidence.

If you do not have broadband or access to a computer of your own, you cannot do online banking. Professor Griggs talked about apps and so on. They are great if you have a smart phone, but people who are most financially excluded, which includes many of your constituents, do not have smartphones, so they cannot do online banking or use apps.

Debacles such as that experienced by TSB over the past couple of weeks will have done nothing to let that bank get more of its customers to switch to online banking.

As Mr Beattie said, 44 per cent of people are not using online banking. Some of that is to do with convenience, some of it is to do with connectivity and some of it is because some people just do not

have confidence in the system. I gently say that it is not just an older people's issue.

Professor Griggs: We should not get hung up on cash. It comes back to the point that I made earlier, and that Thomas Docherty made: there is no real evidence. There is an interesting article by a company called Vaultex, "Cash use in the UK", which comes to three conclusions: that cash usage is declining, that it is growing and that it is staying about the same. The article looked at three sets of the data that is available and came to those three conclusions.

Part of the challenge is that all the sets of data conflict with each other. We need to have a long look at what all the data says. Under the conclusion that cash usage is declining, the article says:

"64% of all payments were made by cash in 2005. This figure had dropped to 45% in 2015."

On the other hand, under the second conclusion it says that

"The value of Bank of England notes in circulation"

has gone up. Under the third conclusion it says that

"The value of all payments made by cash decreased by only 3%".

The data seems to conflict and, as Thomas Docherty said, there is no good empirical data on any of it.

Fulton MacGregor (Coatbridge and Chryston) (SNP): The main part of my question was covered by Mr Docherty's last answer, but Which?'s submission included the fact that

"8-18% of current remote free ATMs could close".

What impact is that reduction likely to have on communities where there is no bank—where perhaps there was a last bank in town scenario and the bank has now closed?

Thomas Docherty: That is a really good question. There are something like 200 cash deserts in the UK—places where there is no access to either a branch or an ATM within a reasonable distance—and 130 of those are in Scotland. That is two thirds of them, by my maths, and they are overwhelmingly in very rural areas.

The problem is how we define what is a reasonable distance, because there may be very good public transport from one community to another. Professor Griggs and I were talking about that beforehand, because Professor Griggs lives in Sanquhar. Anyone who knows that part of Dumfries and Galloway knows that it is three communities in one—Sanquhar, Kirkconnel and Kelloholm. Therefore, we are cautious about how we define a community.

Where it all ties together is that it is very difficult for small businesses to operate in such areas, because they need to pay cash into a bank rather than keep hold of it for a long time. It is also very difficult for their customers, because they cannot get access to cash. With the best will in the world, it is clearly not acceptable to expect someone on a fixed income to travel for 30 or 40 minutes to take their pension out. That is the type of problem that we are seeing, and the problem will grow as bank branches and ATMs continue to close.

Professor Griggs: As Thomas Docherty said, when I did the work to look at which branches had closed, in places that are really two communities—such as mine—I found that the branch is open in the community that has a shopping centre in it. For example, in Invergordon and the town next door, the branch is open where the Lidl is, following the pattern of where people go for shopping and all the other daily things that they do. In Glastonbury, similarly, the branch is in the next town, because that has the big shopping centre. Thomas Docherty is correct that what defines a community has also changed.

Fulton MacGregor: How do those cash deserts—as you put it—impact on people with disabilities?

Thomas Docherty: They have a huge impact. I was interested to see that the Equality and Human Rights Commission is now taking an interest in the issue of bank branch closures. That is a sensible decision, because the matter has to be explored. We supported the 2015 access to banking protocol, but we are unconvinced that it has led to a significant change in behaviour.

It is a balancing act. We understand that financial institutions are commercial organisations, but they have a duty to the communities that they serve. We are not convinced that that balance has necessarily been struck yet. It is worth asking the FCA whether it feels that it has done enough to address such concerns.

10:00

Fulton MacGregor: How do you think the cash deserts that we have mentioned might affect small local businesses? I give the example of Stepps in my constituency, which is facing the closure of the last bank in town. I am sure that my colleagues are sick of hearing about Stepps, but I use it as an example because it has a lot of small local businesses, such as cafes, that do not have swipe machines. If they also lose the cash machine from the town, they will obviously struggle.

Thomas Docherty: In May 2018, we did a survey of consumers across Scotland as a whole, in which one in seven people said that the loss of free access to cash—I stress that it is a

combination of factors; I do not want to single out ATMs—would leave them unable or finding it much harder to pay for services, shopping and so on. It is common sense that that would apply disproportionately across more rural or less connected areas. However, I pivot right back to my first answer and say that there is no proper evidence. Although we can make assumptions based on the surveys that we have done and on common sense, we agree with Professor Griggs and say that someone needs to step up and do empirical research.

Professor Griggs: It also goes back to the point that Mr Lockhart made, which is that, in all of this, we should remember the role of the Post Office. We are worried about ATMs going away, but we should not forget that if Post Office branches started to shut down, or became smaller and therefore could not take in the amounts of money that small businesses might want them to, that would have an impact as well. As post office branches shrink and go back to being part of the Co-op or Nisa or whatever there might be in their areas, their ability to take in money across the counter will become less.

When I was up in Invergordon, somebody was telling me that he had gone into his local Post Office branch to pay in £10,000 in cash from his business. It had taken the staff 25 minutes to count the £10,000 because they had to do it by the rule book, whereas the bank could have put it through a machine at the back and tested it. There are issues there.

Mr Lockhart's point is a very good one. In all the talk about ATMs, we should not forget about Post Office branches and we should make sure that they are still there to provide a service. That is why the conversations that the banks are having with them at the moment, about making that service better, are absolutely critical in this.

Thomas Docherty: Absolutely. I am sure that Link will tell the committee about its brilliant financial inclusion programme, but it covers less than 3 per cent of ATMs. We are not knocking that bit—we think that it is good—but, frankly, it is not enough.

Jamie Halcro Johnston (Highlands and Islands) (Con): Good morning, panel. What lessons have we—or should we—have learned from the 2006 task force in relation to the bank closures that we are seeing at the moment?

Professor Griggs: 2006?

Jamie Halcro Johnston: The 2006 task force.

Professor Griggs: That was before my time, as they say. I did not become involved in this issue until 2011 or 2012.

The word “consultation” is used an awful lot in discussing the process, but there was never meant to be consultation. The wording says that the bank makes the decision and then it should work with the people in the community to see whether it can do anything to lessen the impact of the closure. Therefore there was never going to be consultation about closures, which are decisions that banks have made. Back in 2013 or 2014, the protocol was put in place to try to give them a framework in which to do that. However, all the parties, including the FSB and the Governments, accepted that closures are commercial decisions for banks to make. They then have to do so in a way that deals with vulnerable people and so on. I think that they have moved a long way towards trying to do that, although there is still work to do.

I will pass on the question about the 2006 task force, because I am not quite sure what its recommendations were.

Jamie Halcro Johnston: There were a couple of things. It mentioned the financial inclusion premium, a greater role for the public sector in planning and encouraging the provision of more free-to-use ATMs, and transparency in charging.

Professor Griggs: That is more Thomas Docherty's area than mine.

Thomas Docherty: That was the task force that John McFall chaired. It is worth remembering that it came about because John McFall chaired the Treasury Select Committee at Westminster and there was a debate in the House of Commons in which he and the Economic Secretary to the Treasury at the time—I think that it was Ivan Lewis—said that there were lots of people trying to do investigations and studies and everybody should be brought together. That is where the irony is. Consumer organisations, financial institutions, the Treasury, the Treasury Select Committee and others took part in the work, and they came up with a document of around 20 pages that is really useful and still relevant. I would argue that some of the central recommendations on the need for low-income areas to be guaranteed free-to-use access to cash are even more relevant now, given the current bank closures. To go back to Mr Beattie's point, ATMs in remote areas needed to be guaranteed. Our argument is that they must be more than just 3 per cent of the total number of ATMs in the system and that financial inclusion is at the heart of the debate about access to cash.

After all that, my short answer is that that document is even more relevant today than it was in 2006, when it was written.

Professor Griggs: It is, but this is not just about looking at the evidence, which we need to do; it is about looking at things much more holistically. It is

not just about ATMs, bank branches and post offices; it is about how we as individuals manage our finances and ensuring that we all—I mean we all—have a way of doing that across the myriad of ways in which we can do that now. It is about having a holistic approach. There may be other issues in areas in which there cannot be ATMs; I do not know. Unless we look at matters holistically, it is very difficult to solve issues for all of us.

Jamie Halcro Johnston: That was a local point that I was going to come to as a Highlands and Islands MSP. Obviously, large parts of the Highlands and Islands region are remote and rural, and there are large distances between quite small towns in some areas. Many local businesses—local stores and the like—rely on cash, there are many isolated areas, and there are low-wage economies in parts of the region. It has also been mentioned that there are real broadband issues. Will you give us an idea of the particular issues that those remote rural communities face and their impact on individuals in them, such as more vulnerable and older people?

Thomas Docherty: On rural areas and other areas, we have talked to the FSB about the impact on tourism of cash not being available, particularly where there is not good connectivity. For what it is worth, we think that that is an area of the Scottish economy that needs to be looked at. It is clear that, if tourists cannot get money, it will be more difficult for them to spend money and support the Scottish economy. That particularly affects rural Scotland.

Mr Halcro Johnston is absolutely right. Digital and physical connectivity—or the ability to access—are crucial. If it is quite easy to get from Sanquhar to Kirkconnel in Dumfries and Galloway at the other end of Scotland to access cash, there is not a great problem, but a real problem comes about for your constituents who cannot easily make such a journey for whatever reason. As Professor Griggs has said, things have to be considered in the round.

Jamie Halcro Johnston: This is probably more of a question for Link when we speak to it later. What are the additional costs and barriers for rural and remote ATMs? I imagine that there are issues such as security and the ability to refill them. Do you know of other issues?

Thomas Docherty: I can speak only for us, but we have struggled to get information. We have been very clear. Which? has been unable to get information from Link about which of the 3,400 free-to-use cash machines in Scotland are at risk.

We have struggled to get an understanding from Link of the criteria that determine what ones will be

at risk, and we have struggled to get a full understanding of the particular challenges. We would observe that, if you have—for argument's sake—50 cash points in a serviced row, only one of which is protected, it stands to reason that that machine will be even more challenging to service when the other 49 have gone. However, as you say, you will hear from Link shortly.

Professor Griggs: The banks are well aware of my view with regard to the issue of cash. I cannot see how a bunch of clever people such as those who work for the banks cannot get together and figure out how cash can be picked up in the first place—that cannot be outwith the wit of man or woman. I think that there are things that can be done—G4S, for example, goes all over Scotland every day. I have said many times that the banks could be cleverer with regard to this. The issue is not to do with information technology, because it concerns cash. There is a lot that the banks could do in this area, not just to do with ATMs but to do with physical collection. In some of the more rural parts of the world, such as Jamie Halcro Johnston's constituency, there are greater difficulties, but it is still possible.

If you speak to the small businesses about this matter, as I have done, you will find that a lot of them would be happy to select one day a week on which their cash would be collected for free, and to pay if they want it collected on another day. The issue, therefore, is not one of cost; it is an issue of the ability to put something together.

I know that the banks are talking about the issue but, to go back to what Thomas Docherty said earlier, unless we consider the issue in the round, along with everything else that is going on, we will end up solving one problem and leaving another one unsolved.

Jamie Halcro Johnston: You mentioned the Link figure of up to 11 per cent of ATMs being removed. Obviously, Link has not identified the locations of the machines in that 11 per cent, but do you suspect that a high proportion of them will be in areas such as the Highlands and Islands, which are remote and rural?

Thomas Docherty: That would be a logical assumption to make. We have been unable to get Link to share those details. It says that, for commercial reasons—I am not sure what those commercial reasons might be—it is unable to share its criteria or methodology. However, I assume that those machines would be in rural areas and the more financially challenged communities in the more urban areas. Those would be the two most likely categories.

Professor Griggs: As we should do, we talk all the time about helping people but, in the work that I did as I went around the country, what amazed

me was how, because of banking apps, young people manage their money much better than I used to when I was their age. The average usage of the banking app by a young person is about six times a day. It is the first thing that many of them do when they get up in the morning.

While we are doing all the critically important stuff on this issue—I am not saying that it is not important—we should also be looking at where the advances are being made that could also help people. There are two sides to all these stories.

Jamie Halcro Johnston: One of the things—

The Convener: I am sorry, but we need to move on because of the time.

Professor Griggs, do you agree that there should be a proper holistic review of banking services and the associated issues to see where we are and where we should be going, followed by—perhaps—a change in the regulatory framework for banks? You gave the example of the Scandinavian country where the ATMs are run by the state—if one wants to put it that way.

Professor Griggs: I hesitate to answer, because it depends on how big you want a review to be. Thomas Docherty and I have said that there is a need to ensure that we have good solid data and good evidence before we make some of the decisions that need to be made. At the moment—of necessity, given the stage that we are at—a lot of the evidence is anecdotal.

With regard to regulation, we have to be careful. These days, wherever we are, most of our world is run by voluntary regulation rather than by statutory regulation. That is the case with regard to food and all the other stuff that we do. We need to take action in the way that we are able to take action, but I do not know whether that involves regulators.

One of the challenges that we face is that because things are changing so quickly, a study that is done now could be irrelevant in two years because the world will have moved on. However, I agree with the suggestion that we should have such a review, so the answer to the convener's question is probably yes.

The Convener: Is there much point in consultations being held after decisions have been made? That is, in effect, allowed under the access to banking standard.

10:15

Professor Griggs: Yes, there is a point to consultations because, strangely enough, quite a lot of changes have been made: some have kept ATMs and some of the buildings have been put to other uses. There have not been examples of a

branch not being closed—before you ask me that question—but they do consult.

I spoke to a couple of hundred people in my piece of work. Knowing what is going on and being told about it is useful to any human being, especially in such stressful circumstances, and if communication of what is going on is done properly, it can add value.

Thomas Docherty: As members know, there are two phases to the changes in the Link charging regime. One begins, I think, on 1 July. Link has said that it will monitor the impact and report on any reduction in availability of free-to-use ATMs. However, that is it, and simply monitoring and reporting on how many ATMs there are will not do anything to help members' constituents. I will use the cliché that it is very hard to put the genie back in the bottle. I do not think for a second that Link is suggesting that, if at the end of that initial monitoring period it finds that 700 ATMs have gone from Scotland, it will put 700 ATMs back in.

That is why Which? is saying that the PSR cannot simply adopt a wait-and-see approach. It needs to intervene. Ideally—although we must be realistic—after that initial charge change takes place in July, the PSR needs to say to Link that it cannot proceed with the second phase of changes to the charging regime until a proper evaluation of the impact has been done. If necessary, the PSR should then intervene and do the job that it is paid to do to protect consumers.

Kezia Dugdale (Lothian) (Lab): I have heard a lot of references to the need for better data and some proper research, but witnesses have not said what agency should be responsible for that and would be best placed to do it.

Secondly, there is a lot of discussion about the possibility of legislating to prevent the last bank in town leaving. Rather than do that, should we be looking now to do that for post offices, if they are so crucial to the future of towns?

Professor Griggs: You could do that; indeed, it could be argued that the same should be done for pharmacies. Once you ask that question, it becomes about where to stop when it comes to rural retail—if I can put it that way. “Yes” is the answer to the question. We can ask all sorts of interesting questions.

However, I am not sure that legislation is the right answer. In many such areas, legislation is quite a blunt instrument unless it is written very well, which has not always been the case.

Kezia Dugdale: Can I push you on my question about data?

Professor Griggs: I am sorry: what was the question on data?

Kezia Dugdale: You have referenced several times a lack of data and of research. What agency should provide that?

Professor Griggs: I simply do not know, is my answer to that question.

Thomas Docherty: I will try to be quick. On the data, 12 years ago—if only we were in that situation now—there was no shortage of people wanting to do what Kezia Dugdale asks about.

Ideally, we would like to see the PSR and the FCA working together, because they have silo mentalities: one does banks, and one does ATMs. We think that they should be working collectively with the Treasury.

The regulators should provide the evidence. To be slightly mischievous—this is off our own bat—Which? says that if evidence on Scotland is wanted, there might be organisations in Scotland that could undertake their own investigations and produce reports, in the short term. However, ultimately, the regulators should do it.

On the question about the last bank in town, we are very clear about the need to be careful of unintended consequences. First of all, there is the question of what is “the town”. For Edinburgh, or even the Edinburgh Eastern constituency, how would one define “the town”? That constituency goes from Portobello across to Princes Street: although it is technically one town, to treat it as such is not practical.

Secondly, if there are two financial institutions in a town and legislation says that the last one standing has to stay open, it is pretty obvious what will happen next. The two institutions will race to shut their branch and not be the one that is left at the end of the metaphorical musical chairs. We are cautious about how that would work in practice and whether it would help consumers.

Kezia Dugdale: That is, arguably, like trying not to have more than one post office. Is it more important to preserve the post office network?

Thomas Docherty: It could be more important to do that. On the question about data, I said that I do not know the answer, because to do it properly, data would have to be collected over four or five years. It is not just about the immediate impact: human beings are wonderful at adapting to situations and returning to normal, so the situation over about five years would have to be looked at in order to get good empirical data about the impact on an area. For a rural area, the post office is probably as important a facility as anything else is.

Willie Coffey: I think that Mr Docherty said earlier that 56 per cent of people use online banking services, and the mysterious other 44 per cent do not. We know that the banks brought in

their closure programme based on their assessment of online usage, but that assessment reveals that a significant part of their customer base—a substantial percentage of the population—still cannot or will not use online banking. We also know that that is true from many studies on the digital divide. Does that further isolate those communities, which include elderly people, those who are infirm, people who live in rural areas and so on, and does it not also point to use of cash in that segment of society actually going up? If those people are not banking online, they must increasingly be using cash services or post office services.

Thomas Docherty: I would be more than happy to source the actual data, if that would be helpful.

The Convener: That would be helpful. Also, if the witnesses want to write in about any issues that we have not had an opportunity to cover fully because of time limitations, that would be very welcome, from the committee's point of view.

Thomas Docherty: Absolutely.

UK Finance produced the figure that Willie Coffey cited. One might assume that all of that 56 per cent are using only online services, but the situation is more complicated than that. Even if we pretend that all 56 per cent are just doing online banking, the remaining 44 per cent will break down in various ways. Some will be using telephone banking and some, as Willie Coffey said, will predominantly be using cash. The figure that I saw—I will source the exact figure—was, I think, 2.7 million people across the United Kingdom, so I would hazard a guess that we are talking about perhaps 300,000 Scots who are overwhelmingly using cash, if the patterns here are similar to those elsewhere. Those people are in rural areas and they are being financially excluded.

Professor Griggs: The challenge is that the data is so confusing that one can argue either way. That is part of the problem, and that is why the Vaultex article was hilarious; it came to three different conclusions, because the data can be looked at in three different ways. Part of the challenge is that each bank has its own data and it is difficult to put it all together—and it becomes even more difficult if we include data outside that. The data in this area is not good, if I can put it that way.

John Mason (Glasgow Shettleston) (SNP): Is the access to banking standard working? Is it fit for purpose, or does it need to be changed or improved? The obvious point, as has been mentioned, is that customers and others have to be notified of a closure, but are not consulted. In other parts of society there would generally be consultation before a decision is made. I know that

many businesses might have pretty well made up their minds before they consult, but they would—legally, at least—have to consult before a decision is made. With banks, however, it seems to be the other way round. Do we need to change that?

Professor Griggs: No. The challenge is that the consultation would have to be different for each branch, and it is difficult to do that. To go back to the standard, I say that there being no consultation was decided three or four years ago by all parties, including the business associations, so when I got into writing the new standard, I did so based on the assumption that there would be no consultation.

If there was to be a consultation, parameters, bars and levels would have to be set. I have thought about it a lot, because I have been asked the question more than once, but I still have not figured out in my head how a consultation would be done. How many people would have to say that they did not want a closure before it would not happen? It would be a difficult consultation to do.

John Mason: Would such a consultation, if nothing else, give the impression that the banks were listening?

Professor Griggs: No, because if all that the banks did then was carry on closing branches, the consultation would have made no difference. I suspect that that would be the situation.

John Mason: I have a question for Mr Docherty on the way that banks notify. Last night, some of us were in Leven, where the RBS has closed, fairly recently. We met people from the community; one lady had a letter from RBS that she showed us. I did not read every word of it, but although it was closely typed and full of words, there was, as far as I could see, no information saying that people could go to a post office. The letter said where the next-nearest branch was, but the lady reckoned that that was the wrong branch and that there was another one nearer—or, at least, easier to get to. There certainly seems to be a lack of understanding that using post offices is a choice that is available to people.

Professor Griggs: I agree.

John Mason: People do not seem to know what they can do in the post office, and the banks do not seem to be making much effort to tell people about that. Is there room for improvement around notification?

Professor Griggs: Yes, there is—although the banks are learning and improving as they go along. In the coming months, I think that you will see an answer to the point about people using post offices. All the banks do impact assessments, so they have the data. I have been pressing them harder and harder to give everything that they

have to the consumer, because the consumer is an intelligent human being who reads the information. The banks could do more to say not just that people can use the post office, but how they can do that.

The Lending Standards Board has started to go to each bank to evaluate how they are doing against the standard that the board oversees. I know that the board will later this year issue a summary report with its opinion on how that is going. There is now what we might call, with the Lending Standards Board, a compliance officer going round each of the banks to see how they are doing against the access to banking standard. The banks are doing better than they were, but they have more to do.

Thomas Docherty: We have sympathy with individual banks, in that it is a natural tendency for people to compare a change to a bank with a change to a dental service or general practitioner service, but a bank is not a public service—it is not publicly funded.

However, looking at the matter in the round, there is definitely a public duty on financial institutions to provide consumers with free access to cash and banking services. It is not just about getting money in and out; it is about all the other things that have been talked about. Our view is that there is, frankly, not robust enough consultation going on. Rather than point the finger at any individual bank that happens to be going through the process at the moment, I would bring this back to the regulators. Which? thinks that the FCA in relation to banks, and the FCA and the PSR together, in relation to access to cash, should be reviewing the consultation process and, we argue, doing more.

The Convener: That concludes our questions. As I said, if you wish to write to us to fill out some of your answers, please do so. Thank you very much for coming.

I suspend the meeting for a changeover of witnesses.

10:28

Meeting suspended.

10:31

On resuming—

The Convener: We are joined by two witnesses from Link Scheme Holdings: Mary Buffee is the head of consumer affairs and Sir Mark Boleat is the chairman. I welcome you both. Thank you for coming. We will start with some questions from Colin Beattie.

Colin Beattie: Helpfully, you were in the public gallery when I questioned the previous witnesses. Many smaller businesses have told us that around 85 per cent of their transactions are in cash. Especially in the case of smaller grocers and so on, there seems to be a linkage to the availability of cash machines in the vicinity. How do you feel about ATMs being integral to that process?

Sir Mark Boleat (Link Scheme Holdings): ATMs are a vital part of the payments infrastructure, and we are committed to maintaining that, predominantly for individuals as opposed to small businesses. At the moment, ATMs are not equipped to take in large amounts of cash—they are more about distributing cash than about taking it in. The closure of bank branches creates a problem for those small businesses that rely heavily on cash in putting the money into a bank. Increasingly, small businesses are using payment methods other than cash for precisely that reason. That is not a matter for us; that is for the businesses and the banks.

Colin Beattie: Particularly in areas of deprivation, customers who use ATMs frequently use them to withdraw small amounts, which are spent in the local grocery store. The linkage between the ATM, the grocery store and the client seems to be quite strong.

Sir Mark Boleat: That is an ideal situation for an ATM deployer, because the ATM can be in the grocery store and the ATM deployer will be paid per transaction. If somebody takes out £10 at a time as opposed to £100 in one go, the ATM deployer gets 10 times as much money. Where there is a grocer like that, there will be an ATM. That would not be a problem.

We have problems in areas where there is nowhere to put an ATM. It is necessary to have a site for an ATM. Frankly, a small grocer's is the ideal place, and many small grocers will have ATMs.

Colin Beattie: One previous witness—a small grocer—indicated that he topped up the machine with money from his own till. How common is that?

Sir Mark Boleat: It is a fairly common method of operating ATMs. People go into a store, take money out of the ATM, give it to the storekeeper in exchange for goods and he puts it back into the ATM. It is called merchant fill, and it is a way of keeping machines going that would otherwise be very expensive to maintain if cash had to be taken away and delivered.

Colin Beattie: The previous witnesses seemed to indicate that that was unusual or strange, that they had no knowledge of it and that it would be very difficult to manage.

Mary Buffee (Link Scheme Holdings): No, there are thousands of merchant fill machines operating out there, so it is certainly commonplace.

Colin Beattie: Okay.

Mary Buffee: There are some challenges, though, around the retail site having to take enough cash to sustain the cycle of filling the ATM and issuing notes. That does not work in retail environments where large amounts of cash are not taken, because there would clearly be no money to stock the ATM. The ATM works in a certain model but not in others.

Colin Beattie: We talk about remote ATMs and ATMs in rural areas. How do you define a rural area?

Sir Mark Boleat: We do not. We have said that the interchange rate will not be reduced for any ATM that is more than 1km away from another one. Clearly, that will cover a lot of rural areas.

Colin Beattie: You have no definition of what a rural area is.

Mary Buffee: The Link financial inclusion programme tries to protect the coverage of machines that exists today. Where customers rely on one ATM in their community because there is no other free-to-use ATM within 1km—that distance is used across the industry and was agreed back in 2006—that machine will not have its rate changed from 1 July onwards and will be protected. There is no commercial reason why that machine should close or switch to surcharge.

Colin Beattie: There is a concern about the availability of ATMs in rural areas, but how do you define a deprived area?

Mary Buffee: The Link financial inclusion programme started in 2006 as a result of the Treasury select committee hearing. For definitions at that time, we looked at the most deprived areas in England, Scotland, Wales and Northern Ireland, and we used units of geography called super output areas. We selected the bottom quartile of super output areas according to the index of multiple deprivation.

Colin Beattie: Can you explain the term “super output”?

Mary Buffee: A super output area is defined by the Office for National Statistics, and it is a geographical unit that is based on size of population. Such units vary in size: there are super output areas and output areas. They can be all shapes and sizes, because they are not grid-like geographical units but units that are based on population size. Back in 2006, what we took as deprived was the bottom quartile according to the index of multiple deprivation, which identified just

shy of 1,700 areas that were deprived and did not have a free-to-use ATM within 1km.

Colin Beattie: How many of those areas were in Scotland?

Mary Buffee: There were 222 in total, of which 198 now have access to a free-to-use machine.

Sir Mark Boleat: It is worth adding that the number of ATMs has doubled in the past 10 years.

Colin Beattie: Yet I hear that 700 have closed in Scotland.

Sir Mark Boleat: No. The current figure for open ATMs in Scotland is probably the highest it has ever been. ATMs are closing and opening every month. There is quite a significant churn, for all sorts of reasons, but there has been no reduction in the number.

Colin Beattie: The number has been maintained; it is a question of where they are.

Mary Buffee: Yes. The number is at its highest. There are almost 6,400 machines in Scotland at the moment, of which 5,400 are free to use.

Colin Beattie: There is concern because, with the banks closing in high streets, ATMs appear to be an integral part of the solution for customers—particularly vulnerable customers who have difficulty in accessing banking services and for whom the ATM becomes a lifeline. To what extent do you take that into account? Does that come into your calculations?

Sir Mark Boleat: We do not run any ATMs. You may have got the impression from the previous panel that we run ATMs, but we do not; we manage the network. It is up to banks and independent ATM deployers to determine where to put ATMs. Generally, the banks will want to have an ATM if they are closing a branch, and independent ATM deployment companies will see a market opportunity.

Colin Beattie: You do not have any input into the opening or the closing of ATMs.

Sir Mark Boleat: We do not run any ATMs; we run the network. However, as Mary Buffee has explained, we have a financial inclusion programme that is designed to put in ATMs that could not otherwise be justified.

Colin Beattie: That is agreed with the banks.

Sir Mark Boleat: Yes. The banks are very supportive of that. The banks want a widespread network of ATMs, as we do.

Colin Beattie: Is it simply a case of a bank advising you that it will close its ATM in a particular area? Is there a process for that?

Sir Mark Boleat: It may do that. On the whole, the banks have not been closing their ATMs but have been selling their ATM estates to the independent companies.

Colin Beattie: They are selling the ATMs to companies that charge for their use.

Sir Mark Boleat: No. The banks pay a fee to the ATM companies every time there is a transaction. The ATM deployers may charge, but that would not be a consequence of the banks outsourcing their ATMs.

Colin Beattie: What proportion of the ATMs are with independent suppliers?

Mary Buffee: It is more than half.

Sir Mark Boleat: It is the vast majority of the remote ones that are not in a branch.

Mary Buffee: Fewer than 3 per cent of transactions incur a fee. Link sets the central interchange rate and the operating rules of the scheme.

As Mark Boleat has said, the decisions about whether to install a machine, where to install it and what to pay the retailer are not visible to Link, as there is an individual commercial arrangement between the operator and the retailer. They also have the ability to decide whether to charge the customer directly or to take the interchange rate that is set as part of the rules. It is all done entirely by our members.

Colin Beattie: You make the process sound remote from yourselves.

Sir Mark Boleat: I return to what Link does. We do not run any ATMs; we were set up to manage a network.

In Britain, we have a single nationwide network of free-to-charge ATMs, which is unusual. ATMs cost money to run and, in most countries, there is a charge to use them. If you go to America, you will be lucky to find a free-to-use ATM. We have a really good system, and most of the 70,000 ATMs are free to use. As Mary Buffee has said, only 3 per cent of transactions attract a charge, and any card works in any machine.

Jamie Halcro Johnston: You have said that it is largely not possible to make deposits through your ATMs. What are the barriers to that? Is it down to the individual operator and whether they install the technology? What can be done to encourage that?

Sir Mark Boleat: The Link system does not accommodate cash deposits. Money can be paid into machines in bank branches. As I have said, there is a problem for small businesses that want to pay in large amounts of cash—

Jamie Halcro Johnston: That service would be available only if it was a bank ATM.

Sir Mark Boleat: If all the banks wanted to provide that service, they could ask us to do that, but they have not.

Mary Buffee: There are multifunction ATMs that take deposits of cash, notes and cheques. Those facilities are run by the banks, as Mark Boleat says, and they are offered only to their own customers in their own branches. If our members wanted Link to build a central infrastructure to support deposits reciprocally, we would be open to doing that.

Jamie Halcro Johnston: I take it that there would be a security issue.

Sir Mark Boleat: I do not know whether the person whom we heard about, who had more than £10,000 in cash to deposit, was your constituent. Questions might be asked about depositing £10,000 in cash anyway, but the thought of a small retailer taking such an amount to an ATM would, as you rightly say, raise issues about security and money laundering. Committee members may be aware that an Australian bank has recently been caught taking in large amounts in deposits.

There are security issues, which is precisely why the banks want control of deposits—and they can have that in their own branches. We accept that it does not alter the fact that it is a problem for retailers if a branch closes and they have to travel further to deposit their cash.

10:45

Jamie Halcro Johnston: We have discussed the availability of ATMs, and you have talked about their sites and locations. How easy is it for businesses in remote areas, in which there might be no village shop but perhaps a pub or a hotel, to get ATMs in their buildings?

Sir Mark Boleat: For a shop, it would be quite easy. Typically, they are grocers, but I passed a laundry with an ATM, which I thought was rather odd. They would need to have a shop front or people going into the shop. Mary Buffee does all the hard work on situations in which communities are agreed that it would be nice to have ATMs, because they need them, but there is nowhere to put them.

Mary Buffee: In such cases, there might be no retail space. There are two possible operating models. One is a cash-in-transit model, whereby the transit organisations deliver and load cash and the retailer has no real function—in essence, the ATM is run and operated independently. Those ATMs tend to be more expensive to run, which is why we tend to find that smaller locations such as

small retail and convenience stores have merchant fill ATMs that require a relationship between the operator and the retailer in which there is agreement about stocking and running the machine.

Jamie Halcro Johnston: We talked earlier about the importance of the availability of cash for tourism, which is relevant to a lot of areas in my region. It was said that a place where there is a turnover of cash, such as a cafe, a hotel or a pub, would be suitable for an ATM. How easy is it for such a business to access a merchant fill facility?

Mary Buffee: A range of our members operate in such retail environments. A retailer can contact any of our members directly to see whether they can come to a commercial arrangement to install a machine. On the Link website, there is also information on how to suggest a site. Link acts as a central point for emails from members of the public, retailers and consumer groups who wish to submit nominations for sites at which machines could be installed, and it disseminates them among our members so that they can undertake site assessments.

Jamie Halcro Johnston: So, communities can come together and suggest somewhere.

Mary Buffee: They can nominate somewhere.

Andy Wightman (Lothian) (Green): Who are your members?

Sir Mark Boleat: Our members are the card issuers—the banks and building societies—and the ATM deployers, which are independent companies that provide cash dispenser services.

Andy Wightman: The grocers and so on are not your members.

Sir Mark Boleat: No.

Andy Wightman: You say that your role is to manage a network so that we have something that works everywhere. However, you have taken the step of being proactive in your financial inclusion programme. Are there any other areas in which you would consider it appropriate to be proactive and on the front foot in going beyond just managing a network?

Sir Mark Boleat: It is worth going back a bit into the history of all this. Link was originally set up by some building societies, many years ago. It then developed into a network for all the banks and building societies, and it was run by its members before I became the chairman.

Even when I became the chairman, the big decisions were still taken by the members. That was not easy, as there were 36 of them and the interests of the banks and the ATM deployers were not the same. The issue was about a commercial transaction and how much was paid

by one party to another. The members spent a lot of time trying to get agreement but could not. Fortunately, thanks to the Bank of England, which required that we had independent governance, responsibility for key decisions was then taken by the board of Link. The board now consists entirely of independent members—we had two bank members, who recently resigned—and we now take decisions as a board. We are not publicly owned but we clearly have a public interest remit. Hence, from well before I was there, we have not only run the financial inclusion programme, which Mary Buffee has explained, but have expanded it. That was our initiative—it was not forced on us by anybody else.

Before we took the decision to set a higher interchange premium—it will increase from 10p to 30p—we initiated an access-to-cash review, the details of which will be announced shortly, because we needed to understand the implications of the declining use of cash. I remind the committee that cash use has fallen by 30 per cent in the past 10 years and is forecast to fall by 40 per cent in the next 10 years. We cannot ignore that, and we need to understand the implications. Although we want to achieve the continued wide geographical spread of ATMs, their number will fall. In our consultation, we identified that some city centres have 50 pay-to-use ATMs. We do not think that the public will be disadvantaged if that number falls to 40, 30 or even 20.

Mary Buffee: Eighty per cent of ATMs are within 300m of another one. As Mark Boleat says, there is clearly some concentration of ATMs.

Andy Wightman: On the public interest remit, banks are free to pull out of the network, but are your members locked into something that is so mutually beneficial to them that it would be an odd decision for them to withdraw?

Sir Mark Boleat: They are free to withdraw, although we sincerely hope that they will not. All the banks are committed to what we are trying to do and have been very supportive of the financial inclusion programme. They want to provide nationwide access to cash for all of their customers. I am not here to represent the banks, but, to be fair to them, they have a cost infrastructure that is now out of keeping with the market. People are using bank branches less and less, which is why branches have closed. The banks want a nationwide network of free-to-use cash dispensers and are very supportive of our financial inclusion programme. When we talked about increasing the premium from 10p to 30p—which, for an individual ATM, means more than double the payment for each transaction—there was no problem at all. The banks were very happy to pay that, because ATMs are providing a service to their customers that they want.

Andy Wightman: I want to go back to Mary Buffy's point about no ATMs closing unless there is one within at least 1km. We heard in the earlier evidence session and from other witnesses that there are unintended consequences of doing anything that would impose a burden on the last bank in town, because there would then be a race to leave. How does that work with ATMs? If an ATM is not going to be withdrawn unless there is one within 1km, is it just a question of people coming forward with proposals to close ATMs?

Mary Buffee: The new interchange rates will take effect from 1 July. At that point, we will identify all free-to-use machines that do not have another one within 1km, and those machines will be protected. Their rates will remain the same, so there is no commercial reason why a member should pull out. The Link board said in its announcement in January that it will do whatever it takes to protect those machines. That is why we have introduced a tripling of the subsidy to help to support single machines that consumers rely on which do not have another within 1km. The board has made that commitment.

Sir Mark Boleat: As a result of what we have decided, there is no case for closing any ATM that is 1km or more away from another one. That clearly came from Link early on—it was not forced on us. That is what we and the members wanted. However, that is not the only factor. Demand is falling all the time and, if ATMs close, it will be because of falling demand, which makes them uneconomic. Even then, we will do whatever we need to do to maintain the existence of those protected ATMs.

Andy Wightman: Basically, what you are saying is that, for those protected ATMs, nothing within Link's responsibility changes and therefore there is not a case to close them. You went on to say that you will do everything that you can to ensure that, even for other reasons, they will not close. I am a bit surprised by that. Are you suggesting that you will step in? What would you do?

Mary Buffee: Link does not deploy ATMs. However, the board has the ability to take unlimited amounts of money from the members to fund and support protected machines remaining in situ for consumers' use.

Andy Wightman: How would that work? Would you just pay whatever the operator wants?

Sir Mark Boleat: I will give an example. The interchange rate will not change for a remote ATM that is more than 1 km away from another one. There is no justification for closing that machine as a result of what we are doing on interchange rates generally. However, if for other reasons demand falls by 5, 10, 20 or 30 per cent, the ATM deployer

might decide that they cannot keep it open. That would not be because of the change in the interchange rate. If we take away the commitment that we have made, the ATM would have closed but, now, with the powers that we have under the expanded financial inclusion programme, the ATM operator can talk to us and we can see whether a higher premium is justified. Clearly, there can be the same issues that exist with the last branch in town. We do not want ATM deployers trying to game the system, but we genuinely want to maintain those ATMs by providing an appropriate subsidy level.

Andy Wightman: But there will come a point when that approach is disproportionate. You would not have justification for offering a substantial premium for a tiny number of customers.

Sir Mark Boleat: Yes. If a chief executive asks for £1 million, we might draw the line there. Frankly, we are looking at something to take us forward for the next few years, and we have set up the access to cash committee to help us beyond that. If transactions fall by 30 or 40 per cent in the next 10 years, there will be bigger issues that we will need to address. Our data consistently show that transactions this year are 5 per cent below the level of last year.

Andy Wightman: I go back to Jamie Halcro Johnston's question about services for things such as depositing cheques. You said that that is up to the operators and that they deploy those services in bank branches. Do you have no role in promoting them or encouraging operators to think about how services might be expanded, particularly to help remote areas?

Sir Mark Boleat: A few years ago, people saw ATMs as being able to do all sorts of things such as checking their balance, topping up their mobile phone and changing their personal identification number, but almost all of those things can now be done more easily on an app.

Andy Wightman: But they can still be done on ATMs.

Sir Mark Boleat: Some of them can. Certainly, people can check their balance on an ATM.

Andy Wightman: What about new services, such as depositing money? Do you promote that or have an interest in encouraging it, or do you leave that entirely up to the operators?

Sir Mark Boleat: We ran through the issues on that. It is very difficult for a small ATM in a grocer's shop to start accepting large amounts of cash. With large amounts of cash, the merchant-fill system does not work, which leaves a small retailer with a load of cash that is not in the machine.

Andy Wightman: Depositing cheques is not a security issue, however.

Sir Mark Boleat: There is the question why someone would want to deposit cheques in a machine when they can put them in the post.

Mary Buffee: It can also be done online, with digital cheque imaging being rolled out. People photograph a cheque and the paper cheque never goes through the system.

Andy Wightman: Really? Can you do that?

Mary Buffee: That is being launched by the Cheque & Credit Clearing Company.

Andy Wightman: So it is not launched yet.

Mary Buffee: There is a phased roll-out, but I am not sure of the exact dates. I am sure that the Cheque & Credit Clearing Company would be able to provide you with a lot more detail.

Kezia Dugdale: How long does your commitment not to close ATMs that are 1km or more away from another last for?

Mary Buffee: There has been an announcement that interchange rates will be brought down year on year for the next four years, to the end of 2020. The protected status will remain in place for those machines for that period. As Mark Boleat mentioned, an access to cash review has been kicked off to consider what the size and shape of the network will be as we get towards the end of that period and for the future. The outcome of the investigation and research through that independent review will help to shape what happens beyond that.

Kezia Dugdale: So the commitment on 1km is just a fudge really, because it is just for 18 months. You said that it was until 2020, which is 18 months away.

Sir Mark Boleat: It is for four years. We are reducing—

Kezia Dugdale: We are in 2018, and Mary Buffee said that the commitment ends in 2020.

Mary Buffee: I got that wrong. It is from 1 July for the next four years.

Kezia Dugdale: So no ATM that is outwith 1km of another one will close for four years. That is a cast-iron commitment.

Sir Mark Boleat: I am reluctant to make promises that we cannot keep. We do not run any ATMs. ATMs will close for reasons that have nothing whatsoever to do—

Kezia Dugdale: Let me rephrase what I have said. No ATM that is outwith 1km of another one will close for four years for commercial reasons. That is the terminology that you used earlier.

11:00

Sir Mark Boleat: They will not close because we have reduced the general interchange rate, which we are not doing for those ATMs. However, the ATM deployer might need to close them for other reasons. For example, my local ATM closed because the garage closed. We cannot stop that. We are doing everything that we possibly can, but we do not want to make a promise that nobody can keep.

Kezia Dugdale: Okay. In your written evidence, you say that the percentage of ATMs that could close because of the change to the interchange fee is somewhere between 1 and 11 per cent. KPMG has that percentage as high as 18 per cent. Nevertheless, the difference between 1 and 11 per cent is quite big—it is either 30 or 300 machines. At what end of that scale will the figure be?

Sir Mark Boleat: We give that range because we do not want to give unreasonable precision. We asked KPMG to look in a broad-brush way at what would happen to the number of free-to-use ATMs if the interchange rate fell by 20 per cent. From memory, its estimate was that the number would fall by 10 to 18 per cent. However, that was before any mitigating factors were considered.

ATM deployers pay rent to retailers. In other countries, the retailer pays the ATM deployer. It is clear that rents will be affected by the change. ATM deployers will renegotiate some of their contracts, which will mitigate part of the effect. Some ATMs earn income from doing other things. That is not a lot, but there are other potential sources of income. We cannot give a precise estimate, and we certainly do not know the number of ATMs that will close. We do not have a list of them.

Kezia Dugdale: From your figures, up to 300 ATMs in Scotland could close as a result of the change in the interchange fee. Is that correct?

Sir Mark Boleat: That would be out of 6,000 ATMs in Scotland.

Kezia Dugdale: I understand that, but I am asking you to confirm your figure. Up to 300 ATMs in Scotland could close.

Sir Mark Boleat: We think that the likely range is between 0 and 10 per cent.

Kezia Dugdale: The figures that I have from you say 1 to 11 per cent, so the figure could be 300.

Sir Mark Boleat: Yes.

Kezia Dugdale: Thank you.

John Mason: We have covered the issue quite thoroughly, but I want to clarify the figures. At the moment, the interchange fee is about 20p.

Mary Buffee: It is 25p.

John Mason: So the standard fee will fall by about a penny in July.

Mary Buffee: It will fall by 5 per cent.

John Mason: So the fee will be 24p or thereabouts. At the moment, on top of the 25p in a deprived area, there could be an extra 10p, so the fee could be 35p.

Mary Buffee: The current programme provides a 10p premium if a free-to-use machine is being run in a deprived area and there is no other ATM within 1km.

John Mason: From my experience, that has worked. I live in a deprived area, and it is much easier to access free-to-use machines there than it used to be. I am certainly positive about that. That 10p could go up to 30p, depending on circumstances, so the fee could go up to 55p.

Mary Buffee: Yes.

John Mason: I am just trying to get my head around the figures, because we discussed them earlier and we were not very sure about them.

Jackie Baillie (Dumbarton) (Lab): I will pursue the figures a bit further. According to the committee's papers, the protection applies to, in effect, something like 221 Scottish ATMs. Is that correct?

Mary Buffee: That is correct.

Jackie Baillie: That is out of a total of 6,700 ATMs, so quite a small proportion are protected in that way.

Sir Mark Boleat: The ATMs that we are protecting are 1km or more away from another ATM.

Jackie Baillie: I understand that, but I am making the point that the number of ATMs that are being protected is quite small given the overall coverage.

Sir Mark Boleat: However, it will maintain the geographical spread at 100 per cent, which is what we are trying to do.

Jackie Baillie: Let me pursue that slightly further. You estimate that there will be a loss of 0 to 10 per cent or 1 to 11 per cent of ATMs—let us agree to disagree on those margins. That would represent not the loss of 300 ATMs, but the loss of something like 700. The figure that we heard earlier was not the number of ATMs that have closed because, of course, they have not. However, that is the number of ATMs that could potentially be affected. I am using your own figures against the number of ATMs that you currently have. Is that correct?

Mary Buffee: The estimate of 1 to 11 per cent cannot be applied directly to certain geographies. It is an estimate across the entire UK.

Jackie Baillie: Do you have an estimate for Scotland?

Sir Mark Boleat: It is not feasible to do that sort of analysis. I say again that we do not run any ATMs. We are seeking to maintain the geographical spread. As I came here in a taxi, I looked at the high streets. I could see banks of three or four ATMs together, and 100 yards further down the street there were another three, and 200 yards further on there were another four.

Jackie Baillie: I could point to several queues and to cash machines running out of money at those banks of ATMs.

Sir Mark Boleat: That is bad management, if they are.

Jackie Baillie: Indeed.

Sir Mark Boleat: Those numbers of ATMs will be reduced, but our commitment is to maintain the geographical spread. That is our main concern. If ATMs are busy such that there are queues, the ATM deployers will not shut them.

Jackie Baillie: Okay. It strikes me that the 221 ATMs that are guaranteed, spread across Scotland, will provide very thin coverage.

Sir Mark Boleat: We agree.

Jackie Baillie: I am interested in how many of the 6,700 ATMs will remain. If your percentage lacks the sensitivity to tell us what will happen in Scotland, I invite you to go back and get more sensitive figures for us. At the end of the day, it is about the overall coverage. Simply saying that you will protect 221—which is welcome—does not begin to address the sheer size of the current coverage and what it could shrink to.

Sir Mark Boleat: I understand that, but 10 years ago there were half the current number of ATMs in Scotland, and I doubt that the committee was saying that there was a desperate need for twice as many ATMs. However, the fact is that we have them, and we know that taking something away has a greater public impact than if people had never had it in the first place.

What is happening is a response to the public using cash less. The nationwide figures—and, no, I do not have separate Scottish figures—show that ATM transactions, which we look at week by week, are down 5 per cent on a year ago. That might be maintained for the next five or six years, although there are differing views and it could accelerate—we will get some new estimates in the next month. In London, when I came out of my underground station last week, I was interested to find two people collecting money for charity, one

with a bucket and one with a machine that took £2 contactless payments. That is the sort of thing that we are beginning to see.

If the public are taking cash out of ATMs less and less, the number of ATMs will obviously fall. We cannot give you a precise estimate, as those are commercial decisions for individual businesses. In the same way, retailers are closing, which I am sure bothers most communities far more than ATMs closing. We cannot ask a retailer how many shops they think might close in the next four years as a result of people shopping on Amazon, although they would love to know. It will depend. However, as I said, we are committed to maintaining the geographical spread, which is what we think people are concerned about.

Jackie Baillie: I push you to give us more of a description of what that will look like. To repeat the point without labouring it, I note that the guarantee is to keep 221 out of 6,700 ATMs, and we want to know where the rest of that number will be lost. In the past decade, we have seen the growth of ATMs and the closure of hundreds of bank branches. I suspect that there is a correlation between the two, and some communities are looking at not just the last bank branch but the last ATM in town. Obviously, we want to protect the network, as I am sure you do.

Sir Mark Boleat: Absolutely.

Mary Buffee: I want to make a point about the 25p interchange rate, which is an average cost based on the entire network of 70,000 machines. In crude terms, it is the cost divided by the number of transactions. Each commercial organisation that is a member of Link and deploys ATMs has its own operating model, set of individual costs and way of setting up their business. If we take the rent that is paid to retailers, for example, in some circumstances that is zero and in others it could be as much as £20,000. We do not have visibility of that information on a site-by-site basis, so it is very challenging to give the committee a strict list of those that will close.

Jackie Baillie: I would accept a broad estimate. At the moment you are giving me nothing other than UK-wide figures. I am not looking for what will happen on each individual high street, but you could go further for us than you have gone today.

Sir Mark Boleat: We will have a look at that, but it is not easy. We stand by our figure of 1 to 11 per cent of ATMs closing as a result of the reduction in interchange. The far bigger effect will be from reduced usage. Interestingly, if we had not done what we have done on interchange but had done nothing, there would be a greater rate of closure of ATMs and, because we had not done anything, we would not be here being questioned by you. Paradoxically, by seeking to provide greater

protection, we open ourselves up to public scrutiny—which we are delighted by, incidentally. We are very happy to have this session and one with anybody else, because we want to do exactly what you want to do.

Jackie Baillie: Excellent. In that case, let us work together, and the more information you can provide us with, the better it will be.

The Convener: On that delighted note, I close this part of the meeting. I thank our two witnesses very much for coming in.

Subordinate Legislation

The Late Payment of Commercial Debts (Scotland) Amendment Regulations 2018 (SSI 2018/160)

11:10

The Convener: The next item on the agenda is consideration of subordinate legislation. In brief, the regulations amend the Late Payment of Commercial Debts (Scotland) Regulations 2002, which implemented the European Union directive on combating late payment in commercial transactions. They clarify that representative bodies can challenge in the Court of Session the use of certain grossly unfair terms or practices in, or in relation to, contracts to which the Late Payment of Commercial Debts (Interest) Act 1998 applies.

The committee sought the views of stakeholders who responded to a consultation on the issues of late payment. The Federation of Small Businesses has noted its support for the changes and we have also received comment from the Food and Drink Federation Scotland.

As no member wishes to raise any substantive issues, I take it that the committee is content for the regulations to come into force. Are we agreed?

Members *indicated agreement.*

The Convener: Thank you.

11:11

Meeting continued in private until 12:32.

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