



Experts in Business

Bank Closures Inquiry

FSB response to the Economy, Jobs and Fair Work Committee

Federation of Small Businesses Scotland
April 2018

Overview

Small businesses across Scotland have serious concerns about the ongoing programme of bank branch closures. As such, the Federation of Small Businesses (FSB) welcomes the opportunity to respond to the Committee's inquiry into bank branch closures.

FSB is Scotland's leading business organisation. As experts in business, we offer our members a wide range of vital business services including advice, financial expertise, support and a powerful voice in government. Our mission is to help smaller businesses achieve their ambitions. These micro and small businesses comprise the majority of all enterprises in Scotland (98%), employ around one million people and contribute £68bn to the economy.

Summary

1. Scotland has seen a substantial reduction in its bank branch network. Although up-to-date figures continue to be unavailable, FSB estimates that the country will have lost a quarter of its branches between 2013 and 2018. According to the Sunday Express, a third will have closed in five and a half years.¹
2. By the end of this year, the Royal Bank of Scotland (RBS) will have closed over 200 branches which represents a 70% reduction in five years.²
3. FSB research into the impact of bank branch closures on local businesses revealed that they often created additional costs for business owners, made it more difficult to manage cash flow and hit productivity and the wider local economy.³
4. Rural businesses and cash-dependent businesses are particularly affected by branch closures. The impact on productivity is notable: a business owner in Durness, for instance, will have to travel to Ullapool for the nearest bank branch, a trip that takes 1 hour and 40 minutes one-way by car.
5. Many small businesses are cash-based and operate in largely cash dependent local economies. As a result, they continue to require bank branches for a variety of services.
6. The replacements put in place following branch closures (mobile banking units and Post Office access) are inadequate and do not meet the needs of business customers. RBS's announcement that its mobile banking fleet is to be reduced, despite stating otherwise in January 2018,⁴ will mean that businesses in Kingussie, for instance, will have just 20 minutes once a week to conduct their face-to-face banking.⁵

¹ See: <https://www.express.co.uk/news/uk/887373/Scotland-high-street-RBS-closures-clydesdale-bank-HM-treasury>

² See:

[http://www.heraldscotland.com/politics/15845893.RBS accused of quot betraying quot Scottish communities wi th its branch closure plan/](http://www.heraldscotland.com/politics/15845893.RBS_accused_of_quot_betraying_quot_Scottish_communities_wi_th_its_branch_closure_plan/)

³ "Locked Out: The Impact of Bank Branch Closures on Small Businesses", FSB, October 2016.

⁴ See: <https://www.fsb.org.uk/standing-up-for-you/national-offices/scotland/press-releases/fsb-on-rbs-mobile-banking-row>

⁵ See: <https://www.pressandjournal.co.uk/fp/news/highlands/1451485/north-community-leaders-angered-by-cuts-to-mobile-bank-van-services/>

7. Free-to-use ATMs, an essential part of a thriving local economy, are also at risk of closure if LINK’s plan to reduce the fee paid by card providers to cash machine operators goes ahead.⁶

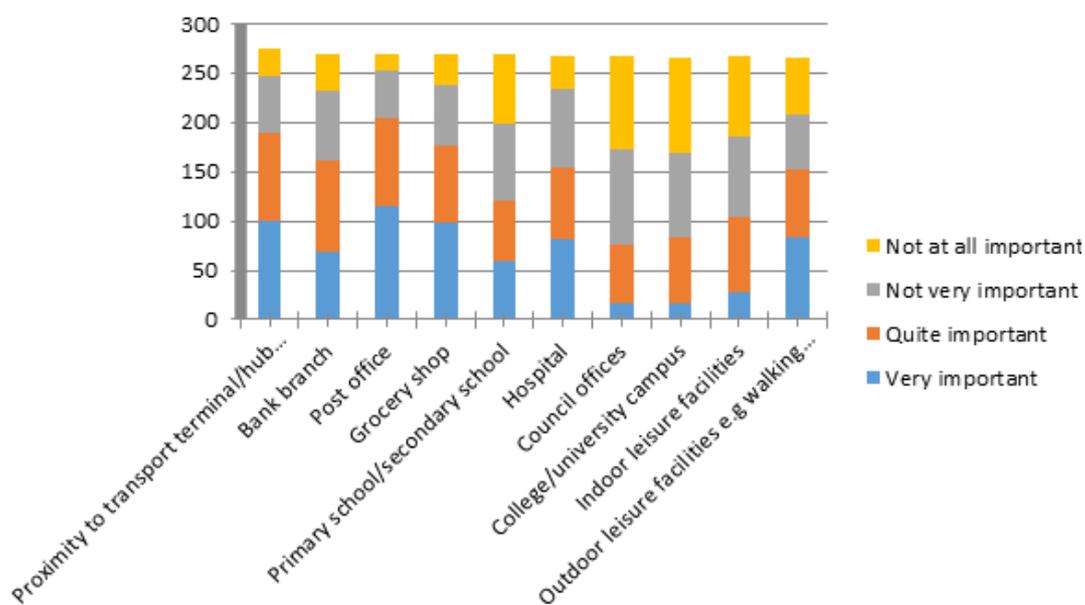
Small business and banking

FSB has campaigned relentlessly to highlight the economic impact of branch closures. In October 2016, FSB published an in-depth report exploring the importance of bank branches and the impact closures are having on small businesses.⁷ This research is particularly relevant to the Committee’s considerations and what follows is an overview of the key points from the report.

Access to banking is a basic requirement of any functioning economy. For small businesses, many of which are cash-based, this typically means being able to easily manage cash flow. To do this, they need access to banking services. Put simply, cash remains the most frequently used payment method in the UK⁸ and businesses need to deposit their cash safely and securely. It is therefore unsurprising that over three quarters of small businesses continue to use branches for a wide range of services.⁹

Indeed, FSB research conducted with businesses based on Scottish islands highlighted that 81% thought that bank branches were important/very important for their businesses.¹⁰

Table 1: How important is the presence of the following services to the location of your business?



⁶ See: <https://www.link.co.uk/about/news/link-moves-to-secure-future-of-free-atms/>

⁷ *Ibid.*

⁸ “UK Cash and Cash Machines: 2017 Summary”, UK Finance, August 2017.

⁹ “Business Banking Survey Follow on Research”, Charterhouse, 2015.

¹⁰ “Islands Bill (Stage 1 evidence)”, FSB, October 2017.

Set against this context, the claim made by banks that they are simply responding to changing consumer habits appears highly questionable. As one RBS executive put it:

*“Things are changing and we have to stay relevant so we are changing too... this is our response to a change in customer behaviour”.*¹¹

In addition, we believe that the evidence suggests running a profitable bank and maintaining a branch network is possible. For example, challenger banks, such as Handelsbanken, are opening branches while their rivals are retreating from the high street.

Naturally, digital technologies are fundamentally changing the ways in which both banks and their customers interact. Firms manage an ever greater share of their finances via online and mobile banking - 94% of small businesses already use internet banking.¹² However, our evidence highlights the need for a banking system that offers both digital *and* physical services. This is especially the case for rural businesses who often have poor broadband or data connections and have to travel long distances to nearby branches:

“We kind of lost the contact where you could phone your bank and arrange a particular service in advance. That personal touch has gone but this leaves you even further away from your bank. No one who picks up the phone in the call centre is really going to understand who you are or what you’re going on about. You’re just another number.” **FSB member, Lochinver**

Bank branch closures

The number of bank and building society branches in the UK has been decreasing since the late 1980s, but the pace of closures has rapidly increased in the last few years.¹³ Since 1989, 53% of bank branches in the UK have closed, and according to the Competition and Markets Authority (CMA), there were just 9,661 UK branches operating in 2014.¹⁴

Figure One: Total number of branches in the UK
Source: Competition and Markets Authority, August 2015

	2013	2014	Year on Year change
England	8,208	7,799	-5.0%
Scotland	1,123	1,037	-7.7%
Wales	596	562	-5.7%
Northern Ireland	281	263	-6.4%
UK	10,208	9,661	-5.4%

¹¹ This quote is from Jane Howard, Managing Director, Personal Banking, RBS at a Scottish Affairs Committee evidence session in January 2018. See: <https://bit.ly/2v7vEVj>

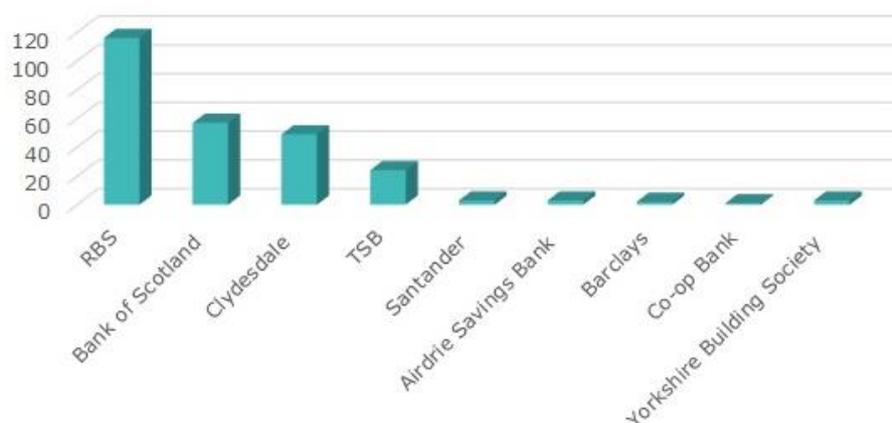
¹² “Reassured, Optimised, Transformed: Driving Digital Demand Among Small Businesses”, FSB, September 2015.

¹³ “Abandoned Communities: The Crisis of UK Bank Branch Closures and their Impact on Local Economies”, Move Your Money, June 2016.

¹⁴ “Retail Banking Market Investigation - Barriers to Entry and Expansion: Branches”, Competition and Markets Authority, August 2015.

As can be seen from the table above, Scotland experienced the most rapid decline of branches during 2013-14 and in subsequent years branches have continued to disappear at an alarming rate. It is difficult to ascertain the exact number of closures in Scotland from 2014 onwards, or indeed for the rest of the UK, due to the absence of up-to-date official figures. Nonetheless, BBC research in September 2016 indicated that over 140 branches had closed in Scotland over an 18-month period,¹⁵ while FSB's unpublished research, which features interactive maps, showed that 258 branches had closed or were earmarked for closure between 2016 and 2018.¹⁶

Figure 2: Bank branch closures between 2016 and 2018



RBS alone closed, or planned to close, 211 branches between 2013 and 2018 – a 70% reduction in their branch network in five years which will leave just 89 branches in Scotland.¹⁷

Figure 3: RBS branch closures between 2016 and 2018



¹⁵ "Changing Habits' Force Scottish Bank Branch Closures", BBC, September 2016.

¹⁶ A map of these closures, which includes the ten branches which RBS has temporarily kept open, can be found at: <https://batchgeo.com/map/ScotlandBankClosures>

¹⁷ A map of RBS closures, which includes the ten branches which RBS has temporarily kept open, can be found at <https://batchgeo.com/map/RBSclosures-scot>

The business impact of branch closures

The closure of bank branches leads to a range of problems for local businesses. Broadly, they create additional costs for business owners, make it more difficult to manage cash flow and hit productivity and the wider local economy. Small businesses are disproportionately affected by closures because:

- They are often cash-based businesses operating in largely cash dependent local economy. Cash, as was pointed out earlier, still remains the most frequently used payment method by consumers.¹⁸
- They are more likely to be located in remote and rural areas, which are in turn disproportionately affected by closures and unreliable ATMs. The impact on productivity is notable: a business owner in Durness will have to travel to Ullapool for their nearest branch, a trip that takes 1 hour and 40 minutes one-way by car.
- They are more likely to experience slow and unreliable broadband and data connections. The Press and Journal revealed that all of the recent RBS closures announced in north and north-east branches are in areas with broadband speeds far below UK average speeds (37Mbps).
- They value face-to-face advice and put stock in relationships with branch staff, especially when making important financial decisions. This may be why branch closures “dampen SME lending growth by 63% on average in postcodes that lose a branch... a figure [that] grows to 104% for postcodes that lose their last bank.”¹⁹
- The replacements put in place following branch closures, such as mobile banking units, are inadequate and problematic. FSB members frequently cite security issues – one FSB member was robbed outside their business waiting for a mobile banking unit – as well as the poor attempts made by banks to raise awareness of mobile banking units and their routes. The recent news that RBS was reducing its service in rural communities, despite stressing the importance of their mobile bank fleet at the Scottish Affairs Committee in January 2018,²⁰ illustrates the difficulties rural businesses will face in accessing basic banking services.
- Business banking services provided at some Post Office branches and franchises are too limited. There are clear issues regarding the low cash deposit limits and the extent to which they can cope with the increased footfall following bank branch closures. Further, inter-account transfers and currency exchange services are not available in some branches.

“I’ve seen people standing in the queue in the Post Office for three quarters of an hour quite often. There’s only one sales point in the Post Office. Even on a good day there’s normally a queue there. On a day when a cruise liner full of tourists arrives in the town, there’s a queue around the block.” **FSB member, Invergordon**

¹⁸ “UK Payments Markets Summary”, Payments UK, 2017.

¹⁹ “Abandoned Communities”, Move Your Money, June 2016.

²⁰ See: <https://www.fsb.org.uk/standing-up-for-you/national-offices/scotland/press-releases/fsb-on-rbs-mobile-banking-row>

It is also worth stating that business owners experience problems with branches that remain open. For example, the RBS branch at Aberdeen Queens Cross, which now services Stonehaven, Banchory and Westhill following recent closures, operates reduced services for business customers and reduced hours.

Access to banking protocol

FSB, the UK Government, high street banks and consumer groups agreed to an Access to Banking protocol in 2015.²¹ The protocol requires RBS and others to support small businesses through communication, guidance and signposting towards alternative local banking services. However, in our experience small businesses have received limited communication from their bank in advance of a branch closure taking place. There was a strong feeling in the research we undertook with business owners that the “level of communication was insufficient, lacking guidance, and, in some cases, accurate signposting.”²²

Despite the publication of the independent review of the protocol,²³ which assessed how the banks had applied the protocol in practice, FSB members continue to report limited consultation or engagement by banks:

“The bank wasn’t upfront about when they were going to close the branch. They let the rumours build, which led to uncertainty and confusion across the town. They said there would be consultations before they closed the branch but there were none whatsoever. None at all.” **FSB member, Lochinver**

ATMs

While there has been scrutiny of the impact bank branch closures have on businesses and the wider community, the impact they have on the ATM network has received less attention. This is despite the fact that many ATMs in Scotland are based in or nearby bank branches and have been cited by banks, alongside mobile banking units, as a replacement service for communities that have lost their branches.

A free-to-use ATM network is critically important for small business owners and their customers. Notwithstanding the growth in debit card and mobile payments, on average local ATMs inject some £16 per withdrawal directly into nearby stores, which amounts to £36 billion a year. Further, more than a third of total high-street spending is contingent on the ready availability of cash machines.²⁴

In theory, ATMs have the potential to offset some of the problems experienced following a branch closure. However, the unreliability of the current ATM network hinders rather than helps with the availability of cash in local economies. In the past, FSB members have cited cases where towns have run out of money and where ATMs are poorly maintained or regularly out of service.

²¹ See: <https://www.bba.org.uk/policy/retail/financial-inclusion/access-to-banking/industry-protocol-on-branch-closures/>

²² “Locked Out”, FSB, October 2016.

²³ See: <https://www.bba.org.uk/news/reports/access-to-banking-protocol/#.WIX0I7dl8ps>

²⁴ “Bank Branch Closures Debate”, House of Commons, June 2016.

Regrettably, the current problems with ATMs could intensify if plans put forward by LINK– to reduce the fee paid by card providers to cash machine operators – go ahead.²⁵ This could lead to thousands of free-to-use cash machines at risk of closure in the UK and see Scottish communities lose yet more of their banking facilities. It’s why FSB and consumer group Which? have joined forces in a new campaign, “Save Our Cashpoints”, to protect cash machines in Scotland and the rest of the UK.²⁶ Thus far, over 59,000 people have signed our petition to ensure consumers have free and easy access to cash in the future.

Recommendations

FSB believes that the economic and social impact of branch closures merits greater scrutiny. As a result, we have outlined a number of recommendations for the Committee to consider:

1. The Committee should recommend that the UK Government, a majority shareholder in RBS, pause the current programme of RBS branch closures, with a view to ensuring that no area is left without a bank branch. It is essential that the UK Government establishes a minimum level of service provision before it is too late.
2. The Committee should recommend that the Scottish Government, in partnership with the UK Government, conduct an economic impact assessment of bank branch closures.
3. The Committee should write to LINK, the cash machine network, to establish how many ATMs will close as a result of their plans.
4. The Committee should write to all banks with a branch network in Scotland to establish how many branches will remain open following their closure programmes. The future of their ATM provision should also be queried.

²⁵ See: <https://www.link.co.uk/about/news/link-moves-to-secure-future-of-free-atms/>

²⁶ See: <https://www.fsb.org.uk/standing-up-for-you/our-campaigns/saveourcashpoints>

Further information

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Experts in Business

The FSB is Scotland's largest direct-membership organisation. It campaigns for a better social, political and economic environment in which to work and do business. With a strong grassroots structure and dedicated Scottish staff to deal with Scottish institutions, media and politicians, the FSB makes its members' voices heard at the heart of the decision-making process. It is therefore recognised as one of Scotland's most influential business organisations. The FSB also provides a suite of services to help our members reduce the cost and risk of doing good business – from legal and tax protection to business banking.

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