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Technology is enabling greater choice and competition in terms of how people interact with their bank, and this is already beginning to bring significant benefits for both small businesses and the UK economy. Small business owners are often short on both time and resources, so the creation of a more flexible range of communication channels to accommodate customers’ needs is a welcome development.

Whilst these benefits should be recognised and further encouraged, traditional methods of banking – usually involving interactions at a physical branch - often provide unique value to customers. This report explores what this value represents and the role of the branch alongside the rise of digital technology. It affirms how an effective and successful banking market must cater for all types of small business customers.

Small businesses across the UK continue to rely on bank branches for services where face-to-face interaction is not easily replicated by alternative communication channels such as online or mobile banking. There is also a continuing reliance on payment methods that remain rooted in the operations of both small businesses and local economies.

However, our report also shows the disproportionate impact branch closures are having in some parts of the UK and particularly in rural areas. This is concerning as evidence strongly suggests bank branch closure programmes are both expanding and accelerating.

Branch closures present challenges that can only be addressed if the needs of small businesses are better understood and supported. Likewise, branches should not be perceived as a hindrance towards technological development or behaviour change amongst customers. Indeed, many banks, in partnership with technology firms, are innovating their branch infrastructure to both develop their digital offerings and better meet customer needs. It is important the industry continues to build on this good practice.

It is vital that policymakers do more to understand what it is that small businesses value when they bank, and how this value can be maintained as digital technology continues to effect change across the banking industry.

Martin McTague
FSB Policy Director
EXECUTIVE SUMMARY

In order to improve our understanding of how small businesses access banking services, as well as the impact that branch closures are currently having, FSB undertook a series of focus groups in England, Wales, Scotland and Northern Ireland with small businesses between July and September 2016.

KEY FINDINGS

Low awareness and confidence in the Access to Banking Protocol – Small businesses affected by branch closures receive limited communication from their bank with regard to support and signposting towards alternative banking services. Awareness of consultation or engagement exercises on behalf of banks is effectively zero.

Importance of access to cash and cheque clearing facilities – In spite of the increasing range of payment methods used by small businesses, cash is still vital to the operation of many local economies. Reduced footfall as a result of customers being unable to access cash is having an economic impact on local economies.

Unreliable service quality of ATMs – The limited provision and unreliability of ATM machines in some communities is a serious problem. There have even been several instances of villages and towns literally running out of money during peak periods of economic activity.

Inconsistent service offering across the Post Office network – Business banking services provided at some Post Office branches and franchises are too limited. Some services, such as cash and cheque clearing facilities, also appear to be processed more slowly than in bank branches. Other services, such as inter-account transfers and currency exchange, are not available. As the future of the network moves away from full-service post offices to franchises there is concern about the impact on small business access. This lack of access to such services has a direct impact on small firms, particularly those whose business is dependent on tourism.

High cost of small electronic transactions – Some small businesses do not recognise the benefits of investing in new payment technology, such as card machines, due to the cost of fees on individual transactions.

Poor internet connectivity in areas affected by branch closures – Internet access to online services is often challenging due to unreliable connectivity. Activities such as processing a bill payment or registering for a service are often compromised as a result.

Concerns about cyber fraud and security – Some small businesses are concerned about the risks of accessing banking services online. A lack of confidence in the cyber resilience of digital services leads to some small businesses avoiding relevant communication channels altogether.

Branches are recognised as valuable for advice – Small businesses identify branches as an important source of advice, particularly in advance of major banking decisions. Closures create an advice gap in some communities with limited access to alternative support.

Digital skills gap – Small businesses identify a lack of digital skills as a key obstacle to their doing more online. This was a more significant issue for older small business owners. Partly as a result, businesses in rural areas are disproportionately vulnerable to both financial and digital exclusion – particularly where branch closures have recently taken place.
POLICY RECOMMENDATIONS

Improve small business awareness and confidence in the Access to Banking Protocol

- **Communicate the terms of the Protocol to small businesses more effectively** - When designated banks notify customers about a potential reduction in banking services that may affect them, there should be a requirement to clearly explain the terms of the Protocol.

- **Increase the notice period for informing customers of a branch closure** - The 12-week minimum period in which banks must notify customers before a branch is moved or closed should be extended to 24 weeks, to give small firms sufficient time to organise alternative banking arrangements.

- **Pre-closure assessments should involve public engagement with affected customers** – The Protocol’s “pre-closure assessment” should involve a public consultation with customers, specifically targeting small businesses.

- **Banks should communicate details of all relevant engagement activities** – Details on local engagement activities and impact assessments are often hard to find. Banks’ communications to affected customers should enclose comprehensive information on all of these activities.

- **Post Office information needs to be accurate and up to date** – Banks should clearly detail any limitations to alternative banking services after a bank branch closes, and should also do more to communicate with the Post Office to ensure information signposting is accurate and up to date.

- **Transport information should be included** - The numbers and schedules of bus services and other transport links to named alternative banking sites should be similarly communicated to affected customers as part of the Protocol.

- **Banks should redirect affected customers to the Business Banking Insight (BBI) website** – BBI is a free and independent website that has been designed to share the banking experiences of 20,000 micro, small and medium-sized businesses, in order to provide insight into the best institutions, products and services across the UK. Customers affected by branch closures should be able to use the BBI to see the full range of alternative banking providers available.

Develop a UK-wide strategy for delivering standardised business banking advice

FSB believes it is crucial that the delivery of banking advice is standardised through an overarching strategy so that small businesses can be confident that the information they are receiving is appropriate. This strategy should be reviewed on a regular basis so the advice can be updated according to changes in the banking market. Consideration needs to be taken so that any standardisation doesn’t disproportionately impact upon competition in the market.

We propose that a digital ‘advice gateway’ should be established as part of this strategy, in order to signpost customers to approved banking services. This gateway should be replicated into a hard copy guide for those businesses who are less digitally engaged.

Improve banking providers’ data disclosure

An HM Treasury review in conjunction with the Financial Conduct Authority (FCA) should examine whether additional requirements for enhanced data disclosure from banks would help in improving current access to banking services.
Conduct an economic impact assessment of bank branch closures

An analysis of the impact of branch closures on economic activity in severely affected areas should be produced. Such a study should identify what costs are being imposed on businesses in terms of productivity and whether they are forcing small business owners into inefficient practices. This could be used to identify what the future priority services and areas of the UK should be.

Post Office needs to create a standardised service that matches the specific needs of businesses

FSB recommends that the Post Office develops a more consistent and standardised small business service across the UK as soon as possible, for all branches including crown, main and local models, subject to them securing referrals agreements with a number of individual banks as soon as possible. Particular care is needed in the provision of the most used services by small firms.

Improve small business access to the digital economy

The Government’s proposed new Universal Service Obligation (USO) for broadband must include small business premises and increase in line with consumer requirements over time. Clearly, as the development of banking is increasingly centred on mobile services, improvements to 4G connectivity – particularly in rural areas – must also be a priority.

Protect and develop existing ATM network

Ensuring ATMs are available for those communities with the greatest need is vital. The Government and the Valuation Office Agency should review their 2013 decision to create a distinctive rateable value for over 12,000 non-bank operated ATMs, to identify what impact this has had on their provision, particularly in rural areas.
THE ACCESS TO BANKING LANDSCAPE FOR SMALL BUSINESSES TODAY

There are 5.4 million private sector businesses in the UK, of which 99.3 per cent are small.¹ Since 2000, this population has increased by 55 per cent.² In order for these firms to maintain cashflow and grow their businesses, reliable access to banking – regardless of factors such as their geography, payment preference or digital knowledge – is essential.

Access to banking and financial inclusion are two basic requirements of any functioning economy and should be recognised by all those who seek to sell products and services to small businesses. Typically, small business banking services either involve managing cash flow or checking an account balance. However, they might also include more complicated activities, such as applying for a business loan. As a result, small businesses often require guidance and, depending on their financial sophistication, advice from their banking provider.

This issue is particularly relevant today because of the wide-ranging ways in which the business banking market is developing. The impact of digital services is fundamentally changing the ways in which banks and their customers are choosing to interact with one another. Businesses can manage an ever greater share of their finances online, whether through a computer, smartphone or even a watch. They also have more choice over who to bank with than ever before.

More broadly, the evidence suggests that small businesses across the country are already well advanced in embracing some of the digital services on offer. 94 per cent of small businesses use internet banking.³ At a minimum, many small business owners use their mobile phones to provide an additional source of connectivity. More digitally astute businesses are either using mobile services to enhance their digital offerings or are considering how best to do so.

Yet digital technology is also changing some aspects of those traditional banking channels on which many small businesses continue to rely. Some banks are incorporating this technology into their existing branch network in order to ‘nudge’ business customers on to new communication channels. Such processes could be an opportunity to open up competition, encouraging small businesses to take advantage of new services. However, others are simply reducing their branch network more rapidly, concluding that declining customer usage of bank branches is simply making the operation of such infrastructure commercially unsustainable.

The pace of branch closures has been increasing rapidly for the last few decades and is only set to accelerate in the coming years. In 1989, there were estimated to be 17,831 branches operating in the UK.⁴ FSB estimates the size of this network will be just below 8,000 by the end of 2016. There are now also an estimated 1,500 previously banked and now branchless towns in the UK.⁵ Looking into the future, the consultancy firm CACI predicts that 600 branches will “deliver effective nationwide customer coverage” for each major bank across the UK in five years’ time.⁶

The speed of this change is outpacing the preference of some small businesses towards in-branch banking, which is often determined by a broad set of logical factors. For example, branch closures have a particularly severe impact on small businesses who prefer using cash as a payment method. The reasons for this preference will be explored later in this report, but crucially, cash usage often determines how many small businesses bank and what services are most important to them. Cash should not be seen as a barrier towards the development of new digital services across the small business banking market. Indeed, this report will also show how such technology can be used to support these types of transactions.

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² Ibid.
The banking market is complex and fast-moving, and it can be hard to engage with for some small firms. This is why trust and support are often major factors in banking decision-making. Face-to-face interaction continues to provide some small businesses with greater reassurance over how they make their banking decisions. Equally, small businesses hold a number of legitimate concerns over whether online banking platforms are able to provide an equivalent level of service to that which they receive in-branch. Other legitimate concerns include the growing risks (and potential costs) of cyber fraud. Occasionally, in-branch staff may have a closer understanding of the local economy and even a prior awareness of the customer’s business – an added value which online banking providers are currently unable to offer.

Given these factors, FSB research indicates that many businesses in rural areas (although not exclusively) are vulnerable to reduced banking services and branch closures – particularly when the branch is the “last in town”. Evidence also suggests that more socio-economically disadvantaged areas are likely to be disproportionately affected by such branch closures. The impacts of branch closures are wide-ranging, and include the reduced ability to manage cash flow and productivity for small businesses (due to time spent away from their business having to travel further to access banking services). Meanwhile, lower footfall in local high streets and town centres has had a negative impact on the broader economy.

Monitoring both the extent and impact of these closures is difficult as no standardised data sets exist across the UK banking industry. Meanwhile, policy interventions have been limited. In March 2015 a number of major high street banks, FSB, Age UK and the Government signed up to a voluntary, industry-wide agreement on this issue. The Access to Banking Protocol commits designated banks to undertaking a number of activities to assess the potential impact of any decision to reduce banking services or close branches. Specifically, banks have agreed to undertake a series of actions such as publishing their engagement with affected communities on top of a full impact assessment, as well as signposting affected customers towards alternative banking services.

However, more than 18 months after the Protocol was first agreed, FSB evidence reveals that few businesses can point to any notable engagement or consultation exercises conducted by relevant banks, and awareness of the Protocol is extremely rare. Overall, there appears to be little substantive communication and support for affected business customers, which clearly needs to be addressed as an urgent matter of priority. Many small firms also expressed considerable scepticism over whether banks truly take into account the impact that branch closures have on their businesses as well as the local economy. Indeed, the process of reducing banking services is perceived as lacking appropriate levels of both independent scrutiny and transparency.

FSB recognises that banks are entitled to make commercially based decisions. However, broader policy debates around restoring public trust across the financial services sector remain a pressing issue. The need for a clear demonstration that banks are proactively addressing the concerns and priorities of their customers is still an important issue today – not least for those banks that continue to be partly owned by the taxpayer.

Small business behaviour in the banking market is determined by a broad number of factors, including price, service quality and convenience. However, policymakers should do more to consider the ways in which small business customers choose to manage their money and access banking products or services. Too often, relevant stakeholders in this debate ignore this task and simply dismiss those who prefer to bank in-branch as being somehow resistant to technological change. We want to move the debate on from this overly-simplified narrative as well as the perpetuation of misleading stereotypes. Small businesses need to have more say in the current industry trajectory towards digital services and must be able to independently determine how they would prefer to bank.

More broadly, if we want to stimulate productivity and economic growth across the whole of the UK, then we need to create the right conditions for small businesses to grow – irrespective of factors such as geography, payment preference or digital capability. The small business banking market needs to develop in a way that supports the ambition of an economy for everyone. Therefore, a

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7 S. French, A. Leyshon and S. Meek (2013), ‘The Changing Geography of British Bank and Building Society Branch Networks, 2003-2012’, University of Nottingham, School of Geography, University of Nottingham, p.3
genuine willingness to engage with and understand small business behaviour when it comes to banking services is required.

This report considers the ways in which small businesses currently rely on bank branches and what their future role should be. We also focus on how new technology can be used to develop the small business banking market. We highlight best practice of banking providers incorporating technology in-branch and how this can help to support the transition from face-to-face advice to digital services where appropriate for small businesses. Finally, we recommend the appropriate action to ensure all small businesses are able to access banking across the nations and regions of the UK.

**GLASTONBURY**

Following the closure of all four of Glastonbury’s branches since July 2014, small business owners are now spending more time travelling to access banking services, which means taking more time away from their businesses. Banking will continue to be a serious problem in this area until there are workable alternatives available, facilitated through reliable rural broadband connectivity.

Research by FSB’s Somerset and Wiltshire Region found two in five (38 per cent) small firms have poor access to a local bank, leaving many business owners with no choice but to travel miles away to their next nearest branch. Over the last three years, this situation has worsened for three out of five business owners.

Owners of one in five local firms said they spend more than half an hour travelling to their bank. For six per cent of businesses, a return journey to the bank will take as much as two hours out of their business day. As a result, many businesses are keeping cash on their premises for longer, which creates a security risk as well as having an impact on cash flow.

While many small firms now do much of their banking online, the majority (52 per cent) continue to rely on a local bank branch for key services, such as depositing cash and cheques as well as opening a Business Current Account. This leaves rural firms particularly vulnerable to local bank branch closures, especially when it is the last bank in town.

Local business owners also expressed concern that customers were being deterred from shopping locally because they had little or no access to cash on the high street. This is a key indirect consequence of branch closures and an added challenge for businesses already grappling with challenging economic conditions.

Mary Webb, Regional Vice Chair, FSB Somerset & Wiltshire

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9 The survey was conducted by FSB Wessex in July 2016 with 140 respondents.
10 Ibid.
HOW DO BRANCH CLOSURES IMPACT UPON SMALL BUSINESSES?

Trends in branch closures across the UK

Alongside changes in consumer behaviour and rapid developments in new technology, the pace of branch closure programmes has primarily been motivated by substantial cost efficiencies for banks, which can be partly achieved by transferring more services onto digital platforms. A steady increase in new entrants to the banking sector over the last few years, many offering customers an exclusively digital experience (without the expensive legacy IT systems which are still integral to the operations of some banks), has also increased the commercial pressure on some banks to reduce costs.

According to the Competition and Markets Authority’s (CMA) analysis below, in 2013 there were 10,208 bank branches operating in the UK. This fell to 9,661 by the end of 2014. The Campaign for Community Banking Services estimates that at the end of 2015 this figure stood at 8,340.

**Figure One:** Total number of branches in the UK

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<th>Source: Competition and Markets Authority, August 2015</th>
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<td><strong>2013</strong></td>
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Scotland has experienced the most rapid decline in the number of branches during 2013 and 2014, whilst England saw the sharpest fall in absolute terms. BBC research in September 2016 indicated that over 140 bank branches had closed in Scotland over an 18-month period, with a further 33 due to close their doors by the end of the year.

The pace of closures has been partially reversed by some banks opening branches (such as Handelsbanken, Santander and Metro Bank). Collectively, they have opened at least 212 new branches in the last five years — although some have expressed concern as to whether these have been concentrated in consistently “urban and suburban affluent areas” where customers are less affected by the issues of branch closures and digitalisation in banking.

There is indeed evidence of branch closures being more concentrated in both economically deprived and rural communities. Between 2003 and 2012, the University of Nottingham mapped branch and demographic data which showed that those areas with the highest rates of closure were ‘Traditional Manufacturing’ towns, although the pattern has changed materially since closure numbers escalated after 2012. The disproportionate impact of branch closures on rural parts of the UK is now reflected in the vast majority of case studies and feedback FSB has received from small businesses.

The pace of reductions in banking services and branch closures is likely to intensify over the next few years. Separate BBC research in May 2016 showed that over 600 branches across the UK had closed over the previous twelve months.

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11 Competition and Markets Authority, ‘Retail banking market investigation - Barriers to entry and expansion: branches’, (August 2015), available at: https://assets.publishing.service.gov.uk/media/55cdf841ed915d5343000038/Branches_working_paper_v2.pdf
13 The research covered Bank of Scotland, Barclays, Clydesdale, Royal Bank of Scotland, Santander and TSB-branded banks across the country. Available at: http://www.bbc.co.uk/news/uk-scotland-37285545
16 S. French, A. Leyshon and S. Meek, ‘The Changing Geography of British Bank and Building Society Branch Networks, 2003-2012’, University of Nottingham, School of Geography, University of Nottingham, (2013), p.4
17 The data for the BBC’s research study came from the big six High Street banks: Lloyds, Royal Bank of Scotland (RBS), HSBC, Santander, Barclays and the Co-operative, available at: http://www.bbc.co.uk/news/business-36268324
THE SMALL BUSINESS EXPERIENCE OF BRANCH CLOSURES

Small businesses often retain an important relationship with their local bank branch. We used our focus groups to explore how small businesses access products and services in their local branch, their experience of closures and any other reductions in banking services. We also discussed how the banks communicated closures to their small business customers and the alternative options provided to them.

Communicating a branch closure

Small businesses in our focus groups were asked what communication and support they had received from their bank in advance of a branch closure taking place. Feedback indicated that most communication was limited to a letter notifying them of the upcoming closure and their nearest alternative branch. There was a strong feeling in the focus groups that this level of communication was insufficient, lacking guidance and, in some cases, accurate signposting.

“I got a letter a few months before telling me my nearest branch was only a few miles down the road, as if everything was going to be OK. I don’t think **** bank** bothered to contemplate the additional costs of me driving instead of walking to my local branch or the fact I’d probably have to close my shop whilst I was gone.”

FSB member, Glastonbury, England

“None, all we got was a letter. **** bank gave us notice in December and shut the branch in February and **** also gave us three months’ notice.”

FSB member, Sturminster Newton, England

“Communication from banks needs to be more personalised. Just trying to get over to the customers that we know this is not the best of situations but we need to try to make things as good as we can. They’ve never made any attempt to do that.”

FSB member, Craigavon, Northern Ireland

“In the letter we received telling us our branch was closing they listed a number of Post Office branches we could use instead. However, a couple of these branches had already closed down as well. They listed one Post Office in the wrong address - it had moved about 12 months earlier. Their information is not up to date, which just proves they’re not researching the local area before they announce closures.”

FSB member, Conwy, Wales

Engagement and consultation activity

Small business owners in our focus groups strongly indicated that banks’ levels of engagement and consultation with business customers, either before or following a reduction in services, were extremely limited. Business owners were also sceptical about whether any detailed impact assessment of how business customers would be affected by such a decision had been undertaken.

Indeed, some businesses suggested in-branch staff were also unaware of how the decision-making process was being conducted. A number of business owners highlighted that there was no awareness of business customers or relevant stakeholders in local communities having been consulted.

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**18** The names of all banks mentioned in our focus groups have been redacted.
“Our Branch Manager looks after Wales and Glastonbury, but her patch, if you like, doesn’t include Shepton Mallet. And she wasn’t even aware that the Shepton Mallet branch was closing as she’s based in Wales. So Glastonbury was shutting on her patch and Shepton Mallet was shutting on somebody else’s and she wasn’t aware of the consequences for businesses like us.”

FSB member, Glastonbury, England

“One of the things they were supposed to have done was spoken to the council and local business groups. As far as I’m aware, they didn’t do that.”

FSB member, Conwy, Wales

“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, Scotland

“There was no consultation. I got a notice saying they closed the local branch because it wasn’t busy enough, which I don’t think is true. Every time I visited there were queues round the block. They showed us no evidence.”

FSB member, Invergordon, Scotland

Rural transport issues

Importantly, businesses stressed that banks did not do enough to provide alternative banking services, and instead often simply notified them of their nearest branch. This was not seen as a solution as issues around local transport services made alternative branches difficult to access.

“The buses around here aren’t great. In order to get to my nearest branch I’d have to spend a good couple of hours away from my business. Even for those who do have a car, there’s a big cost involved.”

FSB member, Craigavon, Northern Ireland

“Parking is a real issue as there is obviously a charge for using car parks. This is another cost to banking which is often not factored in when you have to travel to the next town to deposit cash on a weekly basis.”

FSB member, Conwy, Wales

Post Office’s branch network

The Post Office currently offers a means of sustaining access to banking in some areas vulnerable to bank branch closures. Research undertaken on behalf of Citizens Advice in 2014 found that 53 per cent of small and microbusinesses used the Post Office for business purposes, with over half (51 per cent) accessing banking services.19 Earlier research by Consumer Futures found this dependence was even higher in rural communities, with over two thirds (68 per cent) of rural businesses using their local Post Office on a weekly basis.20 Meanwhile, 16 per cent of those in rural small towns and fringe locations and 7 per cent of those in remote and deep rural areas relied on the Post Office to conduct business banking.21

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21 Ibid
The Post Office currently maintains a branch network of 11,600, with a commitment to keep it above 11,500. This comprises a larger branch network than all of the UK’s major banks and building societies combined. The Network Transformation Programme (NTP) is the major restructuring programme currently taking place to maintain the size of the Post Office’s network whilst achieving greater financial sustainability. This is primarily being achieved through the conversion of traditional sub-Post Offices to new operating models, Post Office Locals (PO Locals) and Post Office Mains (PO Mains). By March 2018, it is envisaged that approximately three quarters of the Post Office network will have converted to one of the new operating models – up to 5,500 PO Locals and around 3,000 PO Mains.

Through NTP, the Post Office claims to be “delivering an extra 150,000 opening hours a week” with 3,000 branches now open on Sundays. The Government has also committed £1.34 billion over the course of this Parliament to ensure that no additional Post Office closures take place and existing branches are updated. A further £640 million has been committed by the Government from 2015 to 2018 to invest in Post Office branches.

Separately, in April 2016 the Post Office announced that 61 of its larger urban branches would move into WHSmith stores over the next 12 months. 107 Post Office branches are already within WHSmith stores.

“After our bank closed we were told to use the nearest Post Office but all that is good for is depositing cheques. It seems a very amateurish process. You give them an envelope and hand it over the counter. There’s no stamp or paying-in book to prove it was handed over.”

FSB member, Craigavon, Northern Ireland

Agreements with over 20 individual UK banks have been signed with the Post Office to offer counter services, with more expected in the future. The Access to Banking Protocol already requires designated banks, in the event of a branch closure, to consider nearby Post Office branches as an alternative source of banking for affected customers. Under the Protocol, banks should “engage at an early stage with the Post Office to coordinate communications, operational planning and use of brand.”

Unlike the traditional sub-Post Office, PO Local services are generally offered from a main retail counter in a range of retail premises such as convenience stores, corner shops and petrol stations. This model was the primary experience of small businesses FSB spoke to during our focus group research. Whilst the PO Local model may result in extended opening hours to match those of the host retail outlet, the range of services available tends to be more restricted than the traditional sub-Post Office model. Those PO Locals situated five miles’ road distance or more from a full service branch are also required to retain the manual banking and bill payment services, referred to as the ‘Local Plus’ model.

Our focus group research points to concerns among some small businesses as to whether the PO Local and Local Plus model branches are able to cope with the increased footfall as a result of bank branches closing. The low cash deposit limit may be preventing some firms from fully depositing their weekly earnings. Many small firms also said that other services offered in Post Office branches were often not appropriate to the needs of their businesses. In some cases, services such as processing cheque deposits appear to have been carried out far too slowly. Given that these local economies are often highly dependent on tourism, the inability of some Post Office branches to provide cash, currency exchange or inter-account transfers was also cited.

“The Post Office will not allow businesses to pay in, I believe, and also withdraw - apart from using debit cards. They won’t deal with cash; they’ll allow you to deposit cheques, but they don’t actually deposit them. They put them in an envelope and send them by post. So it takes two days longer to clear as well. That massively affects cash flow.”

FSB member, Glastonbury, England

“We recently paid cheques in at the Post Office and after ten days they still hadn’t cleared. When we asked them what was going on, they said they couldn’t follow up our query for another ten working days. There didn’t seem to be any regard over how that might affect us.”

FSB member, Conwy, Wales

As PO Locals are generally offered from a main retail counter, transactions are performed by general staff at the main retail counter, rather than by dedicated staff at a separate counter. Linked to this, small business owners also commented on the perceived lack of understanding of banking services which was apparent amongst some staff.

“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, Scotland

“The Post Office can give cash over the counter for British cards but not foreign cards, which is a massive problem for tourism. So we’ve got the issue of people being here not being able to draw cash but wanting to spend money locally. And not coming back as a result.”

FSB member, Lochinver, Scotland

Mobile banking units

Mobile banking units have been operating in the UK for decades. RBS first introduced mobile banking units for customers in remote areas in 1946, covering Scotland, England and Wales. As of January 2016, RBS Group “operated 22 mobile branch routes in Scotland, 14 in England and Wales and one in Northern Ireland, covering over 11,000 miles and serving 600 communities each week.”

In some areas of the UK, mobile banking units have specifically been used for communities that have lost all of their bank branches.

Our focus groups revealed a deep sense of frustration over some banks’ use of mobile banking units as a replacement for traditional branches. In particular, businesses complained that banks often made no attempt to raise awareness of when mobile banking units would arrive in the local area or what services would be available. FSB members also noted that banks had not offered basic information about mobile banking units as an alternative service. Finally, small businesses expressed strong concerns over a lack of security with mobile banking units.

“The bank has said they will put a mobile banking unit in the town for an hour on a Friday but no one knows at what time. They don’t advertise the service so businesses who would otherwise use the service won’t turn up.”

FSB member, Sturminster Newton, England

“What sort of service is that supposed to be if everyone has to make themselves free for one hour a week? I think that’s disgusting. It also means lots of people will be making their way to the mobile banking unit at the same time and that brings up massive security issues.”

FSB member, Conwy, Wales

28 Age UK, ‘Age-friendly banking - What it is and how you do it’, (30th April 2016), p.28
"We asked the bank to have a campaign to make local customers aware of the mobile banking unit but they refused. They don’t want to because it undermines their decision to move people to other branches in nearby towns."

FSB member, Invergordon, Scotland

"They should send a letter to customers saying who the staff [operating the mobile banking unit] are, how they can contact them, and when the mobile banking unit is arriving."

FSB member, Lochinver, Scotland

These criticisms amounted to a general perception that mobile banking units were an inadequate alternative to having access to a local branch. Mobile banking units were perceived by small business owners as offering the minimum service required to ensure banking provision, with no attempts to enhance service quality or address complaints around security.

Alternative branch models

Several banks operate ‘business centres’ which offer a range of advisory services as well as the provision of relationship managers. CMA analysis indicated that the number of business centres in the UK remained relatively flat in 2013 and 2014 at around 500.29 Santander reported having opened 20 business centres in 2009 alone with a further 50 having opened since then.30

Another current model involves temporary branches. Halifax has trialled “pop-up” branches in shopping centres in Scotland, offering information and advice to customers.31 Other formats such as Barclays Essentials allow customers to do their banking whilst shopping in Asda stores.32 These formats are often heavily supported by digital facilities.

Limited access to cash

Restricted access to cash due to branch closures and insufficient numbers of ATMs led to a range of negative impacts. These included customers moving away from the local economy and towards other high streets where cash could be more easily obtained. Business owners also raised a concern about retaining larger amounts of cash on their premises.

“You have to bank cash. You need to withdraw cash in order to run the business. Whatever you do, you need access to cash. With the banks closing, retail businesses in particular need floats. The Post Office will not give change. Where are we supposed to conjure up change in respect of floats and money? That’s a very simple day-to-day thing, but it’s one that’s overlooked.”

FSB member, Sturminster Newton, England

“Online banking is fine but we’re a cash business so it only goes so far. I used to bank every day but now I bank once a week on my day off. I’m also carrying more cash around with me. I got robbed outside my business a year ago. The risk is also there with the mobile banking unit.”

FSB member, Invergordon, Scotland

29 Competition and Markets Authority, ‘Retail banking market investigation - Barriers to entry and expansion: branches working paper’, (15th August 2015), p.8
30 FSB meeting with Santander in August 2016.
31 Ibid.
32 Ibid.
As cash becomes harder to access in some communities, retail businesses are seeing more customers requesting cashback services, which they are often unable to provide.

“One of the bigger problems is the customers who come into the shop who are used to using cards. We aren’t able to provide cashback because we’re also struggling to hold on to cash. People are expecting to pay with their cards even for stuff that costs very small amounts – particularly because there are so few ways to get hold of cash in the village. But this is too expensive for us to justify.”

FSB member, Criagavon, Northern Ireland

Unreliability of ATM network
In all of the communities where FSB held focus groups, a lack of cash provision and problems with local ATMs were regularly cited.

“The ATM is currently causing a lot of headaches in the village. The machine is past its sell-by date. There was an ATM in the Post Office but it was costing them a lot of money to run so that had to go.”

FSB member, Lochinver, Scotland

“There have been occasions that people have gone to the ATM where it’s either broken down or it’s run out of money. It’s not a good situation. Businesses get stuck. There’s one ATM which is regularly out of service and another which is only accessible when the Post Office is open.”

FSB member, Conwy, Wales

“On New Year’s Eve, the town ran out of money. People then went to the Co-op to get cash back, and then they ran out of money. So they couldn’t give cash back. So on New Year’s Eve, which is a night when a lot of people are going out and spending money in the pubs, suddenly we find that people can’t get cash in the town centre.”

FSB member, Glastonbury, England

ATMs have grown in importance for small businesses due to the closure of bank branches in some areas of the UK. Therefore, ensuring the provision of ATMs on the high street is a key concern for small business owners. FSB asked small business owners what interventions they thought would be appropriate to address specific issues in terms of access to banking in their local community.

Provision of ATMs
Many small business owners suggested banks should invest in installing more ATMs when making the decision to close branches in local communities. This was seen as being particularly important if branches in nearby towns or villages were also due to close in the near future; many of the focus group attendees predicted this would happen and suggested a strategy for how and where these ATMs could be allocated.

“If they could improve the ATM capabilities and people could be taught how to use them then there is potential to protect at least some of our access to the banking services we need.”

FSB member, Sturminster Newton, England
“Access to ATMs is vital. This isn’t just about installing them but putting them in a place that is easy and safe, not on a roundabout off a road with double yellow lines.”

FSB member, Craigavon, Northern Ireland

Training and support for digital banking
FSB members said that if banks expected business customers to adapt to digital and online banking services, they had a responsibility to provide more training and support.

“Banking staff should come to towns like ours and help those who want to use online banking but don’t know how. Surely it can’t be so expensive for a few staff to hop on the train and do a workshop every month?”

FSB member, Sturminster Newton, England

Community banks and credit unions
Aside from those banks primarily responsible for branch closures, some small business owners suggested that more could be done to establish community banks or credit unions in affected communities.

Credit unions are non-profit financial cooperatives that offer a variety of banking services to members, often within a community that shares a “common bond”. This is often perceived as a suitable approach for close-knit rural business communities.

“Credit unions are an interesting prospect for businesses who haven’t got the right banking services in their local area or are struggling to access finance. There’s a real sense of community in Glastonbury and I think something like this could potentially work quite well.”

FSB member, Glastonbury, England

“I suppose it comes from a viewpoint that, at least to some extent, the big high street banks have given up on us. Perhaps now it’s time to try something new. The idea of community banking is something I imagine would be received favourably by many businesses around here because it would be a way of guaranteeing the needs of the customer were always prioritised.”

FSB member, Lochinver, Scotland
POLICY INTERVENTIONS TO BOOST SMALL BUSINESSES’ ACCESS TO BANKING

The following section details interventions that have taken place between the Government and industry in order to improve the ways in which small businesses bank as well as identifying where issues related to financial and digital exclusion are hindering access to banking. We also highlight some relevant comparisons with the United States.

Access to Banking Protocol

In March 2015, under the former Coalition Government, a number of high street banks, the Government, Age UK and FSB signed an industry-wide agreement called the Access to Banking Protocol. This initiative began after the former Business Secretary, the Rt Hon Vince Cable, asked a number of banks in December 2014 for clearer “procedures setting out the steps that banks would take when closing a branch to ensure customers in rural and deprived areas do not lose out.”33

The Protocol commits designated banks to conducting a series of activities that support access to banking. These primarily involve offering alternative banking services to affected customers and carrying out impact assessments as part of any decision to close a branch or reduce banking services.34 However, the Protocol also notes that branch closures are “ultimately commercial decisions for banks to take.”35 As we will detail in this report, there is some evidence to suggest that the Protocol does not do enough to support access to banking or to involve affected customers in some of the prescribed activities.

In May 2016, an independent review of the Protocol was announced by Professor Russel Griggs OBE to “consider the way banks have applied the Access to Banking Protocol, as well as the outcomes for affected customers and communities. If appropriate, it may make recommendations to amend procedures to ensure banks continue to meet the Protocol’s objectives.”36 The review is expected to be published by the end of 2016.

Disclosure of data

The publication of lending and bank branch data is a powerful means of improving access to banking services. Greater transparency can also help to support competition and innovation as well as developing targeted policy interventions to address financial inclusion issues.

However, there is currently a limited amount of publicly available data in the UK, particularly at a geographic level, where issues related to access to banking are most acute. The UK Government launched a voluntary framework for disclosing bank lending data amongst banks in 2013. Following this, in December 2013 the British Bankers’ Association and the Council for Mortgage Lenders began publishing consumer and business lending data from a number of major banks. The data covered the following:

- Loans and overdrafts to small businesses
- Mortgages
- Unsecured personal loans (excluding credit cards)

Over 9,000 postcode areas were covered in the data set and accounted “for about 60 per cent of bank lending to small businesses.”37

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34 Ibid.
35 Ibid.
However, the data is not easily compatible with other sources. It does not reveal the number of lending transactions, nor more detailed information about the borrower’s circumstances or background. Indeed, knowledge of borrowers is largely limited to the postcode area in which they reside. In addition, as only 60 per cent of bank lending is covered, clearly data from a number of bank and non-bank providers of finance is not included. Therefore, this data alone is insufficient to inform broader patterns of lending activity according to geography.

In June 2013, the Parliamentary Commission on Banking Standards published its ‘Changing Banking for Good’ report which expressed its support for data disclosure:

*Increased disclosure of lending decisions by the banks is crucial to enable policymakers more accurately to identify markets and geographical areas poorly served by the mainstream banking sector [...] It will be important to ensure that the level of disclosure is meaningful and provides policy-makers with the information necessary accurately to identify communities and geographical areas poorly served by the mainstream banking sector [...] The Commission therefore supports the Government’s proposal to legislate if a satisfactory regime is not put in place by voluntary means.*

Whilst there has been some acknowledgement from the Government that lending data needs to be made as broad as possible, concerns have been expressed, such as from Andrea Leadsom MP, that, “particularly for smaller institutions, the cost of making such disclosure might be prohibitive and might increase the costs passed on to customers and businesses.”

In the United States, two key pieces of federal legislation have provided the basis for a far more comprehensive approach to the disclosure of data than in the UK. In 1975, the Home Mortgage Disclosure Act (HMDA) was passed, followed in 1977 by the Community Reinvestment Act (CRA). Both Acts demonstrate an attempt to encourage financial inclusion by forcing the disclosure of data. As part of the HMDA, banks are required to publish data on mortgage lending, whilst the CRA requires banks holding deposits to meet “the credit needs of lower-income neighbourhoods and households within the areas in which they are chartered to do business.”

Regulators as well as others can use the CRA to monitor small business lending data and bank branch closures. Indeed, the Federal Deposit Insurance Corporation (FDIC) publishes annual data on the location of branches whose level of granularity includes deposit and service levels, as well as basic information such as the addresses of branches and when they first opened. This data can also be used to monitor the number of branches opened by banks and operating in economically deprived communities.

In a House of Commons debate on Bank Branch Closures on 30th June 2016, Gareth Thomas MP said the Government should consider applying the CRA legislation in the UK:

*When those major banks leave those communities and shut branches, there should be an obligation on them to continue to work there, albeit perhaps through credit unions or other community banks operating there. That legislation works extremely well in the United States and is long overdue here in the UK.*

Speaking in the same debate, James Heappey MP also suggested that implementing similar legislation in the UK “is something which the Government may wish to consider.”

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39 House of Commons, ‘Data Transparency (Banking)’, (3rd July 2014), available at: http://www.publications.parliament.uk/pa/cm201415/cmhansrd/cm140703/debtext/140703-0004.htm#140703-0004_spmin0
42 Ibid
CMA's retail banking investigation

In August 2016, the CMA published its final recommendations after a near two-year long investigation into the supply of banking services to small and medium-sized enterprises. The CMA's recommendations were largely based around the use of application programming interfaces (APIs), which allow publicly available bank and customer data to be shared externally. The CMA particularly recognised the potential for APIs to allow for the creation of new comparison advice services and therefore bring about greater competition in the small business market.

The CMA also recommended that various prompts and alerts be established and sent at appropriate times to business customers. This would encourage small business owners to review whether their banking arrangements were meeting their current needs and whether to consider shopping around for alternatives. Importantly, the CMA identified the closure of a local branch as one event which might trigger a prompt.43

The CMA also said that Core Service Quality Indicators should be established to support small business customers. The indicators would be based on metrics such as customers’ willingness to recommend banking providers. It made a further recommendation to the FCA that a series of additional service quality indicators be taken forward which could be used “to assess and compare quality between banks.”44 These included:

- Availability of (services in) branches (by branch where relevant); for example, availability of extended opening hours, number of staff employed who can complete particular transactions, ratio of staff to customer footfall, proportion of customers using automated account managers.45

This should provide business customers with more up-to-date information about which banking services are provided in their local community. FSB hopes this not only encourages small business owners to shop around and explore alternative banking channels (where they are able to), but also to introduce a greater degree of transparency with banks’ engagement around the Access to Banking Protocol.

Boosting digital skills

Possessing the appropriate level of digital skills to navigate online banking services is vital. The Government has made it clear that driving-up basic digital skills and helping small firms to take part in the digital economy is a key policy priority. In 2014, the former Coalition Government launched its Digital Inclusion Strategy, whereby it committed itself to working with cross-sector partners to build digital and data capabilities in small firms, as well as making affordable hardware, software and infrastructure more widely available in order to improve digital access.

The former Department for Business, Innovation and Skills46 launched the Do More Online campaign in 2014. Hosted on the Business is Great website, Do More Online provides advice and resources to sole traders and microbusinesses on aspects of becoming a digital business. This includes building a website, using social media, online banking and starting an online shop. This campaign forms one of four strands of the department’s Small Business Digital Capability Programme.

The Government has also announced its intention that its own transactions will increasingly be processed online, as part of a “Digital by Default” agenda that promises efficiency and cost savings for citizens, businesses and Government alike. Introducing Digital by Default Government services puts an additional onus on ensuring that businesses without sufficient digital skills are not disadvantaged and are given access to adequate guidance, support, and training where necessary to successfully interact with this and other services. Furthermore, as Digital by Default Government services are increasingly deployed, the importance of reliable broadband connectivity will be even more vital. The Government must take this into account when planning future infrastructure development.

43 Competition and Markets Authority, ‘Retail banking market investigation - Final report’ (August 2016), XXXIX
44 Ibid.
45 Ibid.
46 Now the Department for Business, Energy and Industrial Strategy.
Improving cyber resilience

Resilience needs to be as important a focus as security for addressing cyber issues relating to small businesses. For FSB, cyber resilience means a focus on planning in order to survive a potential cyber attack as well as planning during the recovery. We also believe cyber resilience requires organisations that provide digital services – including banks – to take on more of the burden of responsibility in order to deal with the current scale and scope of the problem. Small businesses alone cannot be expected to independently address these issues, particularly as many currently lack the appropriate knowledge or ability to access the requisite resources, leaving them unlikely to achieve sophisticated levels of resilience.

Interventions by the devolved administrations

Scotland – In 2015, 48 per cent of small business owners in Scotland experienced a decrease in the number of branches in their local area.47 For a country with a population of 5.3 million and a number of sparsely populated areas, the impact has been most keenly felt in rural Scotland, where small towns and villages have struggled with the loss of local branches, and businesses often lack the basic infrastructure to make a phone call, let alone transact online with their bank.

FSB Scotland has been campaigning relentlessly to highlight the economic impact of these closures on local economies. The political response has been limited to those areas affected by closures and the campaigns that have emerged to save branches. This was evident in a members’ business debate in 2013 in which few MSPs, if any, engaged in the wider national debate and economic impact.48 Only the Government Minister attempted to take a Scotland-wide view, though his interventions tended to sympathise with the arguments put forward by banks.

FSB Scotland will continue to highlight the economic harm branch closures cause and campaign for the banking sector to work in partnership with the Government to ensure small firms have access to local branches.

Wales - Wales has been particularly affected by bank branch closures. Over 600 bank branches closed in Britain between April 2015 and April 2016, with five of the top ten areas losing banks being in Wales - Powys, Denbighshire, Gwynedd, Conwy, and Carmarthenshire.49 Large banks were three times more likely to shut a branch in Wales than in the southeast or London, when closures were averaged out for the size of their populations.50 This issue has attracted concern from across the political spectrum, with Assembly Members and MPs highlighting the specific problems in relation to Wales-based small firms and challenging the idea that internet banking can fill the gap when mobile reception and internet access are often particularly poor in areas affected by closures.51

The issue of bank branch closures has often been highlighted in relation to its impact on rural areas. A Welsh Conservatives Debate on “Rural Communities” in the National Assembly for Wales in October 2015 saw cross-party support for keeping banking services in rural areas and concern about the effects of bank closures on rural communities.52 Additionally, a subsequent cross-party National Assembly debate on the specific topic of bank branch closures asserted that urban communities were also negatively impacted by branch closures.53

50 Reuters, ‘Britain’s poorer communities, hit hardest by bank closures, may face shutdown’, (20th June 2016), available at: http://uk.reuters.com/article/uk-britain-banks-branches-idUKKCN0Z60BP
Welsh government funding for Post Office diversification has enabled a range of banking services to be provided through local branches but anecdotal evidence from FSB members suggests that such services are not always geared to meet the needs of small firms. Bank closures have also featured as part of discussions around town centres and regeneration. The debate on banking closures within rural areas in Wales can also be seen in the light of the FSB Wales current #RuralWalesMatters campaign, which seeks to encourage a strategic approach by Welsh Government to the development of rural enterprise and economies.

Northern Ireland - FSB Northern Ireland’s research in 2015 showed that having access to a local branch was one of the most important drivers of banking satisfaction for small businesses in Northern Ireland.\(^\text{54}\) However, Northern Ireland has also seen a reduction of around 30% of bank branches since 2010.\(^\text{55}\) In many of the remaining branches the model of interaction is based on customers using technology in-branch, including ATMs and lodgement machines, rather than face-to-face interaction with a member of staff. Northern Ireland’s banks have also entered into specific arrangements with the Post Office to meet the needs of those customers who were previously dependent on their local bank branch.

When banks close branches, MPs, Members of the Legislative Assembly and councillors often comment on the impact on the local area but there has been little concerted nationwide comment on the issue by the Northern Ireland Assembly and Executive. The Committee for Finance and Personnel held fact-finding sessions with various organisations including the Ulster Bank, the Consumer Council, and some local Credit Unions, following the closure of bank branches in 2013. However, no major review or recommendations resulted from the investigation.

In 2015 the Northern Ireland Affairs Committee published its report, ‘Northern Ireland: banking on recovery?’\(^\text{56}\) The Committee concluded:

> We regret that Northern Ireland’s banks have shown such little thought towards their customers by seeking to either concentrate their branches in the major centres of population, or to close branches in favour of online banking.\(^\text{57}\)

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\(^\text{57}\) Ibid.
The world of banking might be changing fast but few doubt the importance of local branches to the businesses and communities that they serve, and certainly no one in the Highlands & Islands. Here the ongoing culling of branches, without any prior consultation, brings inconvenience and additional costs to many businesses operating in economically fragile communities.

In this vast, sparsely populated and economically fragile region, microbusinesses prevail—frequently one-person-bands run by older people. Tourism is characterised primarily by reasonably affluent independent travellers from the UK and overseas visiting on a seasonal basis. Primary industries are vital, and there are also pockets of industry, energy being the most important. Roughly 50 per cent of jobs are dependent on the public purse, a declining figure as cutbacks bite.

While digital coverage is improving, it is by no means universal, and computer-literacy and fear of cyber crime also limit the uptake of online services. That aside, digital banking doesn’t meet all of the needs in the Highlands & Islands. Businesses need somewhere to bank cash but neither Post Offices nor mobile banks, the latter visiting once or twice a week, suffice. They require small business owners to spend lengthy periods away from their premises at inconvenient times, risking robbery in the process. Many businesses need to access floats and change, while customers need cash to spend. However, mobile banks are of limited use to the former and cash machines in this region frequently break down, hitting the latter. The result is displacement, with many travelling to the next available community to take out money, and spending it there once they get it. The obvious example is the shift in footfall from Invergordon (now having no banks) to Alness (with two banks) three miles away.

As far as we’re concerned, banks are joining Post Offices, police stations, sheriff courts and other public offices in the exodus away from rural communities. The damage that results in lost spend and dented morale should not be underestimated.

Amanda Frazer, Regional Chair, FSB Highlands & Islands
HOW DO SMALL BUSINESSES USE BRANCHES AND WHY ARE THEY SO IMPORTANT?

The role of bank branches for small businesses today

Small businesses continue to use branches for a wide range of services. Proximity to a bank is still a key priority for many small firms. According to a 2015 Charterhouse survey, the number of small firms using branch counter services in the previous 12 months was around 80 per cent.58 Having a branch in a convenient location or nearby was the second most important reason for a small business choosing a bank (17 per cent) after access to free banking.59

The following two broad categories of activities relating to small business branch usage stand out.

The first relates to the ongoing management of financial affairs, such as cashflow (e.g. through depositing and withdrawing money). Paying in cash is one of the main reasons why businesses require access to branches. Typically, retail businesses in particular are more likely to require access to branch services, not least if their own customers prefer paying with cash.

The second category relates to more sophisticated transactions. Many small businesses prefer the face-to-face interaction received in-branch when making an important financial decision.

Being known and understood

Consumer research from Research Works found that small business owners consider it important to know branch staff, particularly counter staff and the relationship manager.60 Being known personally implied to the customer that the bank knew their business well and this was given as a reason for staying with their bank. The 2015 Charterhouse survey showed that 82 per cent of small firms use their local branch to open their Business Current Account (BCA) and this was also the second most popular source for start-ups61 to gain information on BCAs (22 per cent) after banks’ websites.62

Bank branches often play an important role within local communities in smaller rural areas. As small business owners prefer knowing branch staff, branches can often contribute to the sustainability of local communities, in the same way as the local pub or the Post Office. In some of the smallest communities FSB visited, branches provided a meeting point for business owners and an opportunity to discuss developments in the local community, as well as providing increased footfall for many of the neighbouring shops and businesses along the high street.

Data from a July 2016 survey from FSB Wessex, which includes small businesses from across Dorset, Hampshire and the Isle of Wight, illustrated that the majority of local business owners prefer face-to-face interaction.63

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59 Ibid.
61 Ibid. The survey defined start-ups as businesses that have been operating for two years or less.
62 Ibid.
63 The survey was conducted by FSB Wessex in July 2016 with 140 respondents.
The above findings were strongly supported by the small business owners who attended FSB’s focus groups. The benefits of face-to-face interaction were recognised as allowing for a better understanding of the business customer’s issues. A contrast was also drawn with experiences of using customer call centres.

“To me it seems that there is the need for relationship banking, and a personal contact with someone to help people to deal with their own issues, and that could be complex issues to do with businesses, or it could be elderly people who need that help in order to do their banking transactions.”

FSB member, Sturminster Newton, England

“We kind of lost the contract 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. Maybe that’s the way in cities but in villages we expect a one-to-one level of service.”

FSB member, Lochinver, Scotland

“When you go into a bank and sit in an office and talk to someone face-to-face it’s a totally different body language. You can keep a calmness. You can get on with what you have to deal with and the phone side is very impersonal and you don’t then get the result at the end of it.”

FSB member, Craigavon, Northern Ireland

“Gone are the days of anything related to personal service, relationships with businesses and such niceties. The entire world of banking is based around the concept of “the computer says no”. We have so-called relationship managers that have no idea what we do, no idea who we are, have never visited us, know how long we have been with the bank, what our reputation is or anything at all apart from a number on their screens.”

FSB member, Lochinver, Scotland
Banking advice

Information and advice are crucial if the small business banking market is to work effectively. This is partly because many small businesses, and particularly microbusinesses, are not sophisticated banking customers.

Our own research has shown that small business owners clearly value receiving support and guidance from in-branch staff. This evidence is backed up by a survey conducted by the Social Market Foundation and ComRes, which showed that nearly two thirds of small firms prefer to talk to someone face-to-face when making a big financial decision.64

“While we did have the option of staying with ****, our local business manager was being made redundant and didn’t know what arrangements would be made for us if we stayed. Our relationship manager visited us at least once a year and understood our business inside out. Since moving across to ****, our relationship manager is based in Edinburgh, some 180 miles away, so everything is done via the telephone and every time I need some advice, or to review our overdraft, I have had to spend a long time explaining our particular business to them. No real relationship exists, only what they can sell, or at least try to sell to me.”

FSB member, Lochinver, Scotland

“I think it was **** bank that basically got rid of a lot of their business banking managers and it’s all done by telephone now, up north. So it gets very impersonal; you’re not speaking to the same person each time. It’s almost like he hasn’t got the control. I’ll ask: “Is this going to happen or not?” and they’ll say: “I can’t tell you because it depends on what the computer thinks, basically.”

FSB member, Glastonbury, England

“It’s important to actually be able to go into a branch and talk to someone. If you’ve got a problem with your account you don’t always want to pick up the phone - you want to physically sit down and have that conversation.”

FSB member, Craigavon, Northern Ireland

Many small businesses don’t have access to a relationship manager (who could provide advice) because their level of banking does not qualify them for such services. Businesses with a turnover of less than £250,000 tend to qualify only for advice from their banking provider through a call centre. But as the CMA notes, “given that only five per cent of small businesses have a turnover above £2 million, few small businesses benefit from more dedicated and personalised relationship management services.”65 Meanwhile, using an Independent Financial Advisor is often too expensive for many small businesses. Overall, this has led to a situation in which, for example, only 19 per cent of small businesses use external advice when applying for finance.66

Indeed, the primary sources of advice for small businesses, if any is sought at all, include speaking to accountants, tax agents or simply friends and family. However, these options are not always the most appropriate sources of information. Research conducted on behalf of the CMA found that some accountants who provided banking advice for small businesses carried out a number of important activities. These included flagging changes in transaction fees or BCA charges, and negotiating with the bank on their client’s behalf to secure a more attractive free banking period.67 Whilst the research showed that accountants play an important role in providing banking advice to small firms, there is no standardised approach. The CMA pointed out in its final report that accountants were less helpful in tasks such as calculating product comparisons between different banks on behalf of their clients.68

65 Competition and Markets Authority, Retail banking market investigation - Final report, (August 2016), p.292
68 Competition and Markets Authority, Retail banking market investigation - Final report, (August 2016), p.283
Business groups also play an important role in providing small businesses with banking advice and the resources to compare products and services. FSB, alongside the British Chambers of Commerce, runs Business Banking Insight (BBI).69 It is a free and independent website that has been designed to share the banking experiences of 20,000 micro, small and medium businesses, in order to provide insight into the best institutions, products and services across the UK.

Whilst different sources of advice and information exist for small businesses, reliability and uptake are often highly uncertain. It is evident that as branches and in-branch staff continue to disappear, there is a risk of the advice gap growing for small firms.

69 Business Banking Insight, available at http://www.businessbankinginsight.co.uk/
THE IMPORTANCE OF CASH AND ITS RELATIONSHIP WITH BANK BRANCHES

Depositing and withdrawing money, often via cash or cheques, is one of the main reasons why small businesses require physical access to bank branches. This is illustrated by a survey conducted by FSB Somerset and Wiltshire in May 2016, which revealed that local members primarily rely on their local branch for banking cheques, cash and obtaining coinage.70

Figure three: Banking services small businesses are required to access via a physical branch

Indeed, 84 per cent of respondents to Charterhouse’s survey of start-ups quoted cash as being the most important reason for having access to a physical branch.71 Despite cash now being challenged by alternative payment methods, it remained the most popular payment method in the UK in 2015. It makes up just under half of all payments made by consumers. Even by 2025, it is estimated that just under 30 per cent of all payments will still be made in cash.72

70 The survey was conducted by the FSB Somerset in May 2016 with 253 respondents.
All of our focus groups consistently reported the high cash dependency of local economies, which were largely centred on sectors such as tourism, hospitality and retail. Access to cash and coinage was therefore an integral part of the day-to-day operations of many small businesses.

Cash is also the main payment method for consumers across the UK. In rural areas where branch closures are often more prevalent, the importance of cash on the high street is particularly heightened. 99 per cent of 4,000 high street consumers surveyed by Populus used cash on a weekly basis. 65 per cent of those who used cash did so regularly or often.73 Such evidence demonstrates that access to cash is essential for the local high street as consumers want to bank and shop together. The current reliance on cash by small businesses – particularly in rural areas – will remain an important part of the way in which banking services are accessed.

The role of ATMs

A large proportion of cash withdrawals are done via ATMs. The number of ATMs operating in the UK has increased by a quarter over the last decade “from 54,000 in 2004 to over 69,000 in 2014.”74 Their role in providing basic banking services has become increasingly important in communities that have experienced significant reductions in banking services as well as branch closures. According to research from Localis and Cardtronics, 2.8 billion cash withdrawals by ATM took place in the UK during 2015, far outweighing the 245 million debit card cashback requests and 108 million over-the-counter cash withdrawals.75

The feedback FSB received from these focus groups was that branches were invaluable for both exchanging and depositing large amounts of coins and notes. Having nearby branch facilities to manage cash was therefore perceived by many as being a highly important aspect of how the local economy operated.

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75 Ibid
Costs of alternative payment methods

Small businesses often have a range of reasons for using cash over alternative payment methods. Transactional costs associated with using card machines can be disproportionately expensive for small firms, particularly those making a high number of low volume transactions. This was noted by a number of small business owners who participated in our focus groups.

“If a business has a lot of small purchases there’s not necessarily a great advantage in having a card machine as the costs are too great. Therefore, I can see why in retail a lot of my local businesses are refusing to purchase this technology and retain cash.”

FSB member, Glastonbury, England

The costs of card machines can be “disproportionately high as a percentage of the sale value” for “a significant number of purchases on the high street [that] are low value transactions.” Therefore, small business owners’ preference for cash is often simply borne of the fact that it’s cheaper than new payment methods. Indeed, the average amount spent per year by high street retailers offering non-cash services to customers is £3,545.

Finance management

Another key factor which may be attributed to small businesses’ preference for cash payment methods is related to finance management. Quite simply, physical currency enables small businesses to know how much is left in the till at the end of the day or week. In addition, microbusinesses in particular tend to prefer cash basis accounting, where receipts and expenses are recorded when they are received and paid. The Office of Tax Simplification has noted strong support for expanding access to this accounting approach for small businesses.

Small businesses’ preferences for cash and cheques and their reliance on banking services that cater for this are not born out of any resistance towards technological change. There is a broad series of logical factors relating to the concentration of certain sectors in local economies, financial management and barriers relating to digital access (which will be explored in the following chapter) that account for such preferences.

76 Ibid.
77 Populus conducted a survey of over 4,000 UK consumers and 250 SME retailers, on behalf of cash machine provider Cardtronics UK, to discover how both groups feel towards this evolution of the high street and the value they place on ready access to cash. Details of the survey were first published in October 2015.
78 Office of Tax Simplification, ‘Small company taxation review’, (March 2016), p.62
NORTHERN IRELAND

Northern Ireland really is a small business economy: 99 per cent of all businesses here are ‘small’ by definition, and together they employ more people than the rest of the private sector and entire public sector combined. In recent years, small businesses in Northern Ireland have grown increasingly dissatisfied with their banking relationships. Many have expressed a sense of frustration at the perceived failure of banks to support businesses through both good and bad times.

As more and more banks take the decision to close branches, there is growing concern about the lack of transparency and clarity around pricing and charges, which do not appear to be correlated in any way to reductions in service. Business owners need to both build their confidence in, and hold the confidence of, their bank, to ensure sound financial decisions can be made regarding the most appropriate services for them. In terms of community engagement, our members have highlighted the opportunity which exists to educate both small businesses and banks on their respective business contexts, their inherent operating constraints and their respective needs. Key to this is the retention of a broad-based branch network to facilitate regular formal and informal interaction between banks and their customers, to ensure they remain effectively rooted within the communities they exist to serve.

John Friel, Regional Chair, FSB Northern Ireland

Craigavon, 2016
DIGITAL BANKING: THE OPPORTUNITIES AND CHALLENGES AHEAD

How is digital technology changing the ways in which small businesses bank?

As mentioned previously, many small firms are already experiencing the broad benefits that digital services have to offer business owners. FSB reiterates that the challenge now is to ensure access to these services is made universal across the small business community.

Some banks are looking to integrate their branches into a new approach whereby customer engagement takes place across a broader variety of communication channels. For example, a customer might take out a loan by visiting a branch initially to seek advice and information. The transaction may then be continued on the computer and finalised through a mobile app.

The British Bankers’ Association (BBA) estimates that “more than a quarter of the UK’s bank branches have been refurbished in the past three years”, often integrating a number of new digital services in the process. New in-branch “smart” ATMs - which allow customers to deposit cheques and cash - are perhaps one of the most high profile developments in recent years.

Some banks claim that the introduction of this technology frees up more time for staff to support customers. The BBA notes that RBS and NatWest, during 2015, invested £420 million in the introduction of new technology to new branches. HSBC has stated that introducing tablets in its branches will improve “simple serving on meet and greet.” Meanwhile, Barclays has introduced 8,000 specifically trained staff, called ‘Digital Eagles’, to “provide technology advice to customers and the general public.”

Whilst such initiatives are welcome and should be actively encouraged, this contrasts with some of our previously cited evidence, which indicates that banks’ customer-facing staff are being reduced in number alongside their branch networks.

FSB believes that banking providers should continue incorporating digital technologies into branches and also investing in support for business customers using such technologies. We briefly summarise below some of the changes that are currently taking place in terms of accessing banking services, as well as those that are likely to occur in the future.

The rise of mobile banking

Many banking services appear to be increasingly moving towards mobile as the primary channel of communication for customers. In 2015, just under 23 million banking apps were downloaded – an increase in 8.2 million in just 12 months – with 10.5 million banking app logins taking place every day. By March 2016, just under a third (30 per cent) of the UK’s mobile internet users accessed their bank accounts at least once a month. This is relatively stable, with the figure standing at 37 per cent at the same point in 2015 and 34 per cent in 2014. In 2016 20 per cent paid or transferred money electronically.

For those small businesses currently using mobile services, the evidence is clear that they are using mobile phones to maintain connectivity to their core business. This can provide them with the assurance that they can continue to operate their business whilst travelling or working from home.

As more transactions – and more complicated transactions – move onto mobile channels, the Social Market Foundation predicts that banks are soon likely to develop “specialist apps for particular transactions, which may try to mimic some parts of the in-branch experience using functions like live or video chat.”

Separately, an example of how traditional branch-based banking methods might soon change as

80 Ibid.
81 Competition and Markets Authority, ‘Retail banking market investigation - Barriers to entry and expansion: branches working paper’, (31st August 2015), p.10
84 Ibid.
85 Ibid.
a result of mobile banking can be seen with cheque imaging. This technology will allow customers to scan an image of a cheque via their mobile device. This enables a significant acceleration of the clearing process compared to the traditional paper method.

**Smart ATMs**

Whilst the vast majority of existing ATMs already allow customers to make mobile phone top-ups and access mini-statements, two thirds do not offer additional banking services such as inter-account transfers or the depositing of cheques. In contrast, so-called ‘Smart’ ATMs allow customers to access a range of banking services on top of simply withdrawing cash. Their development and expansion should partially help to provide some of the banking services which small businesses regularly rely on in-branch.

**Virtual advice**

The establishment of alternative communication channels via tools such as video relay services is expected to substantially increase over the next decade. As with mobile banking, the benefits are self-evident for those customers in remote areas of Scotland whose costs of travelling to a branch are significant (not least due to the time spent away from their business).

Barclays was one of the first major banking providers to launch its own video relay service with customer interaction now available via a mobile, computer or tablet. Such technology is still at an early stage, with many services restricted to a limited audience (offerings are still being trialled or are only available to certain customer segments). Whilst the potential benefits are recognisable, many small businesses value the advice they receive from their accountant or from staff in their local bank branch, partly because they may have a preconceived understanding of their business and local economic environment.

Indeed, the challenge for virtual advice is gaining the trust and confidence of small business customers in parts of the UK where digital access tends to be lower. Issues such as poor broadband connectivity in parts of the UK may also continue to negatively impact upon the ability of all businesses to reliably use online banking services. When business owners were asked during our focus groups whether they’d welcome video-conferencing, an analogy was drawn towards telephone banking.

“In order to open a BCA, we had to have a lengthy telephone conversation in Stornoway. It was awful. You’re sitting there not being face to face. It must have taken an hour and a half whilst they ran all the checks. You’re losing the will to live by the end of it. I don’t know if video-conferencing would be better or not.”

**FSB member, Lochinver, Scotland**

Evidently this technology will only succeed in communities affected by branch closures if the banks can demonstrate an improved customer service offering next to existing communication channels.

FSB wants more small businesses to experience the benefits of digital technology. However, striking the right balance between protecting existing in-branch services and incorporating new digital technology needs to be carefully considered in order to ensure small business customers are brought along on this journey.

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Whilst the examples of innovation in business banking potentially offer exciting benefits to some small firms, the CMA’s Retail banking market investigation stated the following:

*We found that there has been little product innovation and innovation has tended to focus on the digitalisation of banking and reducing customer reliance on branches. These innovations have lagged behind the levels observed for PCAs. For example, some banks do not offer mobile banking to SMEs or offer less functionality than they offer to PCA customers.*

FSB is supportive of banks incorporating greater digital technology into their branch network. The branch must be used as a space to educate and advise small businesses on new ways to access banking services. Without this support, some firms will continue to resist or feel less confident using this technology.

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89 Competition and Markets Authority, ‘Retail banking market investigation - Final report’, (August 2016), XXII
THE DIGITAL INFRASTRUCTURE AND SKILLS LANDSCAPE AMONGST SMALL FIRMS

The majority of small businesses now participate in the digital economy. Ofcom has found that 78 per cent of smaller businesses use a broadband connection; 97 per cent of these small businesses use email and 89 per cent use it for other types of web access. 83 per cent order goods or services online and 39 per cent of small businesses said they also use the internet for marketing purposes. FSB research similarly found that 88 per cent of FSB members said that access to the internet was important for marketing, 86 per cent for business development, 79 per cent for selling goods and services, and 63 per cent for taking payments.

Broadband connectivity

Poor or unreliable broadband access is often a key barrier to some small firms’ ability to access alternative banking and payment services. Whilst high download speeds are not necessarily needed to access banking services, reliability is essential. In 2015, our FSB survey asked small business owners why they were not going online or upgrading to superfast broadband. An unreliable broadband connection was viewed as the most significant issue by respondents. This unreliability meant that many small business owners could not increase their use of online services, as they did not feel the quality of their broadband connection could be relied upon for core functions. The issue of having an unreliable broadband connection was closely followed by prohibitive cost, an unreliable mobile signal, the feeling that small businesses are currently doing all they need to online, concerns about security and fraud and a lack of digital skills.

“We don’t have 4G here. We sometimes don’t even have 3G. I actually live in the centre of town and I can’t get superfast broadband, which seems absolutely ridiculous.”

FSB member, Sturminster Newton, England

“The quality of the internet connection is really inconsistent. I can get online to bank but things often cut out whilst I’m trying to make a payment or check my balance. That is immensely frustrating and it also makes me less enthusiastic about moving over more of my banking to online.”

FSB member, Glastonbury, England

A lack of superfast broadband is a key factor stopping small businesses from doing more online. Without a reliable, fit-for-purpose broadband connection, particularly in rural areas, no small business would invest valuable time in doing more online. This was an issue that was frequently raised in our focus groups.

“I tried to do some simple online banking to pay a few bills etc. It took me over an hour due to the speed of the broadband. Thank goodness for the Post Office for cash and cheque deposits, albeit taking an extra 24 hours to deposit. I still have to send cheques (which the banks want to get rid of) to maximise my productivity when paying bills.”

FSB member, Lochinver, Scotland

91 Ibid.
93 Ibid.
“The broadband gets even worse when you get out into the villages. Back in January basically somebody cut through one of the cables and they got flooded or something. There was no internet or telephones for weeks.”

FSB member, Glastonbury, England

Concerns over cyber fraud

Legitimate fears over the costs and potential risks of online banking and payment technology may explain a preference for in-branch banking amongst some small firms. These concerns mean that some small businesses are less prepared to transition from traditional banking channels to digital or online banking services.

“There are people who just won’t use online banking; they are afraid about the security of it, and they don’t want to make mistakes.”

FSB member, Sturminster Newton, England

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FSB member, Sturminster Newton, England

“We don’t use online banking because I don’t trust it and I’m not interested in getting stung by an online scam. We wouldn’t touch it.”

FSB member, Lochinver, Scotland

There is good evidence to support these concerns, which indicates that the digital infrastructure underpinning digital banking and payment systems is not cyber resilient. Indeed, the latest data from UK Cards Association shows that:

- There were over 53,000 online banking frauds in 2015 (up 26 per cent on the previous year) worth £60.5 million, which in value terms equated to a 48 per cent increase on 2013
- Gross fraud losses on UK issued cards were over £400 million in 2014, up 6 per cent on 2013
- Fraud losses on e-commerce were approximately £217 million in 2014 from a total of £331.5 million in losses from CNP fraud

FSB research found that in 2016, the average cost of cyber crime to small businesses was just under £3,000. For many, £3,000 could be the difference between making a profit or a loss in a business quarter or half-year period. For a start-up the impact could be even greater. A cyber attack costing around £3,000 could wipe out working capital and result in the start-up going out of business before it has had a chance to grow.

The importance of digital skills

According to the digital skills charity Doteveryone, basic digital skills contain five distinct elements; these include managing information (finding and storing digital content), communicating (specifically
communicating online), transacting (including making payments), problem-solving (using digital tools to find solutions) and creating (generating basic digital content).\textsuperscript{96}

Yet in spite of the growing small business participation in the digital economy alongside increased awareness of the importance of digital skills, the UK is still experiencing a digital skills gap. In fact, it is estimated that approximately 23 per cent of the UK population lack at least one basic digital skill.\textsuperscript{97} FSB believes the skills gap should be addressed, particularly in communities affected by access to banking issues, in order to enable them to access alternative banking services. More generally, there is a clear economic benefit which could be realised if the digital skills gap were to be addressed and small businesses were to receive the right mix of support to increase their use of digital skills.

There are a significant minority of small firms that may be described as digitally excluded. Here, there appear to be considerable overlaps between the financial and digital exclusion which some small businesses experience.

**Digital exclusion**

Many small business owners identify a lack of existing digital skills and expertise as a key obstacle to their going online or adopting digital technologies. According to the Lloyds Bank UK Business Digital Index 2015, almost 1.85 million businesses “have a very low level of digital understanding and capability.”\textsuperscript{98}

In the five rural local authorities where FSB held focus groups on access to banking issues, we used Doteveryone’s Digital Exclusion Heatmap\textsuperscript{99} to identify some of the digital and social characteristics of the local population. The Heatmap shows the likelihood of exclusion from a digital UK at local authority level. By combining digital and social indicators, a single measure of overall exclusion is calculated, ranging from a low likelihood of digital exclusion to high. Where digital skills are lacking, factors such as poverty and access to basic infrastructure are an issue; however, education, income, health and internet access all play a key role in determining levels of social exclusion.

**Figure five: Digital exclusion across FSB’s focus groups**

**Source:** Doteveryone’s Digital Exclusion Heatmap

<table>
<thead>
<tr>
<th>Conwy</th>
<th>Glastonbury</th>
<th>North Dorset</th>
<th>Highlands</th>
<th>Craigavon</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Likelihood of overall digital exclusion is high.</td>
<td>• Likelihood of overall digital exclusion is medium.</td>
<td>• Likelihood of overall digital exclusion is medium.</td>
<td>• Likelihood of overall digital exclusion is high.</td>
<td>• Likelihood of overall digital exclusion is medium.</td>
</tr>
<tr>
<td>• 19% of adults have never been online.</td>
<td>• 12% of adults have never been online.</td>
<td>• 13% of adults have never been online.</td>
<td>• 18% of adults have never been online.</td>
<td>• 14% of adults have never been online.</td>
</tr>
<tr>
<td>• 39% of adults have no qualifications and/or no Level 1 qualifications.</td>
<td>• 35% of adults have no qualifications and/or no Level 1 qualifications.</td>
<td>• 34% of adults have no qualifications and/or no Level 1 qualifications.</td>
<td>• 50% of adults have no qualifications and/or no Level 1 qualifications.</td>
<td>• 42% of adults have no qualifications and/or no Level 1 qualifications.</td>
</tr>
</tbody>
</table>

With the likelihood of digital exclusion being either medium or high in all of these local authorities, evidence indicates there is a strong link to be made with access to banking issues.

\textsuperscript{96} Centre for Economics and Business Research, ‘The Economic Impact of Basic Digital Skills and Inclusion in the UK - A report for Tinder Foundation and Go ON UK’, (November 2015)

\textsuperscript{97} Ibid.


\textsuperscript{99} The likelihood of overall digital exclusion is made up of eight core digital and social metrics. See more at: https://doteveryone.org.uk/resources/heatmap/?area=Conwy&metric=total#sthash.JS8gOiTK.dpuf
Age and digital capability

There is also evidence of a generational divide in terms of digital capability in the current UK workforce. Across the four rural local authorities where we held focus groups, the average proportion of the population who were over the age of 65 was 23.2 per cent, which is higher than the UK average at 18 per cent.100 The UK economy more broadly has an ageing workforce, which is increasingly leading to businesses experiencing a digital skills gaps among their employees.

This applies particularly to older business owners who will not have grown up with these technologies to the same degree as younger employees, and may have had limited interaction with digital technology during their working lives. Although it is not always the case, evidence shows that older workers are less likely to possess the digital capabilities employers need to take advantage of new technologies. The population without digital skills is strongly concentrated in older age groups – 54 per cent of those without digital skills (which equates to 6.9 million people) are over the age of 65; whereas 94 per cent of 16-24 year olds have all five basic skills.101

FSB survey data suggests a similar trend. We found that when recruiting individuals aged 24 years and under, only 5 per cent of small businesses reported a lack of technology, computing and digital skills. However, when the individuals were over the age of 50 years, this figure increased to 43 per cent.102

FSB believes there is a pressing need to ensure that older workers are not ‘left behind’ in the digital revolution and ensure that businesses – and business owners – are able to participate in the digital economy.

Lloyds Bank’s UK Business Digital Index (2015) highlights a general, if gradual and not universal, trajectory towards firms becoming more digital. Meanwhile, our focus groups have indicated relatively poor levels of digital skills and knowledge in areas where access to banking is a particular issue.

As FSB research has indicated, some of the main barriers to digital inclusion include poor broadband connectivity and a lack of small business understanding of the potential benefits of the digital economy. Banks have a responsibility to support small businesses to ensure they have the digital skills to use online or alternative banking services – particularly in areas where existing services have been reduced or where branch closures have disproportionately impacted the local community. It is our view that everyone in a small business should have mastery of basic digital skills, such as working with computers and tablets, using standard office applications and the internet.

NORTH WALES

North Wales is a diverse region, from the fairly industrialised east with large employers such as Airbus and Toyota, through to the rural west which is heavily reliant on tourism. Much of the economic activity and population cluster is along the coastal strip. In effect, the further west and south one goes, the more rural the area becomes. That is why it is particularly concerning that the majority of bank branch closures have occurred in the rural areas, where closures have a disproportionate effect. In 2015 three branches closed in the industrialised counties of Wrexham and Flintshire, while thirteen branches closed in the predominantly rural counties of north west Wales. Recent press reports suggest that there is much more to come in these areas.

Unlike in urban areas, if a bank branch closes in rural Wales the business owner may face a twenty-mile or more round trip to bank cash. This results in more time away from the business, or fewer trips to the bank, with the subsequent problems of storing cash on site. Also, when you run a business dealing in cash, you cannot pay in a bag of change over the internet or through a smartphone app – there are limitations to even the most advanced technologies! In addition, online banking is not always easily available in rural areas. North Wales particularly suffers from patchy or non-existent mobile phone coverage and reliable broadband has still to reach many areas.

The other consequence of so many branch closures taking place is the loss of the relationship banking model. The local bank managers understand their customers because they are part of the rural community. The loss of bank branches to rural areas is something which makes it physically harder for traders to do business, and which leaves bank staff with a poorer understanding of the needs of their customers in more rural areas.

Gwyn Evans, Regional Chair, North Wales
POLICY RECOMMENDATIONS

The evidence in this report indicates that small businesses are experiencing restricted access to banking services, which is having an impact both on their own productivity and that of the broader local economies in which they operate. However, the identification of the ways in which businesses are being negatively impacted and across which parts of the UK remains a challenge, due to a lack of publicly available data.

In addition, our research has clearly found that challenges remain for small businesses developing the digital skills they require to successfully engage with the digital economy. This is despite the rapid development of digital technology presenting myriad opportunities to improve the competition, choice and service quality across existing banking services.

Our recommendations are based on the premise of seeking to empower small firms by providing them with the guidance, education and tools they need to access the banking services they rely on to maintain and grow their businesses.

**Improve small business confidence and awareness of the Access to Banking Protocol**

FSB supports the ongoing development of the Protocol as a means of supporting small businesses’ banking in their local community and finding alternative banking services. However, our research indicated extremely low awareness of the initiative, which suggests that far more needs to be done to engage small businesses in the process. It is also clear that banks are not investing enough in communicating with, and supporting, affected business customers – something that clearly needs to be addressed as a matter of priority. Therefore, more needs to be done to provide customers with greater information regarding access arrangements when informing them of the decision to close a branch. We suggest the following recommendations should be taken forward:

- **Communicate the Protocol more effectively** – When designated banks notify customers about potential or eventual decisions to reduce banking services that may affect them, there should be a requirement to clearly detail the terms of the Protocol and the commitments banks have explicitly made to support small businesses. The 12-week minimum period in which banks must notify customers before a branch is moved or closed should be extended to 24 weeks, to give small businesses an appropriate amount of time to make alternative banking arrangements. The Protocol should also include a requirement for banks to communicate any decision to close a branch to the local FSB region.

- **Pre-closure assessments should involve public community engagement** – Whilst we acknowledge branch closures are ultimately a commercial decision, we believe that banks have a responsibility to engage with customers, not least to understand how any negative impacts can be mitigated. We therefore recommend that the “internal analysis” which banks must conduct as part of their “pre-closure assessment” should be revised to an external process, involving a public consultation with affected customers, including small businesses, as well as a rigorous impact assessment. This would improve small business confidence in the Protocol. Currently, the Protocol requires designated banks to carry out such activities only after a decision is reached.

- **Send details of all relevant engagement activities** – Details on consultations, community engagement processes and impact assessments are often hard to find on designated banks’ websites. Therefore, direct communications to affected business customers should enclose comprehensive information on these activities.

- **Post Office information needs to be accurate and up to date** – FSB also supports the recommendations of Citizens Advice that banks “should specify any limitations to the banking services available” at named alternative Post Office branches.103 Banks should also do more to communicate with the Post Office to ensure information signposting is accurate and up to date.

Locked Out: The impact of bank branch closures on small businesses

- **Transport information should be included** – The numbers and schedules of bus services and other transport links to named alternative banking sites should be similarly communicated to affected customers as part of the Protocol.

- **Banks should be required to redirect affected customers to the Business Banking Insight website** – BBI is a free and independent website that has been designed to share the banking experiences of 20,000 micro, small and medium-sized businesses, in order to provide insight into the best institutions, products and services across the UK. Banks should be required to inform affected businesses of the ways in which the BBI can be used to access information on a full range of alternative available providers.

Following the CMA’s recommendations around the development of APIs and Open Banking, the Government, the Financial Conduct Authority and the banking industry should explore whether APIs could be used to more effectively support small business customers affected by reduced services. APIs could be used to underpin the commitments of designated banks under the terms of the Protocol. For example, we recommend that prompts could be sent out when a bank initiates a consultation and/or community engagement exercise as to whether to reduce banking services or close a branch. This would increase engagement between business customers and their banking provider, as well as improving awareness of the Protocol.

**Develop a UK-wide strategy for delivering standardised business banking advice**

There is no particular route for small businesses seeking advice on banking, if they seek any advice at all. Branch closures in some parts of the UK may have impacted upon levels of access to advice for small businesses.

FSB believes it is crucial that the delivery of banking advice should be standardised through an overarching strategy so that small businesses can be confident that the information they are receiving is appropriate. This strategy should be reviewed on a regular basis so the advice can be updated according to changes in the banking market. Standardisation should be limited to a level at which the risks of reducing product differentiation – and therefore impacts on competition – are mitigated.

Aside from this, we welcome the CMA’s recommendations that APIs could be used to deliver prompts to small businesses on where to access financial advice. We also support the CMA’s recommendation for the Department for Business, Energy and Industrial Strategy to work with the British Business Bank and professional associations to provide advice to small businesses on choosing the right bank and finance product. In implementing this recommendation, Local Authorities, Local Enterprise Partnerships and Growth Hubs should be included to ensure such information is available at a regional level.

We propose that a digital ‘advice gateway’ should be established as part of this strategy, in order to signpost customers to approved banking services. This gateway should be replicated into a hard copy guide for those businesses who are less digitally engaged.

**Improve banking providers’ data disclosure**

FSB believes the limited level of data currently published by all providers on small businesses’ access to banking services, including levels of lending and branch usage, makes targeted interventions across the financial inclusion space extremely challenging. The original purpose of the Access to Banking Protocol was, as Vince Cable set out, to “ensure customers in rural and deprived areas do not lose out.” FSB suggests that obtaining the appropriate level of data to monitor where the impacts of branch closures are most severe is absolutely necessary.

We therefore recommend that an HM Treasury review be launched to see whether additional requirements for data disclosure from banks would be of benefit to improving small businesses’ access to banking services. FSB is supportive of calls from groups such as the Community Investment...
Coalition, which has said that such data should be published on a quarterly basis and managed by the Office for National Statistics. Learning from relevant legislation implemented in the United States would be of clear benefit in this regard.

FSB also supports existing calls for all banks operating in the UK to be required to submit details of branch closures to a central government-run digital register on a continuous basis. This would allow both communities and policymakers to understand how the issue is impacting upon small business access to banking across different parts of the UK.

**Conduct an economic impact assessment of bank branch closures**

The Government should identify the impact of branch closures on economic activity in severely affected areas. Such a study should identify what costs are being imposed on businesses in terms of productivity and whether these are forcing small business owners into inefficient practices. Such an analysis could provide the basis for more targeted support for vulnerable areas, including the growth of Community Development Finance Institutions such as community banks and credit unions.

**Post Office needs to create a standardised service that matches the specific needs of businesses**

Our research found an increasing reliance on the Post Office, particularly in areas where banks have reduced their own services or branch network. However, some small businesses complained that some existing services, such as cheque clearing and bill payment services, were carried out too slowly and that the variety of services offered by their Post Office branch was too limited. This is partly why FSB supports the recommendation of Citizens Advice that “the Post Office should consider reviewing whether it is feasible to increase the current limit on cash deposits in the Local model.”

FSB recommends that the Post Office develops a standardised service across the UK as soon as possible. All small businesses that have been affected by a branch closure should be able to quickly transfer basic banking facilities to their nearest Post Office branch, including depositing both cash and cheques as well as accessing change. The creation of a standardised service will be subject to the Post Office securing referral agreements with a number of individual banks. Once this is achieved, the process for referring customers to their local Post Office following bank branch closure should be more straightforward.

**Improve small businesses’ access to the digital economy**

In order for small businesses to gain the benefits of digital and online banking platforms, broadband connectivity needs to be improved across the UK, whilst small firms need to better understand the value of this technology. The Government’s new Universal Service Obligation for broadband speed must stretch and increase automatically over time. Clearly, as the development of banking is increasingly centred on mobile services, improvements to 4G connectivity – particularly in rural areas – must also be a priority. This will allow small businesses to access services that are increasingly offered online, and to encourage competition as many banking providers now only have a digital presence.

The Government should also continue to promote the ‘Business Is Great’ campaign and tailor messaging to align it to the different benefits that superfast broadband can bring to different small businesses. Emphasising the financial benefits of going online could inspire greater willingness among many small businesses to pay for broadband services.

More effective messaging is also required to support the integration of mobile services within small businesses.

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104 The Community Investment Coalition is a partnership of national organisations including financial providers, charities, trade associations and academic bodies that seeks to promote access to affordable finance for families, businesses and communities.

businesses. FSB suggests the Government conducts regular impact evaluations to assess whether relevant initiatives have been successful in improving small firms’ awareness of digital skills and subsequent use of guidance and resources.

With regard to cyber security, as long as banks and other financial intermediaries can remain exempt from any formal responsibility to ensure that users and their systems are as secure as possible, there is no incentive for them to deliver significant security improvements. Yet it is the banks that have the resources to best understand the range of cyber threats and the areas of risk, as well as the resources to invest in reducing them. Banks and other financial intermediaries have the resources to be much more proactive in dealing with cyber crime and to invest in the best technology to tackle e-fraud and other online financial crimes compared to small businesses. Therefore, financial intermediaries should be required to take more responsibility for cyber resilience by being made liable for losses as a result of cyber crimes such as online theft and fraud.

**Protect and develop existing ATM network**

Restrictions on the ability to access cash on the high street, due to the reduction of relevant banking services, are leading to reduced customer footfall (and therefore reduced spending) in some areas of the UK. As a result, everyday shoppers are less likely to visit and spend money in affected communities. This has a clear negative impact both on small firms and the broader economy.

Changes to the taxation of ATMs in recent years have created future challenges around this provision. Determining who is liable for the rate bill of an ATM is contingent on the agreement made between a property’s occupant and the owner of the ATM. A House of Commons Library briefing has noted that the Valuation Office Agency (VOA), which gives the Government valuations of property to support taxation, has in recent years “become readier to assign them a rateable value, rather than treating them as forming part of the property in which they are located.”

In particular, the VOA decision in 2013 to create a rateable value for over 12,000 ATMs operated out of retail businesses means they are now recognised as being separate from the business premises for rating purposes. This has significantly increased the operational costs for those businesses that run them.

FSB believes a sustainable ATM industry is a vital element towards supporting small businesses’ access to cash, and more broadly, basic banking services. The Government and the VOA should review their 2013 decision in order to support small firms’ access to basic banking services and encourage spending on local high streets.

FSB also encourages the Government to work with the industry to consider where the needs are greatest for ATMs to be installed. In particular, support should be prioritised for those communities that have lost all of their bank branches and whose economy is still strongly cash dependent.
DORSET, HAMPSHIRE AND THE ISLE OF WIGHT

Micro and small businesses across our region, encompassing both larger urbanised areas and a number of smaller rural communities, are very concerned about the reduction in the level of banking support services. Although a number of branches have ceased to trade, the clear expectation is that more branches will continue to close.

The general feeling is that this is very much a sign of the times, and banks are now more focused on cost-cutting than providing vital customer service. Time spent away from a business will mean a potential loss of earnings, and a number of businesses are now facing longer drive times for a face-to-face banking service. Many businesses are also heavily reliant on online banking and will continue to try to do as much as possible to avoid going to their bank. The use of cheques continues to be a contentious issue for many businesses, and clearly the phasing out of cheques will help to reduce banking needs.

Banks being concentrated in large town centres may result in accessibility problems and issues associated with parking. With customers needing to go to other areas to do their banking, smaller towns will cease to be the convenient option and may lose footfall and business sales. Businesses are not just missing a local branch, but are still keen to ensure a relationship with their bank, particularly a manager who will understand their business and can help them to grow. Frequently changing staff, reliance upon technology and the closure of branches are all ongoing concerns that are having a significant impact on day-to-day business for many local independent businesses. What we must take into account is that a one-size-fits-all banking policy may not work for the business community.

Ken Moon, Regional Chair, FSB Wessex
FSB RESEARCH METHODOLOGY

In order to improve our understanding of how small businesses access banking services, as well as the impact that branch closures are currently having, FSB conducted a series of UK-wide focus groups with small businesses between July and September 2016.

All of these areas of the UK are known to be particularly affected by reduced banking services and branch closures, so we recognise the potential for selection bias. Indeed, whilst we targeted small businesses across all sectors and sizes, a number of attendees were inevitably more engaged in the issue, and were therefore likely to have been directly affected by the subject.

These focus groups took place in Glastonbury (Somerset, England), Sturminster Newton (Dorset, England), Craigavon (County Armagh, Northern Ireland), Conwy (Wales), Lochinver (Highlands, Scotland) and Invergordon (Highlands, Scotland). These locations were selected following a UK-wide request to FSB members in May 2016 for their experiences of reduced banking services or branch closures. We asked our regional FSB representatives to introduce each location where focus groups were held, to explain how small firms access banking and what impact branch closures has had.

During these focus groups, we asked small business owners a series of profiling questions about them and their businesses. This included identifying the importance of different payment methods, digital technology and broadband access to their business.

We then asked them how they preferred to access banking services and what services were most important. This was followed by a discussion on how they used their local branch, both in terms of the frequency of visits as well as specific products and services. The discussion then moved on to their awareness and experience of new digital technologies being incorporated into existing branches.

After this, we looked at alternative banking services, such as the Post Office, particularly with regard to uptake and perceived barriers to access. Finally, we explored the experience of those affected by branch closures, including the ways in which the relevant banks both engaged and provided them with information. The names of all banks mentioned in our focus groups have been redacted.