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Y Gweinidog Tai a Llywodraeth Leol
Minister for Housing and Local Government



Llywodraeth Cymru
Welsh Government

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Russell George AM
Chair of Economy, Infrastructure & Skills Committee

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Dear Russell

Thank you for the opportunity for myself and the Minister for Economy and Transport to join you at the meeting of the Economy, Infrastructure & Skills Committee on 3 July.

We have enclosed an Evidence Paper which considers the current situation for access to banking in Wales and examines potential opportunities to support and enhance those services.

I hope the Committee will find it useful.

Yours sincerely

A handwritten signature in blue ink that reads "Julie James".

Julie James AC/AM
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Minister for Housing and Local Government

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Evidence Paper: Economy, Infrastructure & Skills Committee

Access to Banking in Wales

1. Introduction

The Federation for Small Business (FSB) reports that since 1989, 53% of bank branches in the UK have closed. Indeed, in Wales alone there have been 235 bank closures since 2015, with more expected.

Banking regulation is non-devolved and it is the UK Government which has the powers to regulate the industry to ensure that vital banking services are available to the community on the high street, either by the traditional banks or increasingly through services transitioned to the Post Office.

However, the Welsh Government recognises the importance banking services to consumers, local businesses and the Welsh economy as a whole and is working with partners and stakeholders to ensure accessible innovative banking options related services are available across Wales.

2. Bank closures

Whilst it is recognised that banks will continue to close branches that are not commercially viable, Welsh Government considers that banks have a commitment to mitigate the effects of bank closures in communities across Wales and to ensure the transition is managed so that vulnerable people are not excluded and customers are still able to access banking products in their local community. This includes promoting access to banking at the Post Office, which supports access for personal and business customers for 28 banks providing basic cash in and out transactions.

The Post Office Development and Post Office Diversification Funds provided capital grants worth over £10 million to local post offices in Wales between 2004 and 2015. Grants of up to £50,000 were provided for the improvements of local offices.

3. Rural communities and businesses

Branch closures and reduced services are taking place across the UK but small firms in rural areas are particularly vulnerable to both financial and digital exclusion – challenges associated with broadband connectivity and digital skills prevent many from accessing alternative banking services online. To address the connectivity issues Superfast Cymru (with £200m Welsh Government investment) has provided more than 730,000 premises (more than 95%) across Wales with access to fast fibre broadband. Indeed, Wales has the highest availability of superfast broadband over 30Mbps amongst the devolved nations.

Small businesses continue to rely on bank branches for services and this provision is particularly relevant in rural communities where internet access to online services can sometimes be challenging. Small business associations are concerned about the growing challenges of handling cash: closing bank branches and rising charges make it more expensive and riskier to handle cash. Meanwhile, lower footfall in local

high streets and town centres has had a negative impact on the broader economy. There is also evidence that suggests a clear correlation with negative lending decisions and the distance between lender and the business.

4. Financial inclusion

Our Financial Inclusion Strategy, published in March 2016, sets out how Welsh Government aspires to join with partner organisations, both within Wales and at the UK level, in working towards a more financially inclusive society in Wales. The Financial Inclusion Delivery Plan, which covers the period up to 2021, focusses on the practical actions necessary to achieve this. It sets out actions against the Strategy's three themes:

- Access to affordable credit and financial services;
- Access to financial information, including debt advice; and
- Building financial understanding and capability.

Our vision for financial inclusion is for everyone living in Wales to have access to appropriate and affordable financial services, be supported by quality assured information and advice services and have the financial capability and motivation to benefit from the financial services available to them. Welsh Government remains fully committed to this.

5. Access to cash

Bank closures and the loss of free-to-use ATMs within communities can have a negative effect for many, but particularly for those who are vulnerable and financially excluded. Welsh Government is concerned that those on low incomes, the elderly and people living in rural communities are not left behind.

In addressing financial exclusion the availability of free-to-use cash points is critical, ensuring people are not charged to use cash machines, particularly when they may already be financially excluded. There has been a positive shift in the proportion of free-to-use cash machines – in June 2015 around three-quarters in Wales were free-to-use, compared to just under two thirds in 2009.

In July 2018, the Access to Cash Review was launched, to look at the future of access to cash across the UK. The interim report published in December 2018 showed that the UK is not ready to go cashless and won't be for the next 15 years. 17% of the UK population would struggle to cope in a cashless society.

The final report was published in March 2019 and provides five recommendations to adopt to ensure that no one is left behind, which the Welsh Government supports. The review's recommendations are:

- Guarantee access to cash
- Ensure cash remains widely accepted
- Create a more efficient, effective and resilient wholesale cash infrastructure
- Make digital payments as option for everyone
- Ensure joined-up oversight and regulation of cash

In delivering the actions in the Financial Inclusion Delivery Plan it is recognised that some actions relate to issues outside the control of the Welsh Government and our Welsh partners, but we will actively seek opportunities to engage and influence at a UK level in order to achieve positive outcomes for Wales. This includes liaising with LINK, the UK's largest cash machine network and which is committed to maintaining free access to cash across the UK for as long as consumers need it.

The Payment Systems Regulator (PSR) is taking action to ensure LINK meets its commitment to protect the geographic spread of free-to-use ATMs across the UK. It is also seeking renewed commitments from banks that consumers will continue to be offered services, allowing them to access their cash.

LINK has had a Financial Inclusion Programme in existence since 2006 which has been focused on improving free access in the most deprived areas of the UK through providing financial subsidies to operators who operate machines providing free to use access in the most deprived areas. Originally 10 pence per cash withdrawal in 2006, this subsidy has grown substantially over time and from the 1st April 2019 this had increased to up to £2.75 for the ATMs that are used least and do not have another free-to-use ATM within one kilometre. This has proven very successful in incentivising operators to provide free ATMs across Wales.

LINK recently announced a new 'super premium' that will significantly increase payments to ATM operators, so there should be no economic need for an operator to turn a free-to-use ATM in a remote or deprived area into a pay-to-use machine. As an additional benefit, LINK also expects a number of existing pay-to-use machines to be turned to free-to-use given the new super premiums available to the operators of these machines.

6. Mobile banking

NatWest website shows that they currently provide a mobile banking service over six days per week at 78 locations across Wales. The Lloyds Bank website shows a presence at five locations covering South Wales.

In February 2019 Lloyds Bank announced a pilot scheme, working in partnership with Visa, to increase access to cash by paying a fee to a number of independent retailers to offer a cash back facility. This pilot will target rural or less-affluent areas where there are limited free to use ATM machines available and will allow retailers to provide cash back to customers initially. Longer term, the pilot will look to offer cashback to everyone regardless of them making a purchase at the store.

7. Digital inclusion

Digital inclusion remains a key social justice and equality issue. Non-users or limited users of digital technology are missing out on access to information, services, better deals and cheaper goods, financial security and improvements to their health.

Our Digital Inclusion Framework and Delivery Plan (March 2016) recognises that becoming fully digitally included is a continuous process requiring ongoing support.

It is an issue that Welsh Government cannot tackle alone, requiring the buy-in of all partners and wider society.

Our £1m per annum Digital Communities Wales (DCW) programme, delivered by the Wales Co-Operative Centre, embeds sustainable digital inclusion activities in organisations and programmes best placed to reach the digitally excluded population.

From 1 July a new £6m three-year contract will allow Digital Communities Wales to focus on improving the digital capabilities of citizens and health and social care staff, allowing more people to become more active participants in their own health and wellbeing. It will also continue to engage with any organisation that can help reach digitally excluded people.

Many banks are involved in digital inclusion activities and Digital Communities Wales has worked with Lloyds, Barclays and NatWest to better co-ordinate digital inclusion activities across communities.

8. Credit Unions

In addressing the issue of financial exclusion, the Welsh Government has provided support to credit unions across Wales to provide inclusive financial services. Their role in mitigating financial exclusion has long been recognised by Welsh Government and the historic grant funding provided to credit unions has been given for this reason.

Based on figures at 31 December 2018, the 18 credit unions in Wales provide financial services to 79,412 people, including almost 14,000 junior savers. Over the past decade credit unions have doubled their membership in Wales and have almost tripled their share balances.

The Welsh Government's support to credit unions continues to be well received with £844,000 project funding in place until 2020. Funding is provided to credit unions to ensure people are not excluded from accessing safe, appropriate savings products and affordable loans. There is also an additional £1m financial transactions capital funding that has been made available between 2018-2020 to support credit unions across Wales with their capital reserves and allowing further growth and expansion. These loans are progressing well.

We are currently supporting 21 credit union projects with the funding made available until March 2020. These projects are helping to deliver a number of direct actions in the financial inclusion delivery plan and are promoting financial inclusion across Wales. These projects include school savers projects, payroll development projects, prison savers and projects boosting community engagement and tackling high cost credit.

9. Community Bank in Wales

The Welsh Government is in early stage dialogue with a number of stakeholders who are keen to test the feasibility of establishing a Community Bank in Wales. This work

will be led by stakeholders who will prepare a full market assessment and business plan with the intention of submitting an application to the Bank of England during 2019.

Banking professionals working within the Development Bank of Wales will support this work providing advice and guidance where appropriate and ensuring that the creation of a Community Bank integrates with existing financial institutions including the Development Bank and Credit Unions.

10. Conclusion

There are benefits to introducing a community bank as it would focus on providing banking services to individuals and small and medium-sized businesses across Wales. It would support the Welsh Government's Economic Action Plan, by addressing the gap left by high street banks leaving many of our communities, and particularly supporting those working in Wales' Foundational Economy. There are also clear linkages with the objectives outlined in the Well Being of Future Generations Act - helping to improve the cohesiveness of individual communities, and providing services that help to make Wales a more equal country.

Establishing a community bank also constitutes a number of challenges, the first being the ability to satisfy the stringent requirements of the PRA and FCA whose approval is beyond the influence of the Welsh Government.

Further, as with any new business start-up venture the community bank will need to develop a financially sustainable business model to ensure ongoing viability – this in the face of the private sector retreating from the high street market and investing heavily in on-line services for its customers together with a rapid move towards a cashless society.

Further challenges will exist around any future community bank attracting sufficient new customers as evidence indicates that banking customers are extremely reluctant to move banks.

The Welsh Government recognises the work banks are undertaking to help increase digital inclusion but we feel they could do more to ensure their customers have the confidence and skills to access the full range of banking services, and provide alternatives for those who do not want to bank online.

**Minister for Housing & Local Government
and
Minister for Economy & Transport**

June 2019