

ACCESS TO BANKING SERVICES IN RURAL AREAS

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INTRODUCTION

BACKGROUND

Bank branch closures have been on-going for many years in the UK, but recently the pace has accelerated. In 1989, there were an estimated 17,831 branches operating across the UK¹ and the Federation of Small Businesses estimated this network would be just below 8,000 by the end of 2016². Looking to the future, the Competition and Markets Authority, noted that in five years' time 600 branches could deliver an effective nationwide customer coverage for each major bank across the UK³. Past practice generally involved shutting a branch here or there, but recently large numbers of closures have been announced and it is this change in scale and pace that has created public interest and concern.

The Scottish Parliament's 2018 inquiry on bank closures found that more than a third of Scotland's banks have closed since 2010⁴. Specifically, between 2010 and 2017⁵:

- Renfrewshire, West Dunbartonshire, Glasgow and East Ayrshire have seen their bank numbers reduce by around a half;
- Aberdeenshire, Moray, Dumfries and Galloway, Dundee and Falkirk bank numbers have decreased by at least 20%;
- The City of Edinburgh has experienced the most significant decrease of more than 60% of its banks.

Since 2015 there have been 28 bank closures in the HIE area, with 14 further closures planned in 2018. The total closures comprise 22 in Highland, 10 in Moray, 7 in Argyll and Bute and one each in Eilean Siar, Orkney and Shetland. Seven of these closures are in areas designated by HIE as fragile⁶ (Figure 1).

¹ French, S Leyshon, A and Meek, S (2013) 'The Changing Geography of British Bank and Building Society Branch Networks, 2003-2012'. Nottingham: University of Nottingham, School of Geography.

² Confederation of Small Businesses (2016) Locked out: The Impact of Bank Branch Closures on Small Business [https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-bank-branch-closures-\(final\).pdf?sfvrsn=0](https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-bank-branch-closures-(final).pdf?sfvrsn=0).

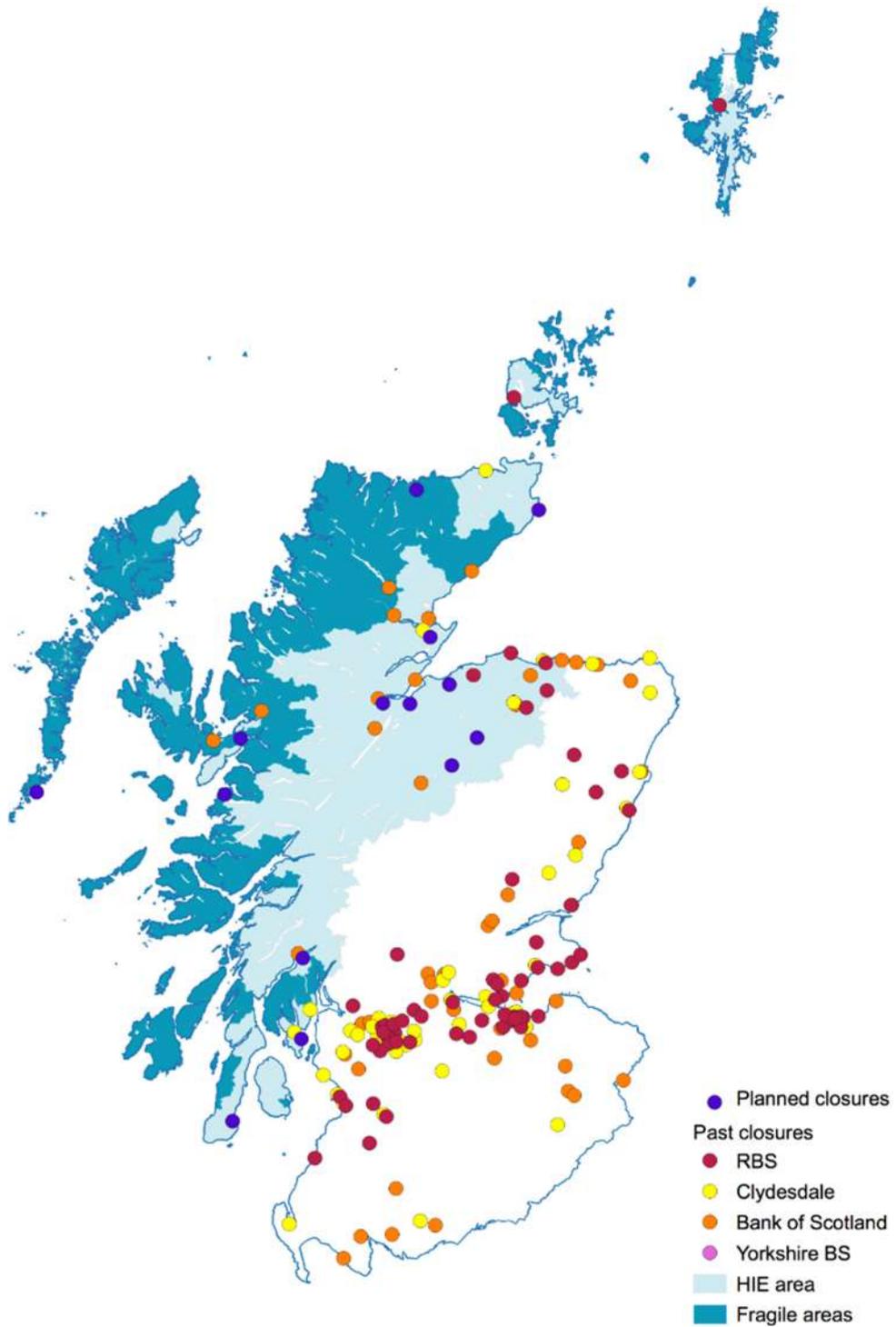
³ Competition and Markets Authority (2016) Retail Banking Market Investigation: Final Report. London: CMA. Available at: <https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>.

⁴ <http://www.parliament.scot/parliamentarybusiness/CurrentCommittees/107957.aspx>.

⁵ <http://www.parliament.scot/parliamentarybusiness/CurrentCommittees/107957.aspx>.

⁶ <http://www.hie.co.uk/regional-information/economic-reports-and-research/archive/review-of-fragile-areas-and-employment-action-areas-in-the-highlands-and-islands---executive-summary.html>.

FIGURE 1: BANK CLOSURES INCLUDING PLANNED CLOSURES IN THE HIE AREA 2015-2018⁷



⁷ Data presented in the map is derived from the following sources: <https://www.which.co.uk/news/2017/04/mapped-the-482-bank-branches-closing-in-2017/> and <https://batchgeo.com/map/ScotlandBankClosures>.

TABLE 1: BANK CLOSURES INCLUDING PLANNED CLOSURES IN THE HIE AREA 2015-2018

	Bank of Scotland	Clydesdale	Yorkshire Building Society	RBS Group	RBS planned closures 2018	Total
Argyll and Bute		2	2		3	7
Highland	10	2			10	22
Moray	3	2		5		10
Eilean Siar					1	1
Orkney				1		1
Shetland				1		1
Total	13	6	2	7	14	42

Source: Data is derived from the following sources: <https://www.which.co.uk/news/2017/04/mapped-the-482-bank-branches-closing-in-2017/> and <https://batchgeo.com/map/ScotlandBankClosures>.

Reasons given for this steep and accelerating closure of bank branches are varied: from the impact of the 2008 Financial Crisis and the associated new regulatory costs; the increase of internet banking; to falling demand for the use of cheques and increased use of electronic payment services.

Justification for the most recent closures is clear – people are choosing to conduct their banking electronically. The leaflets that accompany the latest Royal Bank of Scotland (RBS) branch closures, and the publicity used to announce these closures focused on banking culture changes since 2014 as the justification:

- Branch usage is down 40%
- 1.1 billion mobile and online transactions in first half of 2017 – an increase of 41% since the second half of 2014
- Number of customers using their mobile app up by 43%
- Mobile transactions up by 73%⁸

Access to Banking Standard

All the major banks signed up to an industry-wide agreement on how to manage bank branch closures in May 2015. This Access to Banking Protocol was then reviewed in 2016, becoming the current Access to Banking Standard which has operated since May 2017⁹. Its overarching principle is that customers and stakeholders of a closing bank branch will be provided with clear, understandable, accessible documentation and information about that specific closure, as soon as the bank is able to do so. The banks involved also have to outline what closures will mean for them and how they can continue to bank following closures.

In the case of the most recent closures, customers have been informed about the location of their nearest alternative branches, offered information about online banking apps, provided a listing of local ATMs, and whether an alternative mobile banking service will be offered. There is also a partnership agreement with the Post Office allowing bank customers to pay in cash and cheques and to withdraw cash directly from their bank account.

⁸ Information provided by RBS to customers experiencing bank closures in 2018.

⁹ <https://www.bba.org.uk/policy/retail/financial-inclusion/access-to-banking/access-to-banking-standard/>.

THE HIGHLANDS AND ISLANDS CONTEXT

Adaptation has been possible given the increase in use of digital technologies and in areas where there is good internet coverage and mobile phone signals which allows ease of use for the various business electronic payments methods and high-speed access to internet for personal and business banking. In some rural and remote areas of the Highlands and Islands, internet and mobile connectivity is less strong, which can impact on the readiness or ability of residents to use electronic banking methods.

For the Highlands and Islands, geography is also critical in terms of ability to access alternative branch-based banking services. In announcing a further series of bank closures for England and Wales in May 2018, the RBS Group said that the majority of branches marked for closure were within 0.6 miles of another RBS or NatWest branch, and all were within 2.5 miles of another bank. This is in stark contrast with the closures announced for the Highlands and Islands where the customer information on alternative branches indicates most will be over 15 miles away, with some over 50 miles, and in some cases will also require a ferry crossing.

It is also the case that 4 of the 14 recently announced closures for the Highlands and Islands are the last bank operating in that community – Beaully, Castlebay, Tongue and Inveraray. The Castlebay Branch which serves the island of Barra, helped focus public concern about this situation and resulted in RBS announcing a review of each of the planned closures where the bank was the ‘last in town’. The outcome of the review will be reported later in 2018.

There are also other considerations as to whether there is a variable impact of these banking changes for certain types of businesses, and types of household. For example, there may be different impacts for businesses that have a higher proportion of cash transactions such as people working in the agricultural, fishing and tourism sectors where cash payment is more common, those that take out a fixed amount of cash each week, and for older people as internet trends indicate that usage declines with age¹⁰.

Community organisations play an important role across the Highlands and Islands, often providing key services that are not otherwise available. There are 1,196 social enterprises currently operating in the Highlands and Islands, with 85% of these led by, and accountable to, people in the communities they serve¹¹. Having banking facilities and the ability to deposit and access cash underpins the day-to-day functioning of many social enterprises and community organisations and therefore the impact of banking changes on these groups needs to be considered.

Scotland’s Economic Strategy¹² focuses on the two mutually supportive goals of increasing competitiveness and tackling inequality. As the Scottish Government’s economic and community development agency for the Highlands and Islands, HIE’s focus is on generating sustainable and inclusive economic growth so that the region overall can become highly successful and competitive, encouraging increasing numbers of people to choose to live, work, study and invest there. The local community dimension to HIE’s work is critical through its ‘place-based’ approach and delivery of ‘strengthening communities’ remit. As such, HIE has long recognised the vulnerabilities of sparsely populated and geographically remote communities and the importance of equitable access to services.

With this in mind, HIE commissioned the Indigo House Group to explore the impact of bank closures on remote and rural communities in the Highlands and Islands. The study looks at the banking services currently used by customers in the region (residents, businesses and community groups); considers the proposed and existing alternatives for ensuring continuity of banking services; explores how banking services are accessed/delivered where bank branches do not, or no longer have a presence; and identifies what is required to support future delivery of banking services in rural areas.

¹⁰ <https://academic.oup.com/psychsocgerontology/article/58/5/S271/611340>.

¹¹ The Social Enterprise Scotland Census 2017.

¹² <http://www.gov.scot/economicstrategy/>.

METHODOLOGY

In order to gain a clearer understanding of the impacts of recent and planned bank closures in the Highlands and Islands, the study method involved four key stages.

Initial **socio-economic scoping** on all 14 settlements affected by the bank closures announced by RBS for 2018. This was to gain a better understanding of the potential impact the closures might have on these communities, in both an economic and community sense. This desktop analysis focused on secondary data held by HIE and various Scottish Government sources. It also mapped alternative banking facilities for each affected settlement, and an initial community telephone consultation was undertaken.

Key stakeholder interviews with 13 organisations including the RBS, the Post Office, the Federation of Small Businesses, local authorities, and a range of advice services and other local third sector organisations. These interviews were informed by a literature and grey literature review.

A **qualitative survey of community councils and local development trusts** to obtain detailed information from the communities with planned closures and those communities that have experienced closures, particularly those where the closure involves the last bank in town. This work also sought out views on alternative banking facilities present, such as other banks, the Post Office and ATMs, and possible solutions to address the loss of local bank branches. This information also informed the development of case studies.

Three quantitative surveys were undertaken to obtain detailed information from **personal, business and community organisation bank customers** relating to their current engagement in banking and with branches, changes in that engagement, their views on the impact of branch closures, and their views on, and experiences of, alternatives to using branches and the support offered to cope with branch closures.

Responses were generated mainly through electronic dissemination, complemented by hard copies of the surveys where requested, including by the Highlands and Islands Senior Citizens network. Community organisations and various stakeholders were encouraged to promote the survey and there was targeted promotion through social media. There were nearly 1,000 responses across the three surveys as follows:

- Personal customers – 725
- Businesses – 159
- Community organisations – 108

The profile of the business customer survey respondents was compared to the Highlands and Islands total business population. The respondents were broadly reflective of the business population by size across Highlands and Islands.

This report sets out findings from the research as follows:

- **Section 2:** Community profiles in the 14 areas where bank closures are planned in 2018
- **Section 3:** Changing banking habits, and the role of cash and local branches
- **Section 4:** Opinion and experience of bank closures
- **Section 5:** Alternatives to banking in local branches
- **Section 6:** Conclusions and recommendations
- **Appendix 1:** Community maps where bank closures are proposed
- **Appendix 2:** Bibliography

COMMUNITY PROFILES

This section provides a brief socio-economic overview of the communities for which RBS bank branch closures are planned for 2018 – Campbeltown, Inveraray, Rothesay, Wick, Tongue, Beaully, Tain, Aviemore, Grantown on Spey, Kyle of Lochalsh, Mallaig, Castlebay, Nairn and Inverness. The data presented is designed to allow for a scanning exercise which offers an insight into the nature and likely banking practices of each community.

Of interest is geographic location, economic characteristics and 'fragility' status based on indicators such as unemployment, population change and structure and qualification levels. Other banking, Post Office and ATM facilities available have also been explored to identify the potential for alternative options when the bank branches close. Access to good broadband is essential in terms of accessing online banking services. While superfast broadband services are available in each of the 14 areas affected¹³, challenging network areas and more scattered homes may have limited access and therefore an assessment of coverage is also provided.

Information was drawn from a variety of sources, including existing HIE research, notably relevant Area and Settlement Profiles¹⁴ as well as the Review of Fragile Area & Employment Action¹⁵. This was supplemented by other data from HIE, Highland Council, Argyll and Bute Council, Cairngorms National Park Authority, the Scottish Index of Multiple Deprivation (SIMD) as well as a variety of online community profile resource. Findings from the interviews with community councils and trusts were also used to inform the analysis.

Table 2 provides a summary of the community profiles, with maps for each community of local banking services and alternative provision currently available by type (bank, Post Office, ATM) set out in Appendix 1.

COMMUNITY PROFILES

From the initial socio-economic summaries, the communities were put into three broad types of settlements¹⁶:

- **Large Town Settlements** presently have other banking options, though these are certainly not guaranteed. All these places have a diversified local economy, in which tourism still plays an important, if declining role. The communities of **Campbeltown**, **Rothesay** and **Wick** have each undergone periods of long-term economic decline, exhibiting notable pockets of deprivation. The exception here is **Nairn** which, by comparison, appears to be relatively prosperous and economically more buoyant.
- **Small Town Settlements** are also tourism focused and include **Beaully**, **Tain**, **Aviemore** and **Grantown on Spey**, with the latter two being located in the Cairngorms National Park.
- **Small Remote Settlements** have a narrow economic base, heavily skewed towards tourism. These places are **Tongue**, **Kyle of Lochalsh**, **Mallaig**, **Castlebay** and **Inveraray**. The bank branches being closed are, with the exception of Kyle of Lochalsh and Mallaig, the last bank now available. Consequently, these last bank towns, which also included Beaully, secured a 10-month reprieve by RBS and their closure is currently being independently reviewed for the bank.

The Inverness Business Branch was considered to be a distinctly different type of closure from the others within the Highlands and Islands, given its focus and the wide range of alternative provision available.

¹³ In the areas affected, around 35.5k premises are included in the fibre network directly as a result of the Digital Scotland investment (11k of these are in Inverness and surrounds, adding to existing commercial coverage in the Highland capital).

¹⁴ <http://www.hie.co.uk/regional-information/economic-reports-and-research/archive/area-and-settlement-profiles-2014.html>

¹⁵ <http://www.hie.co.uk/regional-information/economic-reports-and-research/archive/review-of-fragile-areas-and-employment-action-areas-in-the-highlands-and-islands---executive-summary.html>

¹⁶ Note the categories allocated are based on an assessment of population size and geographical location, as well as other economic indicators as outlined in table 2.

Table 2: Community profiles

Bank Branch Closure	SG Urban/ Rural classification ¹	Admin Centre	Population 2016 and change since 2011 ²	Ageing population profile	High unemployment	Low Qualifications	HIE Fragile Area ³	Tourism dependent	Internet service ⁴	Alternative banking provision ⁵	Post Office Availability within 3 miles	ATM availability within 5 miles ⁶
Inverness	Other urban	√	63,220 >						Ok	11	3	50 (11 charge)
Larger Town Settlements												
Campbeltown	remote small town	√	4,670 <	√	√	√		√	Rural patchy	2	2	6 (1 charges)
Rothesay	remote small town	√	4,390 <	√	√	√		√	Ok	2	2	1
Wick	remote small town	√	7,040 <	√	√	√			Rural patchy	3	3	10 (4 charge)
Nairn	accessible small town	√	9,960 >			√		√	Ok	2	3	12
Smaller Town Settlements												
Tain	remote small town		3,590 <					√	Ok	1	3	6
<i>Beauly*</i>	accessible rural		1,470 >					√	Ok	-	3	4
Aviemore	remote small town		3,240 >					√	Rural patchy	1	3	5 (1 charges)
Grantown on Spey	remote rural		2,470 >					√	Ok	1	3	5
Small Remote Settlements												
<i>Tongue*</i>	remote rural		564	√			√	√	Patchy	-	3	1
Kyle of Lochalsh	remote rural		650 =	√			√	√	Patchy	1	3	4
Mallaig	remote rural		730 <	√			√	√	Patchy	1	1	3
<i>Castlebay*</i>	remote rural		1,221 <	√			√	√	Patchy	-	1	1
<i>Inveraray*</i>	remote rural		560 <	√				√	Rural Patchy	-	1	4

** – indicates delayed closure

1 – Based on Scottish Government Urban/Rural Classification – <http://www.gov.scot/Topics/Statistics/About/Methodology/UrbanRuralClassification/>.

2 – Population figure for Tongue is based on 2011 Census output area; all other figures are based on 2016 mid-year estimates (settlement areas and datazones for Castlebay).

3 – Based on HIE Fragile Area definition: population change between 2001-11; drive-time in minutes to nearest mid-sized service centre (defined as having a secondary school, HMS hospital and a large chain supermarket), median household income and average unemployment rate.

4 – Information on internet coverage was derived from the community council and community trust members interviewed. See footnote 12 for information on the superfast coverage in each area.

5 – Assumes alternative banks do not close (although it should be noted that Bank of Scotland in Rothesay announced closure in January 2018). Although Post Office and ATMs are available, wider banking facilities are limited.

6 – Total includes current RBS ATMs. If a free ATM is within 1km of RBS bank ATM, The RBS ATM will be withdrawn resulting in one less ATM in all communities, and perhaps 2 less in Wick, Tain, Nairn and Aviemore as RBS ATMs are also in local supermarkets.

7 – Assessment of unemployment and qualifications is based on SIMD 2016 outputs for each settlement.

Large Town Settlements

As noted above, the large settlements of **Campbeltown**, **Rothesay** and **Wick** have each experienced long-term economic decline, as indicated by higher unemployment than both the regional and national levels, lower than average educational qualifications, a marked population decline, resulting in a noticeable growth in the older population, as well as the existence of notable pockets of social deprivation. The exception to this pattern is **Nairn** as it only mirrors the lower qualification aspect and by comparison, is relatively prosperous, more economically buoyant, with a lower rate of social deprivation and a more balanced and growing population profile. That said, since the 2007 financial crisis all these settlements have experienced some degree of decline, with both shop closures across the High Street, and the rationalisation of various public facilities as public expenditure cutbacks have made their mark. Taken together these cutbacks and rationalisations has impacted on their long-standing regional centre status. Civic pride has therefore taken quite a hit, and the subsequent loss of local banks adds to that concern.

As large settlements, they possess a reasonable spread of alternative banking facilities, so the closure of one bank branch does not constitute a major logistics problem. However, the recent announcement of the Bank of Scotland closure on Rothesay in addition to previous TSB and Clydesdale bank closures elsewhere, shows that closures are not the preserve of one bank. While Wick and Nairn have good coverage in terms of alternative banks, Post Offices and ATMs, the pattern is not as strong in either Rothesay and Campbeltown. The closure of another local branch would drastically change the local banking situation, given it's not just the bank but also an ATM that is being withdrawn. In terms of internet services which are needed to support IT banking, all these settlements have good connections, although in the case of Campbeltown broadband speeds can decline significantly in the surrounding areas, and outwith towns the speed is generally poorer. While the vast majority experience a greatly improved service, it is still not a universal offering.

Small Town Settlements

Each of the four small town settlements are very much tourism focused, although each is quite distinct. **Beaully**, **Tain** and **Aviemore** are variations of the traditional Victorian Scottish holiday resort, originally developed as part of late C19th century railway expansion. **Grantown on Spey** attracts visitors primarily through whisky, given its location in Speyside, which boasts the highest concentration of distilleries anywhere in Scotland. Each of the settlements has a range of independent shops and services. In many cases these are sole traders or partnerships.

The local economies depend on tourism, and to a lesser degree agriculture and forestry, with food and drink becoming ever more important with whiskey production expanding. As with the larger settlements both the local authority and health board remain the largest employers, with the National Park Authority adding further to the public sector in the case of both Grantown on Spey and Aviemore. Similar to the larger towns the ongoing rationalisation of public services continues to have an impact on each of these places.

However, it is also worth remembering that the large tourism economy still operates on the basis of a low wage economy. All these settlements also have a significant proportion of its population who are retired, thus on fixed incomes. They are however relatively affluent when compared to the larger settlements, with lower unemployment rates.

As smaller settlements, alternative banking options are more limited, in that there may be just one other bank left, which may also not have a long-term future. The case of Beaully illustrates this well in that there were two prominent banks in the Victorian square that houses most of the towns local shops. Shortly both will be empty, with RBS likely to follow the Bank of Scotland in closing its doors. Interestingly Post Office coverage is similar to the larger settlements, but given the fewer banks the ATM coverage is more limited. There is good internet coverage in the main settlements, but there is a falloff in the outlying areas.

Small Remote Settlements

Fragility defines all but one of the small remote settlements of **Tongue, Kyle of Lochalsh, Mallaig, Castlebay** and **Inveraray**, with the latter being the exception. Fragile areas are characterised by declining population; under-representation of young people within the population; lack of local economic opportunities; below average income levels; problems with transport and other issues reflecting the geographic location. The loss of any employment is therefore a significant issue.

All these economies are dominated by tourism, and a stronger focus on primary activities in fishing, forestry and farming. Public sector employment still has a strong component within the labour market, but is in decline through rationalisations. The alternative banking options are also narrow compared to those for the other settlement types, with three of the five seeing their only bank about to close (Tongue, Castlebay, and Inveraray). There are Post Office facilities in each settlement, but ATM availability is limited. Internet speeds are slow, not surprisingly given the remote locations.

SUMMARY

The socio-economic profiles identify the varied characteristics of the communities affected by planned RBS branch closures for 2018. All bar Nairn and Inverness are located in remote and/or rural areas and almost all dependent to some degree on tourism. While Post Office and ATM facilities are available to varying degrees, access to alternative banking services is limited, particularly in the small town and small remote settlements.

Broadband services were noted by community representatives to be patchy in the more rural areas which is a concern as access to good broadband is essential for accessing online banking services. However it should be noted that the Scottish Government is currently procuring a supplier/s for its aim to deliver access to superfast to all by 2021 through the Reaching 100% (R100) programme.

All categorisation exercises have their limitations and outliers, as is evident here. However, in consultation with HIE, two places were omitted from the more detailed qualitative survey with community representatives given the substantial number of alternative banking facilities available to both Inverness and Nairn. Respondents from these areas however we still eligible to participate in the online quantitative survey.

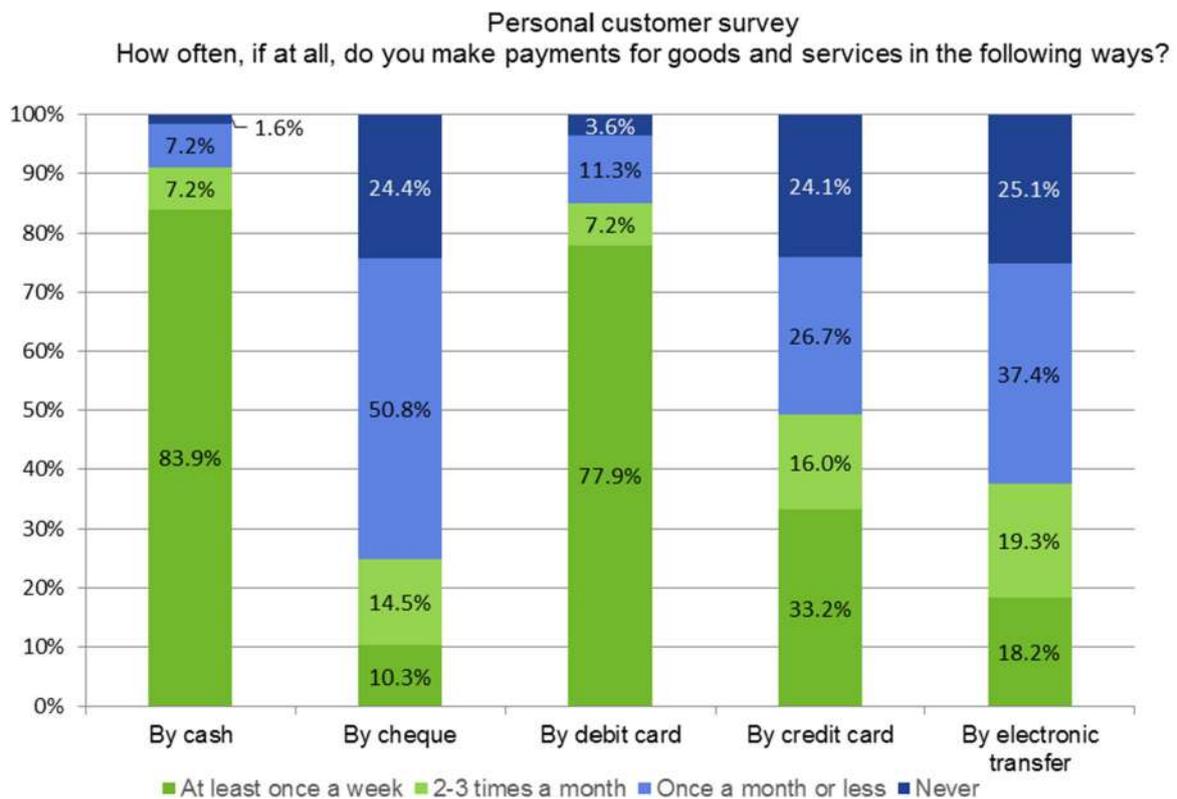
CHANGING BANKING HABITS AND THE ROLE OF CASH AND LOCAL BRANCHES

The quantitative and qualitative research explored how households, businesses and community groups pay for goods and services and the extent to which they have changed their banking habits over the last five years. It also explored the role and value people place on local bank branches.

PAYMENT OF GOODS AND SERVICES IN CASH

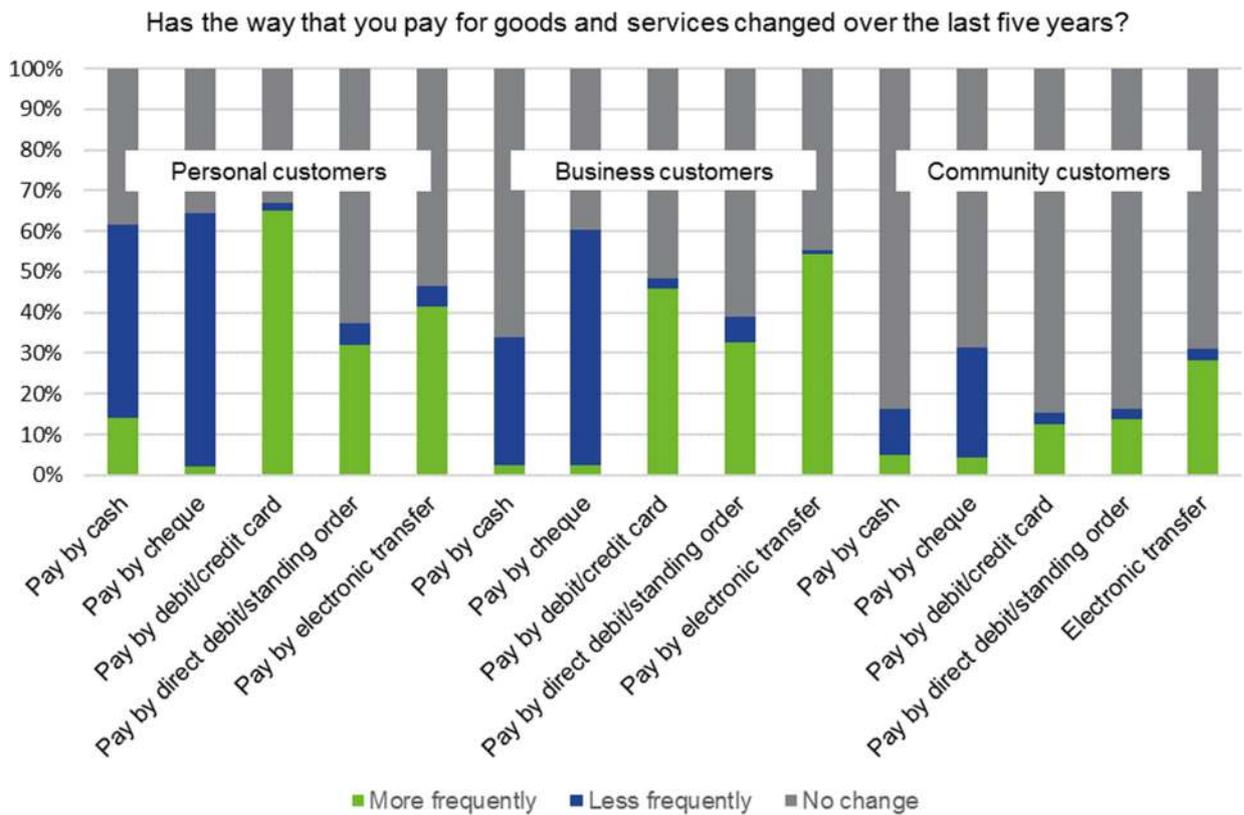
The study has found that cash is still very important for communities in the Highlands and Islands. The majority (83.9%) of personal customers use cash every week for smaller but regular purchases, and often carry cash as a back-up should there be a problem with card payments (due to internet issues in some areas). Debit card is also commonly used on a weekly basis by over three quarters of residents. The least common payment method used amongst personal customers is electronic transfer and cheques (Figure 2).

Figure 2: Frequency of payment for goods and services by payment type (personal customers)



While personal customers state that they use cash every day, they also recorded the greatest decrease in use of cash over the last five years (47.8%). Community groups showed the least change across all payment types. Two thirds of businesses indicated no change in use of cash over the last five years, confirming the importance that cash still has to businesses in the Highlands and Islands (Figure 3).

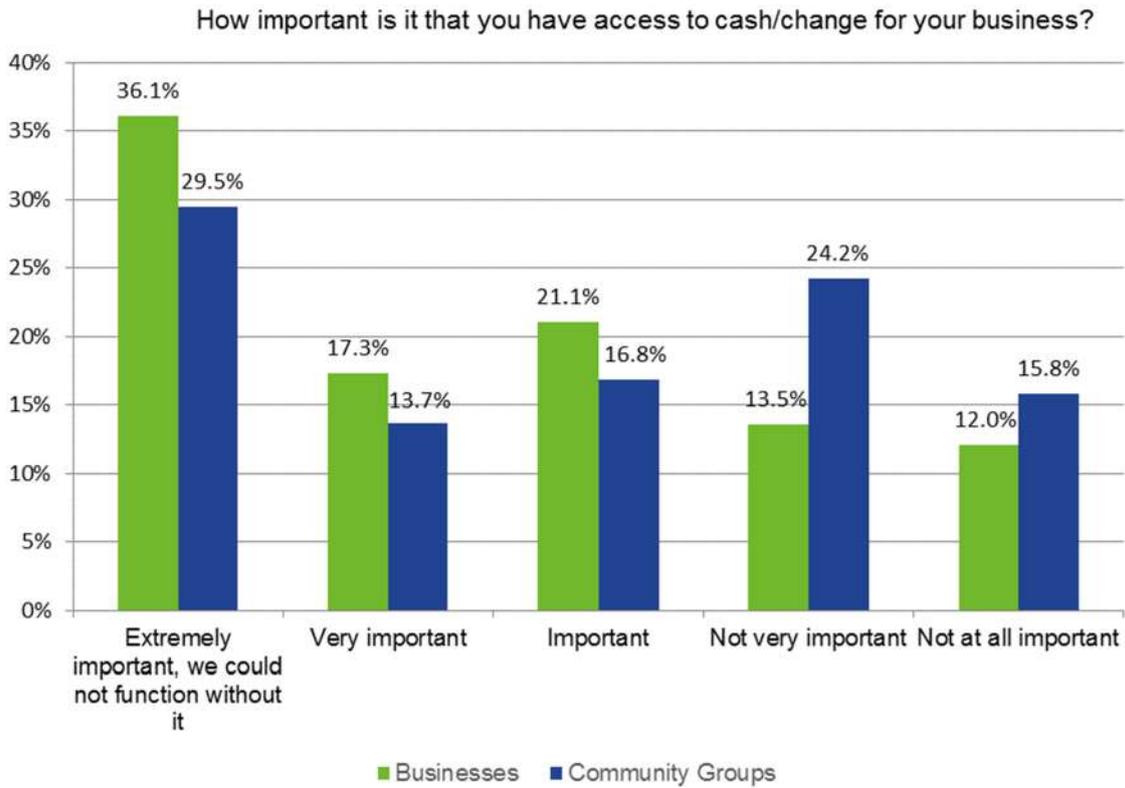
Figure 3: Change in how goods and services are paid for (all customers)



The majority of businesses (74.4%) and community organisations (59.9%) reported that cash was important, very important or extremely important to them, and could not function without it (Figure 4)¹⁷.

¹⁷ Note aggregate percentages are calculated from the absolute values and therefore percentages may differ from the sum of the individual scores due to rounding of percentage totals.

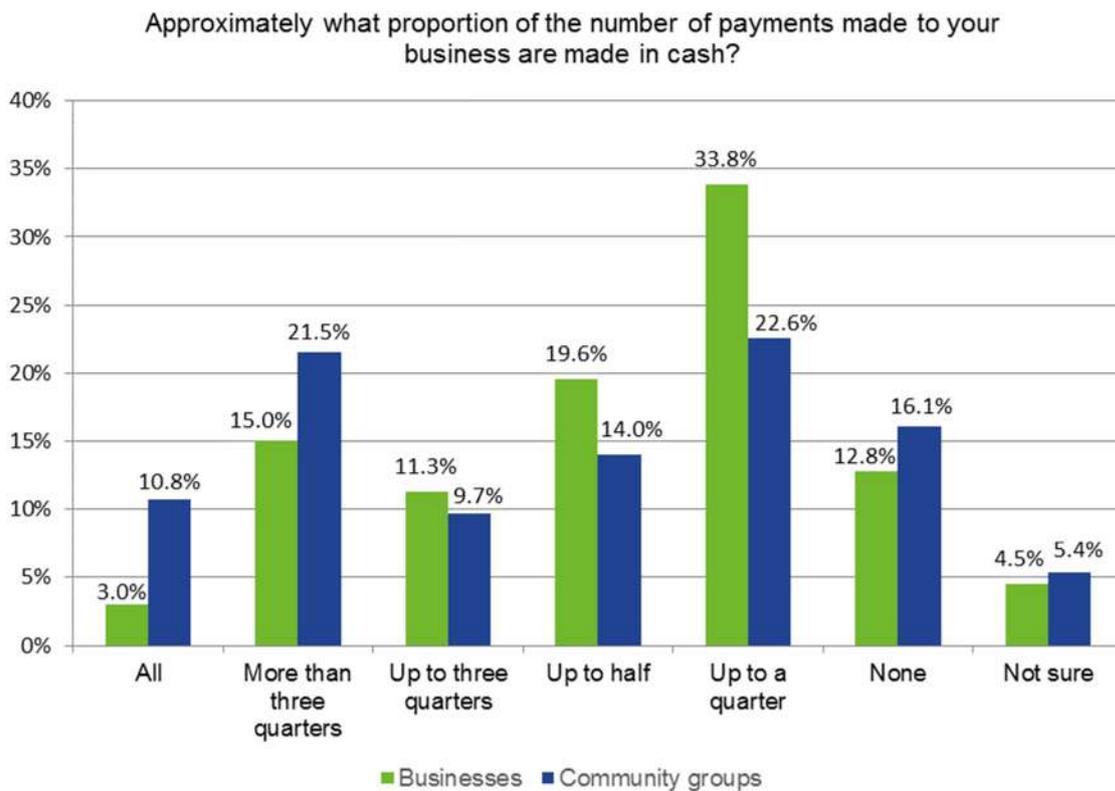
Figure 4: Importance of access to cash/change (businesses and community groups)



The importance of cash is also confirmed through the vast majority of businesses (87.2%) taking a significant proportion of their turnover in cash. A third of businesses stated that up to a quarter of payments to the business were made in cash, 19.6% up to half of payments and 15.0% more than three quarters of payments (Figure 5). Over two-thirds of businesses stated that the proportion of payments they take in cash is the same as five years ago.

The vast majority (95.1%) of community organisations also accept cash donations, subscriptions and membership fees. Just over two fifths (41.9%) stated that they received more than half (31.2%) or all (10.8%) payments in cash (Figure 5). Over three quarters (76.3%) of community groups stated that the proportion of payments they take in cash was about the same as five years ago.

Figure 5: Proportion of payments made to business in cash (businesses and community groups)



Evidence gathered from the qualitative survey of community councils and community trusts confirms that cash still holds great importance within the local economies in all the communities surveyed where bank closures are planned. It is especially important for local ‘independent’ shops and the ‘community-based’ component of the local tourism sector: Bed and Breakfasts (B&Bs), small hotels, campsites, cafés, bars, creative arts and the various activity destinations. Cash was found still to be core to the wages paid for many working in the catering and hospitality sectors, and for those who secure casual and seasonal work supporting both tourism and local agriculture. Access to cash is still considered critical for many people, given it allows those on low and fixed incomes to manage their weekly finances. Using the bank, or more commonly an ATM to supply that weekly cash budget was said to ensure people knew exactly where they were financially.

Tourism, which plays an important role in of all the local communities targeted, has a strong reliance on cash. While most, but certainly not all B&B establishments now have an online presence for marketing and booking, it was suggested that many do not offer online payment facilities. One solution for many of these businesses would be to try and reduce their reliance on cash and move over to card transactions. However, many respondents noted that card readers were considered too expensive for many small businesses (£30 per month), and can be unreliable in some rural and remote locations due to difficulties with internet/phone connections making card readers redundant (see Fortrose example below and other examples in Section 4).

Respondents noted that cash remains a traditional payment method for many local workers and is also common for migrant and/or seasonal workers. A number of respondents questioned how many weekly wage bills could be paid out if there was not a bank to source cash. Aviemore is a major centre for Scottish tourism given its location within the Cairngorms National Park and the population quadruples in certain peak tourism months of the year. The scale of employment locally is greatly boosted at these times, as is the need for cash to pay the wages of the workforce.

Similarly, agricultural labour demands were also said to be seasonal, as are many of the associated market transactions. The fishing and shellfish industries were highlighted, given boat crews and much of the fish

processing industry traditionally operate in cash. A respondent with fishing connections in both Barra and Mallaig made the point that: *“you cannot expect to pay a crew by slotting your card into the cash machine”*.

Community organisations all mentioned that their operations involved dealing in cash, whether from the payments for yacht and boat pontoons, public toilets, selling wood or running a café. Such activities generate cash, often paid in coins. Being able to pay this cash in, have it counted, and accounted for through the issuing of a pay-in slip, is important to their business model and constitutional arrangements.

Finally, some businesses require to operate with a significant cash float and respondents questioned how that will work in future without a local branch. Even if the payment method is moved to an online bank cash transfer, there were still concerns about how easy it will be to access significant amounts of cash if there is no longer a local bank branch available. The challenges around cash, and other payment methods are illustrated by the Fortrose case study below.

Fortrose – Bank of Scotland branch closure 2017

Fortrose is located on the Moray Firth, 13 miles north west and 25-minute drive from Inverness. It is an attractive seaside town with the local economy concentrated around tourism with a golf course, 2 campsites, café, restaurant, hotel, fish and chip shop, Co-op supermarket, various local shops including a jewellery wholesaler and retailer. The Bank of Scotland in Fortrose closed in September 2017 (the last bank in town), and the RBS in Munlochy (6 miles away) closed a few years ago. Prior to the closures most of the local business banking needs were served by these two banks. There is an ATM in the Co-op, but it is reported that cash regularly runs out and *“they are not good at filling it up”*.

Three businesses from Fortrose were consulted for this case study. For one business 85% of turnover is in cash. They also have a shop in Invergordon where a larger proportion of the local workforce are reported to be paid in cash, and for which 90-95% of turnover is in cash. Another business in Fortrose takes around 30% of trade in cash.

When the bank closed, it advised local businesses that they could use the Post Office for banking services, however the Post Office subsequently closed. There is currently a Post Office contract within a local gift shop which is *“stuck in the back of a shop”*. The nearest alternative Post Office is in Avoch which is a 10-minute drive away, or Inverness, 25 minutes away. Concerns were raised in general around the type of banking services offered at Post Offices with some suggesting that the Post Office banking service is not a *“fully commercial service”*. Respondents noted that cash withdrawals have to be pre-arranged and there are limits on the amount of cash/change that can be withdrawn each week. If customer demand is high, businesses run the risk of having insufficient change. One example provided is when the cruise ships dock in Invergordon creating very high customer demand. As a result, businesses risk running out of change, and may be unable to obtain more cash that week if they have used their weekly allocation of change.

It was stated there are struggles with card payment due to intermittent internet and phone services, or in the case of one shop, due to customer demand for payment around cash due to relatively small purchases. There have been constant complaints about connectivity with visits from BT and other providers, but the problem is apparently caused by the old copper cables which run from Munlochy to Fortrose (modern cabling is provided between Munlochy and Inverness). Another alternative would be using 4G as a mobile hotspot but this is not available everywhere and could involve conducting business outside to get coverage.

A prime example of the frustrations that the local businesses can experience was Easter Friday: one shop had 20 customers unable to make card purchases as the internet was down. The proprietor asked customers to withdraw cash from the Co-op ATM, but this had run out. This resulted in the loss of 20 sales as there was no alternative payment method. The proprietor has also been trying to build an internet-based business, but has struggled due to internet problems despite trying numerous suppliers and making many complaints. The bank closure is considered to have made a significant negative impact on the business over the last six months in terms of lost sales, staff time and the cost involved in sourcing cash and difficulties with inadequate internet infrastructure which would allow alternative methods of payment.

One of the consultees stated that there is much greater use of, and reliance on cash for businesses in the Highlands and Islands than elsewhere – especially where the alternatives are less reliable, there are no banks and some of the seasonal staff don't have bank accounts. Therefore, if payment for services is received in cash, this is used to pay staff and suppliers. This means businesses get 100% value for the cash, rather than losing approximately 3% of the value in charges by depositing it in the bank or Post Office. It was also stated that the “*inconvenient*” opening hours of the local banks that do exist prove a disincentive to using them, which in turn reduces demand and contributes to the demise of bank branches.

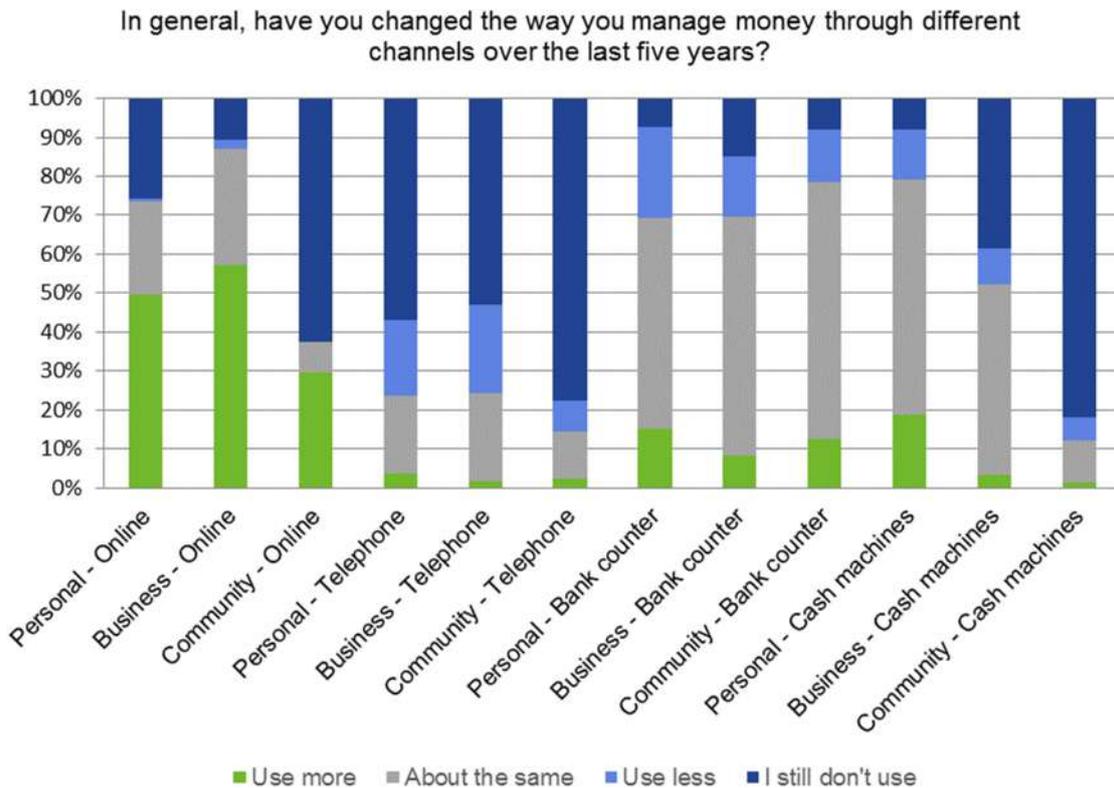
“It’s much more important to wait for your suppliers than go to the bank, you can’t tell your suppliers you’ll only be in at certain times so you end up travelling much further to go to the bank that is open in the hours that suit your business. That means less demand for the local branches with restricted hours”.

PAYMENT FOR GOODS AND SERVICES THROUGH OTHER METHODS

Even though cash is critical to many businesses and community groups, and is used frequently by personal customers, there is a clear shift to electronic payment methods (Figure 6). The surveys show a channel shift from all types of banking customers to online banking. Business and personal customers show the greatest shift (57.2% and 49.5% respectively using more). In contrast, 29.7% of community groups stated they were using online more. Telephone banking is the least popular method. Despite this channel shift, the majority of respondents stated that they still use bank counters the same as five years ago – 54.3% of personal customers, 61.5% of business customers, and 66.3% of community groups.

It is clear the banking practices of community organisations are markedly different from other bank customers, and given their continuing reliance on traditional banking, the prospect of bank closures may affect them significantly. This should be seen in the context of the importance that community groups have to the economic and social infrastructure of the Highlands and Islands.

Figure 6: Changes to money management (all customers)



Looking at the change in different types of electronic payments over the last five years, we see that personal customers have changed the type of payment methods the most, with community groups again tending to stick to the more traditional payment methods.

For personal customers, the greatest increase is in use of cards (65.1% of customers have increased this type of payment method), businesses have increased use of electronic transfers the most (54.4% make more frequent use of electronic transfer), and community groups have also increased their use of electronic transfers, but to a much smaller extent to private businesses (28.4% increase in frequency).

The increasing use of online shopping will in part explain the high levels of usage of debit cards and electronic payments amongst personal customers. Nearly a third (32.1%) of personal customers shop online at least once a week and just over two-thirds (76.7%) do so at least once a month. Online banking is covered more fully in the following section but for many respondents, it is considered a convenient way to keep track of accounts, while for others there is a real reluctance to get engaged, often because of deep seated concerns about internet fraud. Similarly, while other electronic payment methods were referred to such as Paypal, respondents clearly do not trust these payment methods.

Evidence from the qualitative survey showed that all respondents were well aware of online banking, and the majority, but certainly not all, actually used the facility for their own personal banking and for some, the management of their local organisations finances. They readily acknowledged that this service allowed them to undertake most tasks that the local branch previously provided, such as setting-up standing orders, checking accounts, and paying bills:

“I can do everything I used to go into the branch to do, so hence I am rarely ever in the bank”.

However, open responses to the quantitative surveys indicated some concern around IT literacy and internet safety. The survey of personal customers confirmed that the largest constraint to using online banking was cyber safety and security with 52.6% of respondents identifying this as a key area of concern. Other key constraints to use of online banking was the quality, reliability and speed of mobile reception and broadband services. The resident survey also showed that connectivity aspects featured to a larger extent in the more rural and remote areas.

Collectively, community representatives felt there was a clear age dynamic operating in relation to banking innovation. Those unwilling, or unable to participate with the technology said they were now finding that the traditional ways of doing banking were being denied to them. Such financial exclusion was considered highly problematic, especially in places with a high proportion of older residents who rely on cash, given the way they choose to operate on a fixed income. It was also noted that in order to operate internet banking, you require an internet connection, a PC, or at least a smart phone, and both demand additional regular expenditure to sustain such connectivity. For those on limited means this will always represent a challenge. Thus, the loss of a local bank could deny this group access to a basic banking service if there are not suitable alternatives. Given that welfare benefits are now also managed online and demand some form of bank account, this is likely to be a far larger issue than highlighted through this research.

DEMAND FOR OVER THE COUNTER SERVICES

The most frequent demand for over bank counter services comes from business customers for depositing and withdrawing cash – 58.2% deposit cash at least once a week, and 43.6% withdraw a cash float at least once a week. Community groups also use bank branches frequently for depositing cash – 41.3% deposit cash at least once a week. The least demand for over the counter services come from personal customers who use local branches mostly for withdrawing cash at ATMs – 52% of respondents withdraw cash from the bank’s ATM at least once a week.

The need to access advice and information was common experience across all survey respondent groups: 80% of personal customers had sought advice about their finances over the past five years, 79.1% of business customers had done so, and 55.4% of community organisations. Where advice had been sought, a majority of

respondents from each group had done so through a bank branch with their preferred channel clearly being face to face.

Personal customers offered more in-depth views about branch services, which was also borne out in the community consultation. For some the opening hours were not convenient, meaning that they either did not use them at all, or took out larger amounts of cash to avoid making additional journeys. The gradual erosion of opening hours was noted as reducing from five, to three, to one day opening, to the inevitable closure. Others were prepared to make considerable journeys to access over the counter services. For some customers, the face-to-face contact and over the counter engagement is an important aspect of the way they choose to do their banking and their way of checking personal account balances. Some of the later bank opening times were said to be the result of staff coming from some distance to work. The 10h30 opening times for banks in Mallaig was said to relate to the Fort William train timetable, while in Rothesay the same late opening was believed to tie into the ferry crossing times as staff commuted from Greenock.

Preference from personal customers, mirrored by consultation with the community representatives for accessing information and advice from their local branch was often because they knew and trusted the staff who worked there. However, some also reported that the availability of such advice was more limited, and that accessing some more specialist advice now involved trying to book restricted appointment slots. People commonly 'mixed and matched' their advice channels, generally receiving advice at the branch, before completing an application for a financial product online. There was little enthusiasm for accessing banking related advice over the phone or online, although it was felt by some respondents that access to staff from *their branch*, over the phone, would be helpful. In general, face-to-face contacts were greatly appreciated and valued, so the loss of that personal connection with the bank was commented on by many of the respondents.

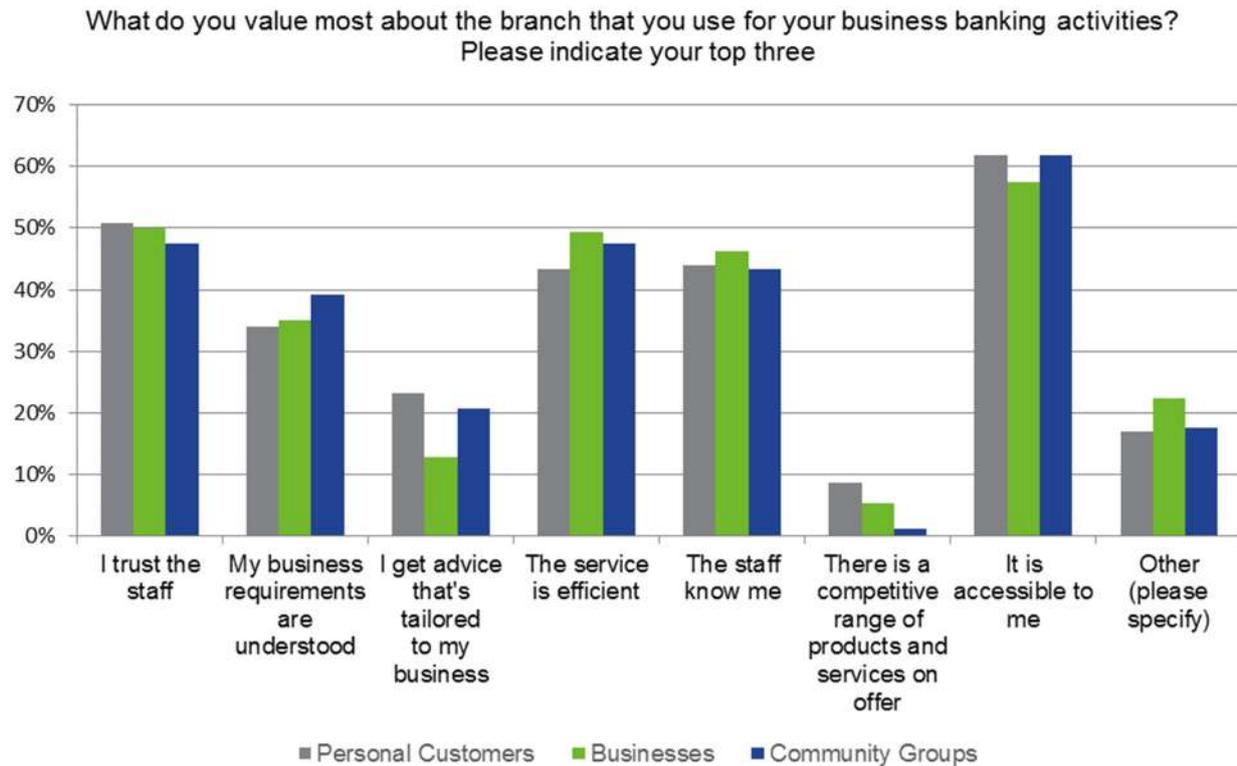
Most respondents in the qualitative survey noted that there had already been a degree of bank closures. One respondent expressed concern that closures would lead to a loss of competition between banks, which could reduce service quality and restrict consumer choice.

WHAT CUSTOMERS VALUE ABOUT THEIR LOCAL BRANCH

Respondents are generally satisfied or very satisfied with the service and support they are offered in bank branches: 81.2% of personal customers, 77.2% of business customers and 73.7% of community organisations. As discussed above, there is more dissatisfaction around bank opening hours.

The three most valued aspects of the local branch are accessibility, trust in the staff and efficiency of the service. Being known by staff was also an important aspect to all customers (Figure 7).

Figure 7: What is valued most about local branches (businesses customers)



The more detailed feedback offered by personal bank customers about the quality of branch services was mainly positive. This often related to the friendliness of staff, their ability to solve problems and support people who wanted to access particular services, in conjunction with other qualities such as efficiency. A handful of respondents confirmed their positive dealings with local branch staff, contrasting this experience with that of the bank services from the 'remote centre' where it was felt people did not listen to them.

This positive feedback was often a contrast to the specific concerns raised around alternative banking channels, which included mobile, telephone and online banking. Customers were also keen to stress that although they made use of these alternative channels this did not reduce the need for a local branch service. Perhaps related to this, many also highlighted that online banking remained an unsuitable channel when trying to resolve a problem. There was also feedback from disabled respondents relating to poor accessibility in their current bank branch and that its replacement by a mobile bank would render it impossible for them to access counter services.

The more detailed feedback from the community organisations in the quantitative survey was in contrast significantly less positive. Some respondents expressed anger about what they felt was a situation in which they were portrayed to be a nuisance by their bank, and that generally the banks are not set up (or do not make the effort) to serve community and voluntary organisations properly. This was also raised by community council and community trust representatives participating in the qualitative interviews. Most voiced criticism of the poor banking service offered to their organisations overall. They often made the point that they were good customers, given the sizable amount of money some had in their accounts, and the fact that constitutionally they cannot go into debt. As one respondent noted: *"within our [area] we have just about 300 voluntary organisations operating, and some of those dealing with building works or renovations can involve millions of pounds"*.

One Community Trust highlighted that their plans to build a new community hall will involve extensive capital outlay plus a revenue stream (yet to be quantified), given all the functions and uses that this new facility would provide. Another organisation pointed out that Highland Council now insist that all payments be made online,

but it was stated that as a Community Council they cannot do a BACS transfer. To get around this the two signatories now have to go into the bank together to complete that transaction. This belief about online banking and signatories was commonly raised, but it is an erroneous view and shows there is a disconnect between perception and reality in some areas of online banking, and that more information and advice should be provided to voluntary organisations.

SUMMARY

Having a fully functioning banking service is critical to remote and rural communities. Despite all the recent changes in banking services, cash still remains core to a functioning local economy and to the day-to-day operation of local communities. There is still a demand for over the counter bank services with customers valuing face-to-face contact with bank staff that they trust and know when accessing advice and making transactions.

While personal and business banking customers are considered to be most affected by bank closures, it is perhaps the community organisations that are likely to be hit hardest, given their mode of working is closely aligned to more traditional methods of banking. Despite the potential scale of their capital and revenue spend, it also seems that these groups have not been provided with the best of services by their banks.

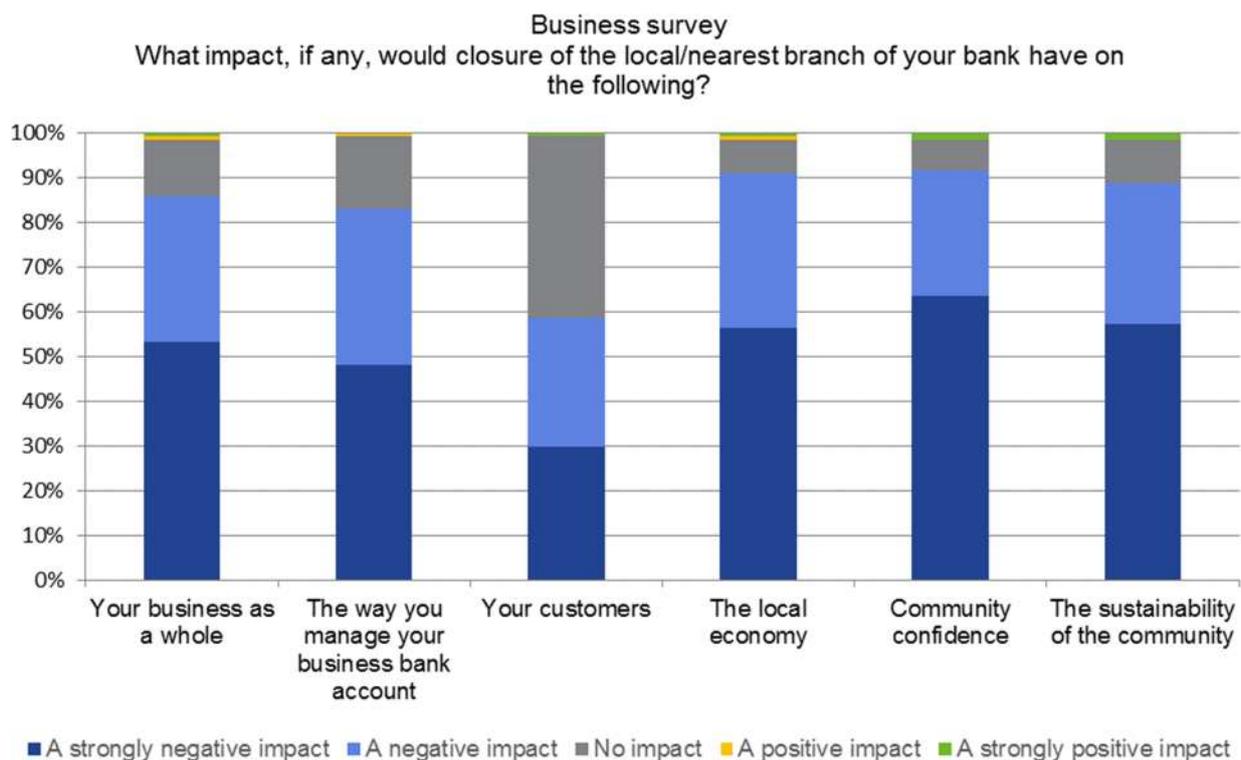
OPINION AND EXPERIENCE ON THE IMPACTS OF BANK CLOSURES

This section considers the impacts of bank branch closures on the local economy, business and community sustainability. This is drawn from the three surveys, the consultation with the community representatives, some of whom have already experienced bank closures, and consultation with four businesses that have recently experienced bank closures.

IMPACT ON THE LOCAL ECONOMY, BUSINESSES AND COMMUNITY SUSTAINABILITY

The vast majority of respondents feel that bank closures would have a negative impact on the local economy, community confidence and sustainability (Figures 8, 9 and 10). For businesses, over 80% saw negative or very negative impacts on both their business as a whole, and the day to day running of the business and 60% expected a negative or very negative impact on their customers (Figure 8).

Figure 8: Anticipated impact of local/nearest bank branch closer (businesses customers)



There were strong common themes from across the qualitative survey and the quantitative survey open responses that tourism is seen as key for local economies. Comments highlighted the particular vulnerability of tourist focused businesses such as cafés and B&Bs. The high influx of tourists at peak times tends to put considerable pressure on local infrastructure, and that included bank branches, as well as tourists requiring access to services such as currency exchange. Branch closures were also seen as conveying a negative message to tourists about their community, suggesting a lack of hospitality, or that they were visiting a 'backwater'. Some respondents even described the lack of local banking facilities for tourists as being 'embarrassing'.

Partially linked to the concerns about the impact on tourism were worries about the effect of closures on the future viability of local High Streets. Respondents feared that people would choose to shop elsewhere, where

local banking facilities are available. Banks were often viewed as ‘community hubs’, or ‘High Street lynchpins’, both economically and socially and in terms of being able to access practical support. Respondents also feared that a knock-on impact of bank closures would be to damage their community’s role as a hub for the broader geographical area. Concerns were also raised about the sustainability of some communities which respondents felt were already very fragile, with the suggestion that branch closures might provide the final straw for some. Respondents also referred to their community as being ‘downgraded’ by such closures, communicated via empty bank premises left in the heart of the community.

In **Beaully** there is concern that the village will have two empty bank buildings if the round of bank closures planned for 2018 take place. As with **Wick** and other places, these bank buildings were designed to be prominent with traditional and attractive architecture and closure presents a challenge to convert them to other uses. Respondents who sat on Civic Trust bodies in some of these places saw their preservation as being important to the fabric of the village or town, but also found it hard to see how they could be repurposed.

Such closures were seen to further dent the confidence of local communities. Without the banks as a hub, it was felt that customers would choose to shop elsewhere, and closures are therefore seen by respondents as a further erosion of town centres. As one respondent put it:

“For the local traders this is another empty frontage, which leaves a poor impression on the place. For our community, it’s an issue as it is a significant building, so creates a feeling of malaise”.

Similar opinions were voiced for Campbeltown, Wick and Rothesay, each being a larger town which already have a good number of empty commercial properties on their High Streets. Another example is Grantown on Spey where, while they still had a thriving High Street with many small local traders, a good number of these businesses are currently up for sale. For Aviemore, by contrast, respondents did not think the current bank premises would stay empty for more than four months given the demand for commercial space in the village. The fact that the building was modern and only about six years old was also seen as positive.

Other respondents felt the closures were part of an ongoing process of neglect that impacted all communities across the Highlands and Islands, even suggesting that the neglect was a deliberate, ‘*modern-day Highland clearance*’.

Some respondents similarly highlighted what they felt was a disconnection between the major efforts being made to revive the local economy and the imminent and actual closure of local bank branches. This issue was also commonly highlighted in consultation with community representatives.

In **Invergordon** the example of cruise ship stopovers at the deep-water facilities was discussed by representatives from both **Beaully and Tain**. Once docked, cruise ship passengers are taken by coach around local attractions and places of interest. Beaully and to a lesser extent Tain are beneficiaries of this tourism initiative. This can be a problem as visitors often require cash in order to purchase items on the various stops, however, both banks in Beaully have either closed (Bank of Scotland) or about to close (Royal Bank), and one of the banks in Tain has closed. The local community councils queried whether visitors from cruise ship tours would be willing to join long queues at the Post Office (located in the local garage) for cash withdrawals alongside other tourists from tour buses. They also noted that some shop owners were now purchasing card machines given the potential loss of business the bank closure may cause.

Barra offers another example of the disconnection between tourism strategy and banking/cash. There are now more flights to Barra, in part because the opportunity to experience the unique landing on the beach and the introduction of road equivalent pricing have resulted in a higher number of visitors to the island. In addition, large cruise ship stopovers are increasing. Accessing cash can be problematic on Barra. For visitors arriving at the airport many travellers try to get cashback in the airport café to pay for the onward taxi. If this is not possible, then they need to go to Castlebay to access an ATM. If cash from the ATM is also not available, they look to obtain cashback from either a hotel or shop. When the technology fails, which is stated as a regular occurrence by consultees, then there is an immediate loss of takings for local businesses given there are limited alternative ways of accessing cash quickly. It can also take some time to have the problem rectified.

given Barra’s remoteness. Concerns about technology failures and ATMs going off line, breaking down or simply regularly running out of cash were mentioned by almost all respondents.

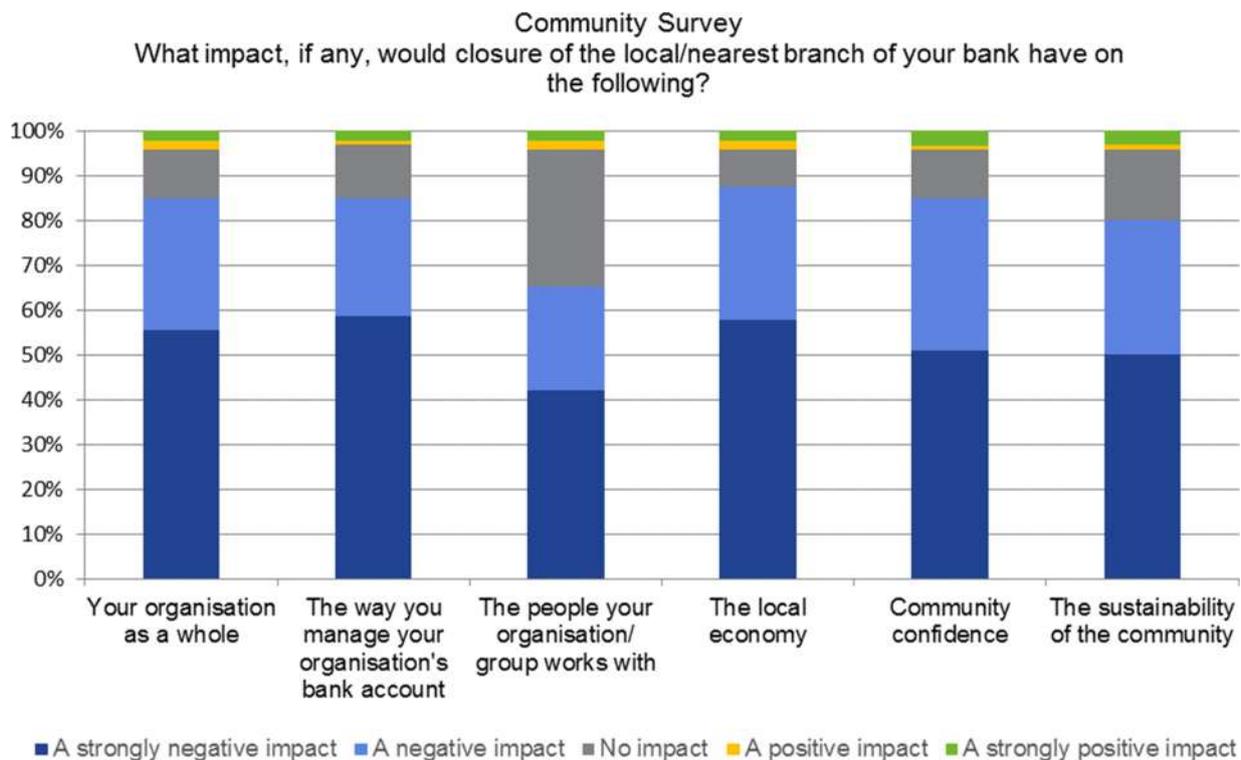
The North Coast 500 (NC500) provides another example of the disconnect. All communities interviewed who have a direct geographic connection with the initiative – Tongue, Wick, Tain and Beaully – considered it to be a major marketing and business success. These respondents noted that the NC500 had expanded the traditional tourism period, resulting in more business for hotels, B&B and other stopover facilities, shops, restaurants and cafés. However, as one of these respondents put it: *“extending the tourist season was all very well, but if the facilities providing access to cash are withdrawn, then might this not limit the potential of this recent growth”*.

Loss of jobs for people working in the bank was another common concern. Although the number of jobs loses were stated by respondents as likely be small in proportionate terms, given the size of the communities they are still significant. There was real anger voiced in each of the three quantitative surveys. Respondents talked in terms of these closures being ‘devastating’, ‘disastrous’, leading to the ‘destruction’ of their communities. Much of this was targeted at the banks variously described as ‘greedy’, ‘disloyal’, ‘preferring shareholders above customers’, and ‘no longer serving communities’.

IMPACT ON COMMUNITY ORGANISATIONS

The majority of community organisations (84.9%) believed there would be a negative or very negative impact on their organisation as a whole as a result of branch closures. Around two thirds of community organisations expected a negative or very negative impact on their service users (Figure 9).

Figure 9: Anticipated impact of local/nearest bank branch closer (community groups)

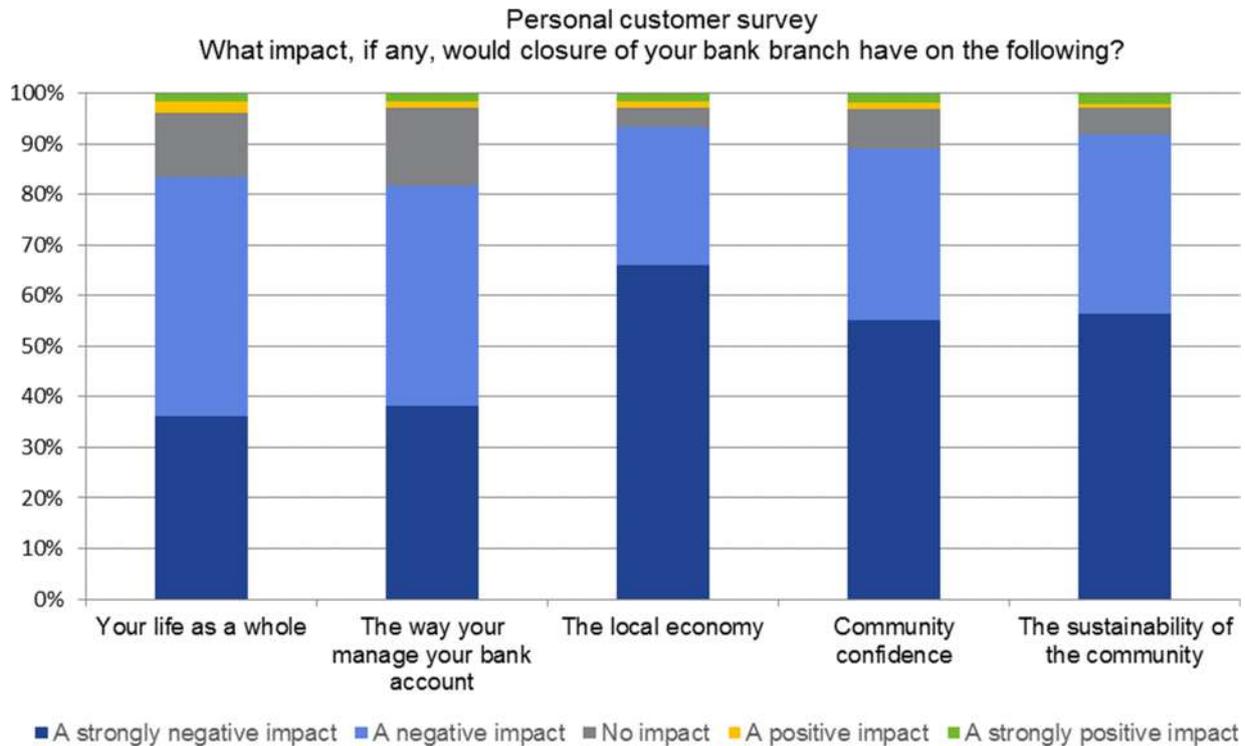


The issues raised by community groups were around the increased burden on volunteer roles which they feared would impact on their recruitment, especially older volunteers. Community organisations also highlighted the potential negative impact of losing skilled bank staff from their communities as such financial skills often benefited local community organisations.

IMPACT ON INDIVIDUALS

The large majority of respondents thought that bank closures would have a negative impact, although generally the level of concern was slightly lower than considered for the local economy and community impacts. The majority (83.5%) of personal customers expected a negative or very negative impact on their life as a whole, and 81.7% expected a negative impact on the way they manage their bank account (Figure 10).

Figure 10: Anticipated impact of local/nearest bank branch closer (personal customers)



Open-ended feedback from respondents about the impact on individuals focused primarily on older people. This group were seen as vulnerable to the negative consequences of branch closures because they were thought less likely to be computer literate or comfortable with online banking, and less likely to travel or walk far to an alternative bank, or go to a Post Office that offers a different type of service. Respondents also highlighted the extent of face-to-face support that older people were felt to need in their branch, one of a range of areas in which they may need additional help to continue living independently. Older people without family nearby were seen to be particularly vulnerable. Other respondents also highlighted other vulnerable groups including people on lower incomes, disabled people, those without decent broadband or mobile reception and those who do not have access to computers or smart phone technologies.

In relation to the issue of connectivity, the qualitative survey revealed that local internet connections were, in the main thought to be good but patchy in some places. This has significant impacts in the context of banking channel shift. This all relates to the distance and reliability of old copper wire as internet speeds fall sharply after around a kilometre. This should be seen in the context of the significant investment that has been made to broadband in the Highlands and Islands. As noted in Section 2, connectivity is generally good to main settlements, but falls in the more rural and remote settlements.

There are several examples which illustrate the importance of **internet connectivity in the Highlands and Islands** with the impact this has to local economies adapting to banking channel shift. **Aviemore** offered an interesting insight into connectivity issues. There is about to be an online High Street 'Hot Spot', funded by Highland Council, yet just a few miles outside the village at **Glenmore** internet strength never gets above half

a megabyte, which makes undertaking most internet tasks problematic. The signal falls away further when the local campsite is busy. At the same time, all the large hotel chains in Aviemore have their own dedicated fibre connections. The example of **Fortrose** (detailed above) where connections are good, in comparison to Munlochy (10 miles away), where connections are very poor due to old copper cabling. Similar stories were recounted in **Mallaig**, where a few places, even within the town, experience poor connections, and in **Campbeltown**, where the South End of Kintyre coverage is patchy in more dispersed areas.

UNDERSTANDING THE GEOGRAPHIC DISTANCES AND IMPACT OF CLOSURES

The impact of distance in finding suitable banking alternatives to run their business and other personal or community banking needs was a key concern. As many businesses in the Highlands and Islands are small, it means closing up shop to undertake, for example, a 30-mile round trip from Fortrose to Inverness, or 75-mile round trip from Grantown on Spey to Inverness in order to visit the nearest branch for large cash transactions. What was once a simple routine task, carried out locally once or twice a week will now represent a serious logistical issue.

A business in **Barra** looking to get to a Royal Bank for business cash purposes would now have to take a ferry to Lochboisdale on the neighbouring Island of South Uist, a half-day trip with two ferry crossings, or alternatively an even longer trip to the Oban branch (which can take two days depending on ferry timetables).

This is not only a business consideration, as some personal and community banking tasks require face-to-face contact. A Barra respondent commented, on his son opening his first bank account: *“so for my son to open a bank account when he’s 14 he will now need to go on the ferry to Oban, a two-day trip”*.

There was a sense that the actual distances involved in being able to access the closed alternative banking facilities were not either understood or appreciated by decision-makers. This was exemplified for some respondents by the communications issued by banks about alternative branches, which may look like short distance (as the crow flies) but ignores the transport challenges, time and cost involved.

There was also a general feeling from community representatives that these proposed bank closures were yet another factor that makes living in remote rural places that bit harder. What had been simple transactions were now to become major events, taking up both time and money as one responded commented:

“All these closures just cause extra hassle, time and money. Now there is the time spent queuing in the Post Office, along with the people wanting to pay for their shopping or petrol, contending with the lack of counter space to sign the necessary forms or stick down the stamps, driving around to find the post box, as there is no longer one right there, or alternatively take a long drive to the nearest bank. It is just a steady chipping away at the quality of life, and that has other costs, personal costs”.

SUMMARY

It is clear that bank closures are considered to be detrimental to local communities. The impacts were seen to be both on individuals, making day-to-day life that bit harder, and the well-being of the community. There are strong perceptions that there will be impacts on the future viability of local High Streets with banks often viewed as ‘High Street lynchpins’, both economically and socially and in terms of people and businesses being able to access practical support. There are concerns around the disconnect between the investment in tourism and the bank closures, with the opinion that places are being ‘downgraded’ by such closures.

The basic financial tasks that were once straight forward now become more time consuming and expensive. Despite all the technological advances made, distance is still a major issue within rural Scotland. Half-day round trips to obtain a business float is a big task and puts greater pressures on already fragile economies and fragile communities. The research suggests that the internet infrastructure is not yet mitigating the impacts in some areas.

ALTERNATIVES TO BANKING IN LOCAL BRANCHES

This section considers the alternatives to banking at local branches drawn from the three surveys, the consultation with community representatives, and focused consultation with businesses.

There are, on the face of it, a range of options for customers to use when their local branches close:

- The **Post Office** – is promoted by the banks as the main alternative for banking. The research explores the business requirements for cash in particular and how Post Offices respond to this, and the range, type and quality of services that local and contract Post Offices supply for the full range of banking customers.
- **ATMs and Mobile Banks** – are explored in terms of availability, reliability and suitability.
- **Online Banking** – allows a channel shift, with the research exploring the extent to which online banking is an alternative for all banking needs, and the accessibility of this option in the Highlands & Islands context.
- **Switching Banks** – is an option where there are other banks with local branches – the research considers evidence and impact of multiple closures and what happens in places where the planned closure is the ‘last bank in town’.

This section concludes by considering the impact of the work that the banks have done to **prepare customers** for the closure of their local branch, and the possible transition to alternative branches and banking channels to access a banking service.

POST OFFICE

The Post Office’s banking framework means that personal bank customers of all the main high street banks can withdraw cash using their card up to the limit that applies to their withdrawals from ATMs and deposit cheques. All Post Office branches are obligated to offer these services as part of their contract.

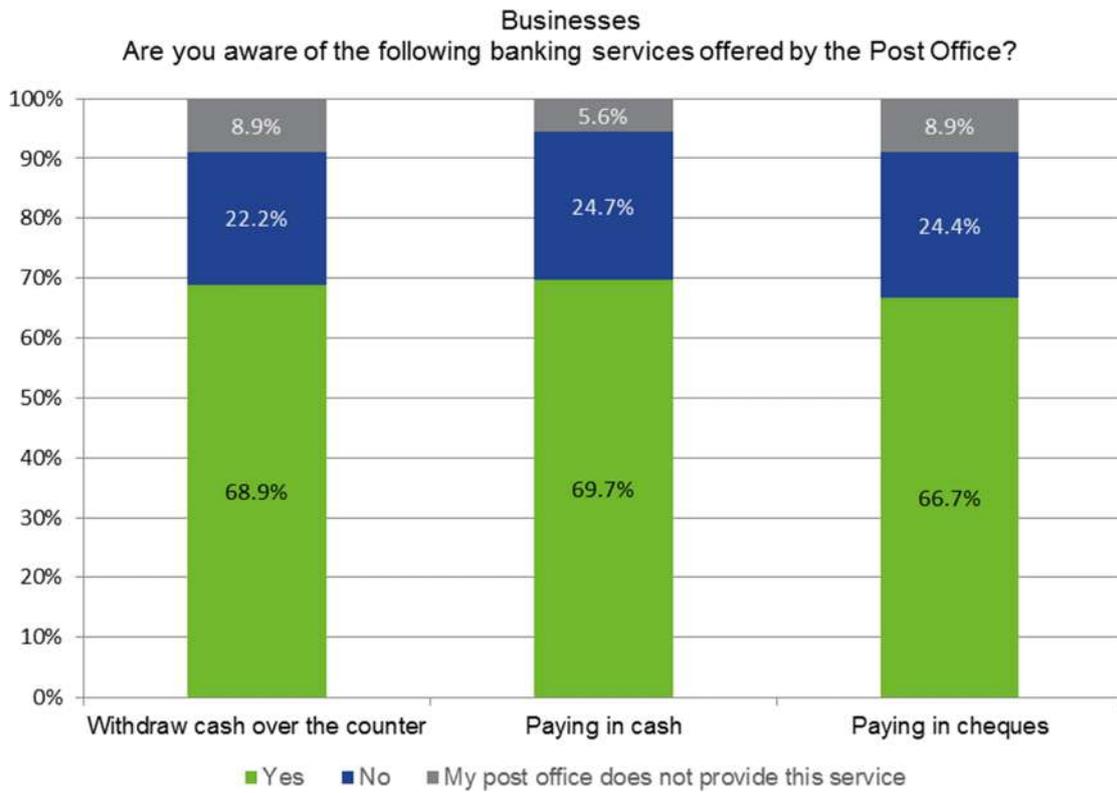
Business customers with most, but not all high street banks, can withdraw and deposit cash, and obtain change from the Post Office. Local businesses can deposit up to £2,000 on an ad hoc basis, and can arrange to deposit larger amounts.

Awareness and use of Post Offices for banking

The majority of customers responding to the three surveys **were aware** of the Post Office banking services, but **actual use** these was low.

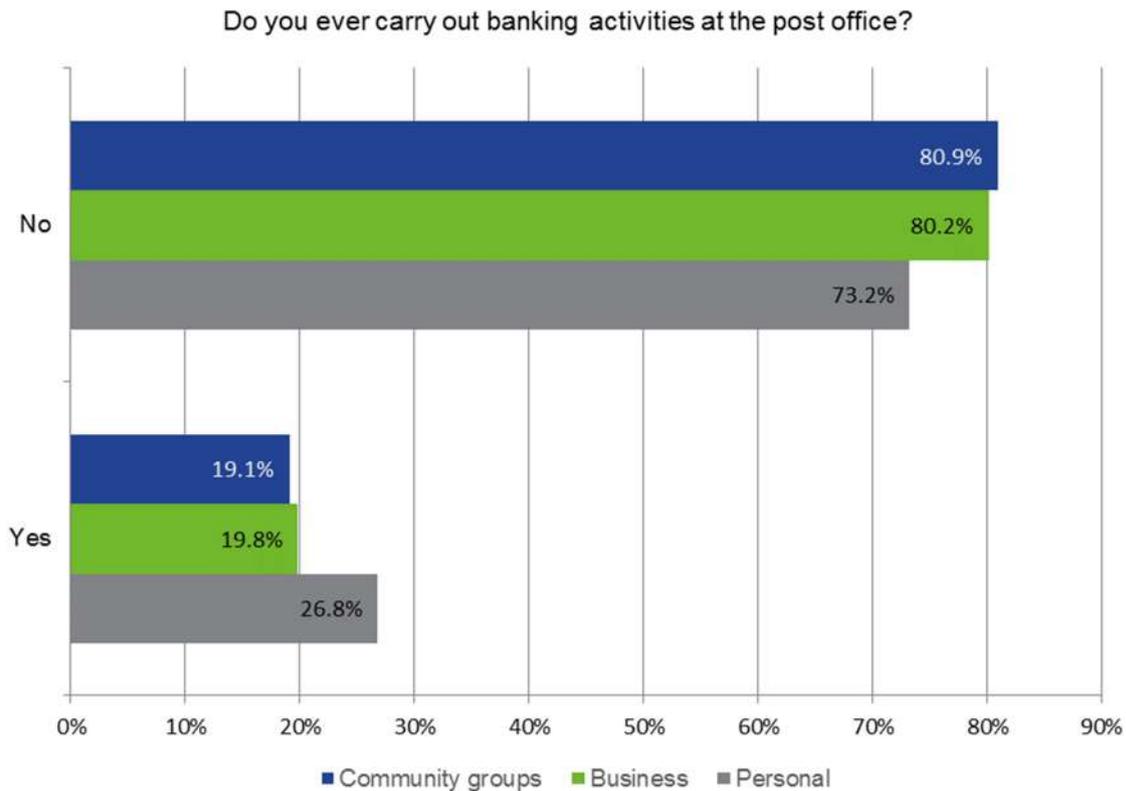
In terms of **awareness of services**, between two-thirds and three-quarters of business (Figure 11) and community group respondents are aware of the ability to withdraw cash (68.9% and 74.7% respectively) and pay in cash (69.7% and 62.9%) and cheques (66.7% and 64.2%). However, there is less awareness from personal customers, who are most aware of the ability to withdraw cash by card (63.2%), followed by paying in cash (43.8%) and cheques (37.7%). A small number of respondents indicated that their Post Office did not offer these services highlighting a disconnect between what should be, or is, provided and awareness of the offering.

Figure 11: Awareness of banking services offered by the Post Office (businesses customers)



Around four fifths of business and community group and almost three-quarters of personal respondents do not use Post Office banking services (Figure 12). When looking at responses at a smaller local area basis, not surprisingly responses showed even less use of Post Offices for banking where there were existing bank branch alternatives.

Figure 12: Use of Post Office banking services (all)



For business respondents that do use the Post Office for banking, the most common uses are paying in and withdrawing cash. For community groups the most frequent activities are paying in cheques and cash. However, none of these activities are carried out very frequently by the personal customers who use the Post Office. Withdrawing cash by card is undertaken weekly by 18.5% of personal customers, but this increases to just over half using the service at least monthly. Only 3.5% pay in cash at least once a week, and 16.9% once a month.

While there is generally good awareness of Post Office banking services, there is lack of clarity as to what type of service is being offered by the Post Office for depositing cash. It is suggested they set a fixed amount per transaction. In one case, this practice resulted in a series of repeat visits when the cash deposit maximum was significantly exceeded. In another example, a Trust noted the Post Office being unwilling to deal with £700 in coinage, which is their level of takings in good summer weeks. These rules were also mentioned in relation to taking out cash/coins for floats, with set allocations per business and if demand is considerable this can be restricting for businesses. Other respondents reported an unwillingness of their local Post Office to count any cash or deal with loose change. One respondent noted:

“If they refuse to cash up my son’s piggy bank, then I am not sure they will be willing or able to offer any such service to the local shops”.

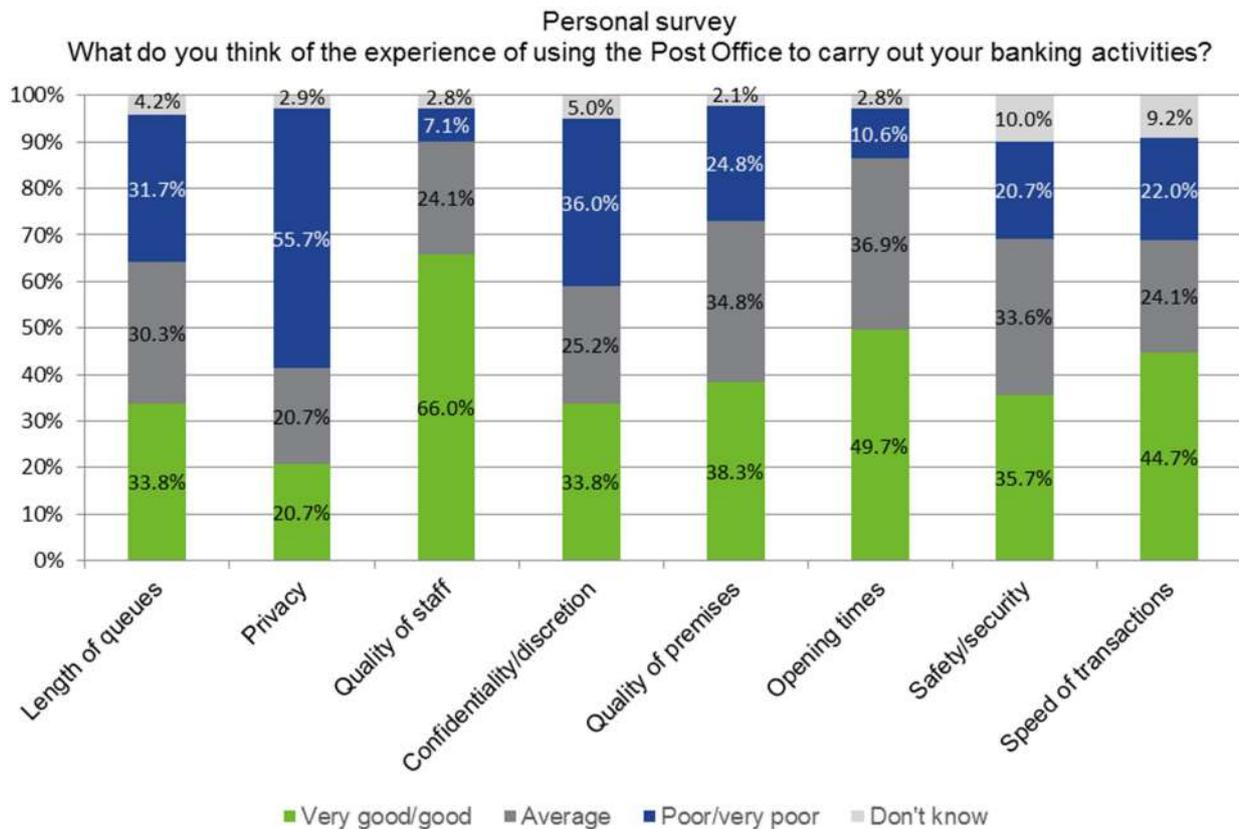
Despite these identified practices, Post Offices should accept cash deposits of up to £2,000.

A downside mentioned about depositing cash through the Post Office was that deposits do not appear on your account immediately, but only when the bank receives the cash, cheque and paperwork, so there is an extra delay before the transaction actually clears. One respondent suggested that this is therefore not a pay-in service, but “a secure onward envelope service”. Those who had more awareness and usage of the Post Office banking service were people that have never had a local bank branch such as the Co-op Bank, HSBC or Santander, or their bank has recently closed, such as the Bank of Scotland, Clydesdale or TSB.

Experience of using the Post Office for banking

As previously highlighted, use of the Post Office banking service is low. However, for those that have used the service, the aspects that were most commonly considered to be very good or good were opening times and quality of staff. The aspects of service most commonly considered to be poor or very poor were around privacy, confidentiality and safety/security. Only 183 respondents answered this question (personal customers 142, businesses 24, and community group 17), reflecting low usage of the Post Office services for banking by respondents (Figure 13).

Figure 13: Experience of using Post Office banking services (personal customers)



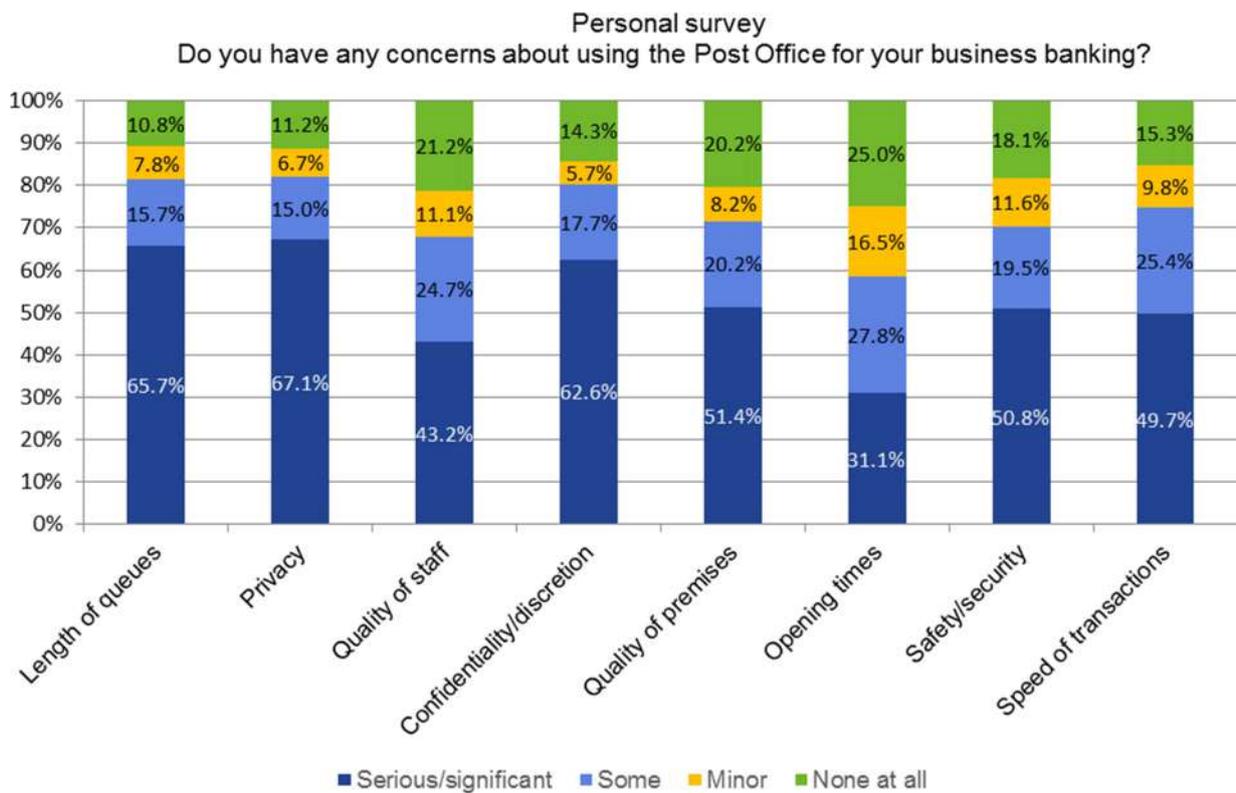
- Security, privacy and confidentiality – The experience of privacy was often negative, particularly for personal and business customers with the majority stating their experience was poor or very poor. More than half of community groups (58.8%) reported that confidentiality/discretion was very good or good, while around a third of businesses (36.4%) and personal respondents (33.8%) reported this was very good or good and a similar proportion poor or very poor (27.3% and 36.0% respectively). Views around safety and security were more positive than negative from each of the surveys.
- Quality of service delivered – The most positive feedback related to the quality of staff. Two-thirds (66%) of personal respondents considered quality of staff to be very good or good, a slight majority of business respondents (54%), with the highest perception of staff coming from community groups (71%).
- Length of queues – Feedback on length of queues was marginally positive from businesses and community groups, with around half stating these were either good or very good. The experiences of personal customers was more mixed.
- Opening times – Feedback on opening times was generally positive, with 12 out of 17 community group respondents and 15 out of 24 business respondents reporting their experience as very good or good. The

experience of personal customers was marginally less positive, 49.7% describing their experience of opening times as very good or good.

Concerns about using the Post Office

Levels of concern about using the Post Office tended to be much more negative when considering the views of all respondents (rather than just those with actual experience), perhaps reflecting the difference between experience and perception of the Post Office service for banking. This question was answered by a greater number of respondents (539) compared to the small number of respondents stating they had actual experience of the Post Office for banking (as above).

Figure 14: Concerns about using Post Office banking services (personal customers)



- Security, privacy and confidentiality – privacy was the aspect of using the Post Office that respondents were most concerned about with 67.1% of personal respondents, 73.1% of businesses, and 64.2% of community organisations having significant or serious concerns. Concerns are lower in relation to safety/security, although still about half of respondents in the business and personal customer surveys voiced significant levels of concern.
- Quality of service delivered – concerns about the quality of staff were greater than found in the actual experience question. Two fifths of personal respondents (43.2%), over half of business (54.4%) and a smaller proportion of community groups (23.3%) had either serious or significant concerns about staff.
- Lengths of queues – most personal and business respondents are concerned about length of queues: 65.7% of personal respondents, 62.9% of businesses, and nearly half of community organisations (49.3%). The levels of concern about quality of premises were lower, although a small majority of business customers (52.3%) and personal customers (51.4%) had at least significant concerns.
- Opening times – this aspect had the lowest level of concern: 41.5% of personal respondents, 52.3% of business and 64.2% of community organisations had minor or no concerns about opening times.

In relation to skills, those responding to the qualitative survey bemoaned the loss of a dedicated Post Office, with staff who were fully conversant with all the services on offer. There was a feeling that the move to contract Post Offices into shops has resulted in a reduction in the skill levels. As one respondent put it:

“for my work I need to send official documentation weekly, by recorded delivery, and every week the person on the counter does not have a clue how to do that”.

Respondents do not see the Post Office in the same professional light as a bank. A number of respondents were also quite explicit about a lack of professionalism shown in certain instances. This issue also had a personal dimension, which as one respondent commented:

“My sister runs a hotel, and she does not want people there knowing what she took at the wedding they hosted that Saturday”.

Post Office staff were seen to be close to the community, raising concerns about confidentiality and privacy, with some comments relating to a lack of trust in staff discretion. One personal respondent captured such concerns by stating that they did not want to bank in a ‘*little gossipy wooden shed*’. Another business respondent referred to the Post Office as being their village’s ‘*gossip centre*’.

Banks were considered to be more professional in this sense, but concerns also related to physical capacity issues. It was noted that banks offer a very different environment to Post Offices, which are often now located in an open shop, or in one case the back of a bike shop. A number of respondents identified accessibility issues including parking, particularly for those with mobility issues or disabilities. The old Post Office layout was considered to be more bank like, with dedicated counter space to undertake tasks such as completing forms, counting cash or adding stamps to letters. Respondents noted that you now have to queue with shop customers waiting to pay for their goods. As one respondent stated:

“I don’t feel comfortable counting up cash at a counter where there is a person right next to me buying a can or coke or paying for their petrol”.

This was a recurring theme throughout the research fieldwork, suggesting scope for more careful planning in relation to current amenities and layout arrangements, although consultees wondered about the scope to achieve such changes in some Post Office shops.

Concerns about Post Offices extended beyond privacy and layout. Some respondents noted there is often high staff turnover and felt staff need further training as they were liable to make errors and not know how to resolve them. Some business respondents had experienced missing payments that had proved difficult to correct. Concerns were also raised by business respondents about customer service attitudes, professionalism, expertise and even the integrity of Post Office staff. One community organisation also highlighted the failure of the Post Office nationally to deal with errors and service standard issues locally.

For some, feelings about premises linked to concerns about the Post Office network itself not being stable, with hours reducing and future closures being threatened. Community respondents often referred to concerns about the future of Post Offices, with some seeing them as being as vulnerable as banks to future closure, even where they provide a good service. A few respondents commented that there was now no local Post Office in their area.

Bonar Bridge – Bank of Scotland local branch closure 2017

Bonar Bridge is a small town in Sutherland which experienced the closure of its only remaining bank in 2017. The closure was described as a process of attrition with the removal of a full-time bank manager around 2000 (when it became a sub-branch of Dornoch which has also since closed) followed by a gradual reduction in opening hours (down to three-days a week in 2004/5, two-days a week in 2015, and five-hours on a Tuesday in 2016) before finally closing. A mobile bank service was introduced in 2017 providing the community with a two-hour time slot on a Tuesday.

In addition to the bank closure, the local Post Office closed and was bought by the community in May 2014, with funds from the Scottish Land Fund. The community-owned Post Office, funded by the Kyle of Sutherland Trust, was run for a time by the previous Post Office Manager for a transition period, before being taken over by another individual in 2016 who operated the business as a shop/Post Office. Towards the end of 2017, the shop and Post Office service was taken over by a bike hire shop which moved from premises in Ardgay. It continues to be subsidised by the Trust but there are concerns about the long-term sustainability, and suitability of this Post Office. The nearest alternatives are at Tain (15 miles away) or Alness (18 miles away).

Bonar Bridge has one ATM at the Spar shop which is quite often empty with a suggestion by consultees that this is 'tactical' given the ATM charges to the shop owner. The alternative for customers is to use 'cashback' when making purchases in the shop. The nearest alternative bank, is the Bank of Scotland in Tain a 30-mile round trip.

Finally, in relation to the current Post Office network and structure, a number of respondents raised questions about the imminent renegotiation of the Post Office contracts, and a concern that while the last renewal was conducted when the Post Office was in public ownership, this will be the first with the Post Office now in private hands. Given this context, looking to the Post Office as a saviour was considered by some to be misplaced.

ATMS

ATM coverage and reliability

Given the importance of cash to the local economies, and the tourism industry in particular it is important to establish what alternatives there are to ATMs should these be removed with closure of a bank. Cash machines were seen to have their limitations being designed to dispense limited amounts of cash, not coinage, and therefore do not meet the cash needs of businesses. There is limited capacity to deposit cash with only some ATMs being deposit enabled, and do not take deposits for every bank, and even fewer being enabled for cheque deposits.

Half (50.5%) of personal customer respondents make cash withdrawals at a bank ATM at least once a week, and over a third (35.7%) make cash withdrawals from ATMs elsewhere. The survey showed that 80.4% of personal customer respondents have an alternative ATM in their area other than those associated with banks which may be closing¹⁸.

However, appropriate access to ATMs is not just about their simple presence; use can be affected by whether ATMs charge for usage, whether they are accessible day and night, and whether they are reliable. The vast majority (93.4%) of personal respondents have access to free ATMs, and three quarters (77.5%) state that they have access to at least one ATM day and night.

From the qualitative feedback, it was frequently mentioned that the location of these alternative ATMs are inside shops including large and small supermarkets/general stores, Post Offices or petrol stations. Open responses identified the lack of 24-hour access to cash machines as being an issue, pointing out that access was not possible outside of the shop opening hours. Some also made reference to facing considerable journeys to access cash outwith shop opening hours. One respondent stated their cash machine was the only one for 34 miles, for another the closest ATM was an hour away, and another stated that it was a 95-mile round trip to the nearest ATM.

The research has found an issue around ATM reliability – only a quarter, 24.8% of personal customer respondents stated that all ATMs were reliable, while a similar proportion (25.1%) said they were not and a further 36.6% that only some were reliable. Open responses focused on machines running out of cash, typically over a holiday weekend or under the pressures of the tourist season. All the qualitative community consultation responses mentioned cash machines being unavailable quite regularly, or being empty, with shops and hotels

¹⁸ Note: use of ATMs was not asked of business and community group respondents.

then quickly finding themselves becoming de facto sources of cash (via cashback facilities). These issues were highlighted in the Fortrose and Bonar Bridge case studies where the last bank in town has closed (see above).

There was some uncertainty expressed as to whether the branch ATMs for RBS planned closures would be retained when the banks close as has been the case with other recent bank closures. RBS statements have indicated that retaining ATMs could be an option if another free to use machine was not within one kilometre. There was also a lack of clarity as to whether RBS would continue supporting their other local ATMs if the bank branch closed. At the very least the loss of current bank ATMs would reduce supply and put added pressure on the remaining machines, especially at peak tourist seasons.

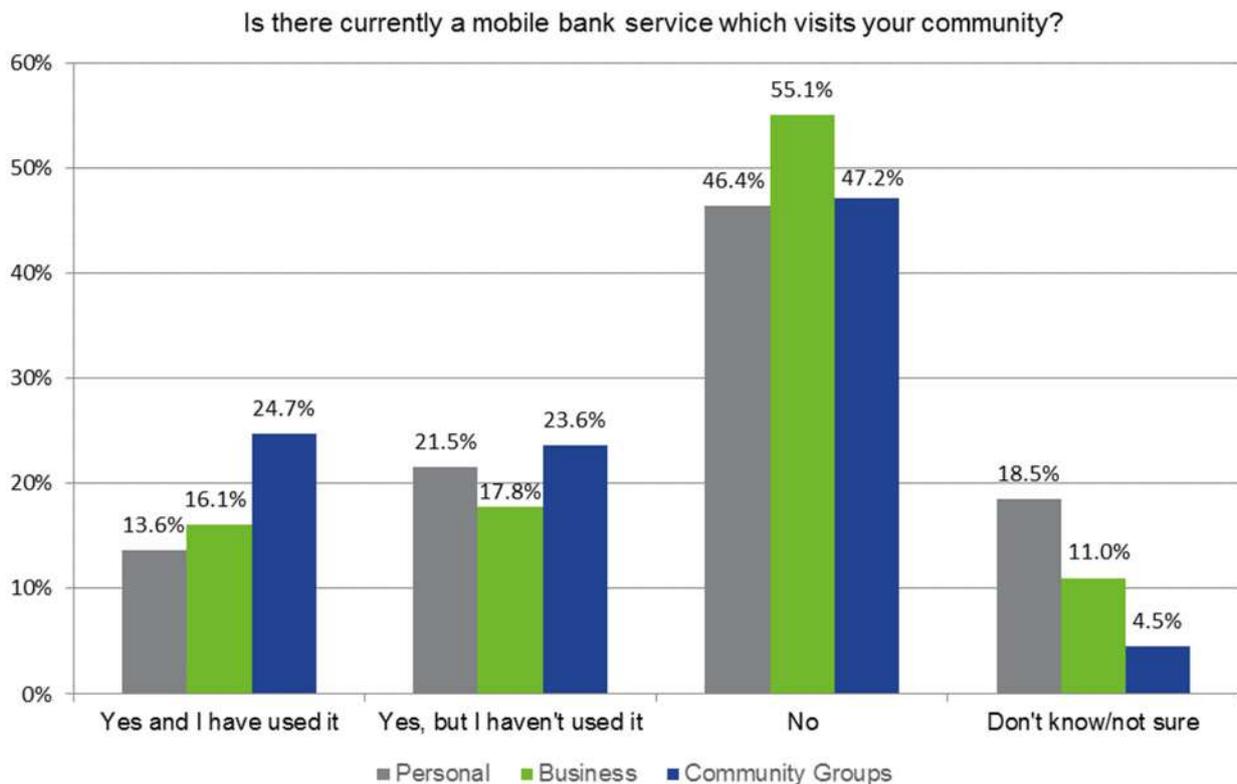
MOBILE BANKS

One of the ways that banks have sought to mitigate the impact of rural bank branch closures is through offering mobile bank services.

Use of mobile banks

Around half of respondents said they did not have a mobile bank that visits their community (Figure 15).

Figure 15: Current availability of mobile bank services (all)



A small number (111) of respondents stated that they used mobile banking for a range of banking needs, highest amongst community organisations. By far the most common activity undertaken in mobile banks was the paying in of cheques (at least 86.1% of respondents), followed by withdrawing cash. The least commonly used services were general advice on banking and finance issues. Community groups use very few of the mobile services other than for depositing cash and cheques.

The experience and concern about use of mobile bank services

Only those respondents that have used mobile banks answered a question on their 'experience'. The low number of responses (111) reflects the low usage. The lowest satisfaction based on experience was around opening times. There was also poor opinion around security, privacy and confidentiality although business customers suggested a more positive experience than personal and community groups. The most positive feedback related to the quality of staff.

A much greater level of response (513) was obtained for concerns about potential use of a mobile bank service. The greatest levels of concerns mirrored experience with over two-thirds across all three groups having serious or significant concerns around opening times. Security, privacy and confidentiality, and reliability of the service was a significant concern for around half of all respondents. Length of queues were the least concern, although almost half (48.6%) of personal respondents, 55.2% of business respondents and 42.9% of community organisations had significant concerns.

Evidence from the qualitative survey and open responses from the quantitative survey also revealed the shortcomings and limitations of mobile banks although one community was happy that they are now to get a two-hour stop once a week because of a nearby closure, whereas in the past they received no service. Some responses reported the mobile banks to be quick and easy to use, and a good way to reach out to rural areas that would otherwise have no service. These positive opinions were qualified by the suggestions that mobile banks were a reasonable service for personal bank customers but inadequate for tourists, given the uncertainty of timing, or for those running businesses who need better facilities. These positive comments were the exception, because criticisms of mobile banks were almost universal and consistent.

Criticisms were about the very limited services on offer. Typical examples include a two-hour slot once a week which does not compare well with a local branch, even with limited opening hours. Opening hours were considered highly restrictive with some respondents referring to slots as short as twenty minutes. This was seen to contribute to queues which were exacerbated by access difficulties. Accessibility for both the elderly and disabled was raised, and one community council mentioned they were checking if the current provision constitutes a breach of the Disability Rights Act. If the same bank was in a building rather than a van it would in their opinion be a breach, but the position on mobile vehicles seems to be unclear.

The weather challenges and associated reliability issues with mobile banks were raised across all areas. Examples provided include Campbeltown and Barra where bad weather can impact on the reliability/availability of ferry journeys which the mobile banks will rely on to reach communities in these areas. However, some suggested this was due to technical issues inherent with an ageing ferry fleet. Other examples included the Aviemore and Grantown on Spey areas where the snow in the winter can cause road blockages.

Privacy and the quality of the physical space within mobile banks were also picked up as for personal customers, businesses and community groups. The small size of the mobile bank was seen as making privacy impossible. Privacy was also reported as being another driver of queue lengths with customers forced to wait outside to allow a degree of privacy which is problematic with inclement weather, especially in the dark winter months.

The lack of internet connectivity was also raised as a further issue, and similar to the Post Office provision, the offering was considered a more limited transaction service, not a bank. Restrictions on paying in cash, with only 'full bags' being accepted was also raised by respondents who need this facility for their business or community organisation. Many considered the promotion of mobile banking to be a backward step, going back in time to when the bank manager and assistant came over to a hall with a case of cash. For these reasons, it was also felt by many to be tokenistic, and in time would be withdrawn. This links back to the local economic success in rural and remote places, the infrastructure around supporting local businesses and the tourism sector. As one respondent noted:

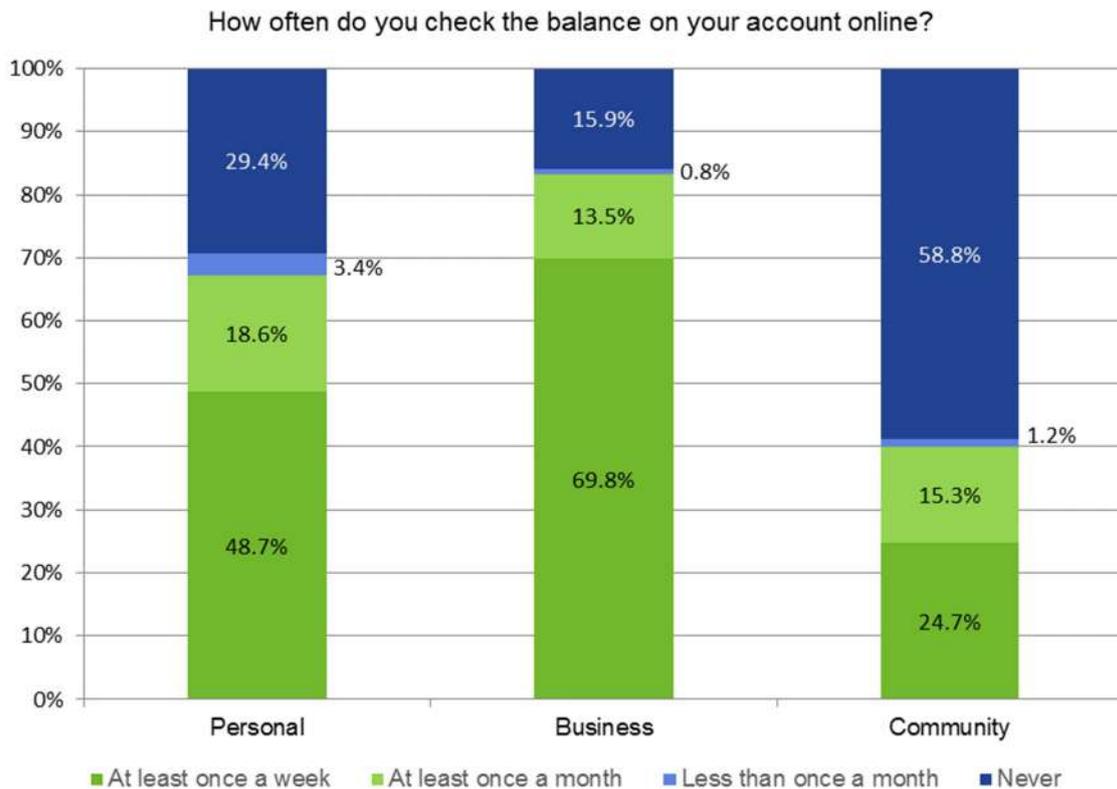
"Forty years back we had two such bank sessions once a week, first they were held in the living room of the Post Office, and then later in the public hall".

ONLINE BANKING

Current use of internet

Over two thirds of businesses (69.8%), and around half of personal customers (48.7%) check their online bank accounts at least once a week. In contrast, only a quarter (24.7%) of community groups do so. Businesses use online banking most frequently, and community groups least frequently, with almost 60% of community groups never using online banking to check their account. Almost 30% of personal customers had never used online banking to check their account (Figure 16).

Figure 16: Current use of online banking (all)

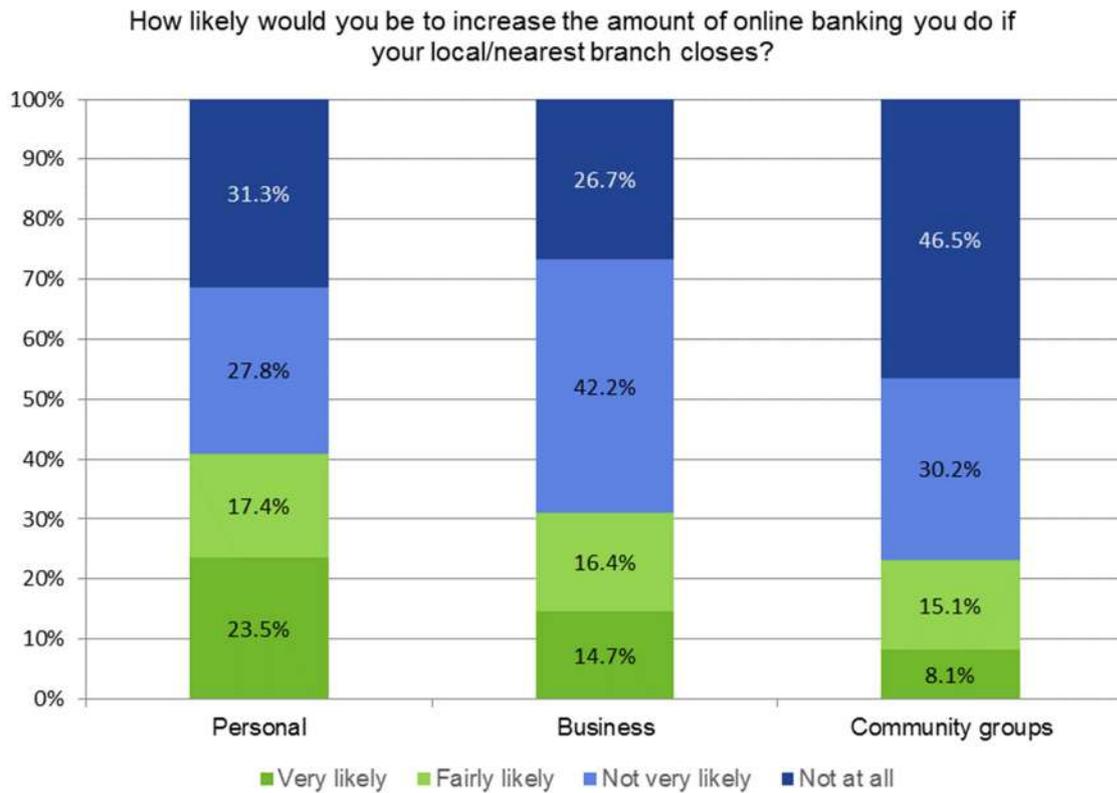


The main way that people access their accounts is using a computer, but using a phone and tablet are also common ways of accessing accounts.

Likelihood of increasing online banking

The majority of respondents, across all categories were not very or not at all likely to increase their use of online banking in response to branch closures (59.1% of personal customers, 68.9% of businesses and 76.7% of community groups). Personal customers are more likely to increase their usage, and community groups the least likely (Figure 17).

Figure 17: Likelihood of increasing use of online banking as a result of branch closures (all)



Constraints to switching to online banking

The survey explored what constraints there may be, if any, to doing more online banking (Table 18). In general, all respondents were less concerned about personal skills and ability to use the internet, but there were greater concerns around quality of broadband or mobile reception. For personal respondents, cyber security was a particular concern. The grey shading in the table below shows:

- Computer skills and having access to a computer is of no concern for the majority of respondents across categories with the exception being personal customers respondents where over two-fifths have a fear of getting things wrong.
- Cyber security is a large concern for around half of personal customer respondents.
- The speed and reliability of broadband and mobile reception is fairly evenly mixed between those that have concerns and those that do not.

Figure 18: Constraints to doing more banking online (all)

To what extent, if at all, are the following constraints to you in terms of doing more banking online?

	Residents				Business				Community Groups			
	To a large extent	To some extent	To a slight extent	Not at all	To a large extent	To some extent	To a slight extent	Not at all	To a large extent	To some extent	To a slight extent	Not at all
My computer skills	11.8%	15.4%	11.2%	61.4%	4.5%	9.0%	7.2%	79.0%	5.0%	11.2%	10.0%	73.7%
Fear of getting things wrong	22.1%	14.7%	20.2%	42.8%	5.4%	10.8%	18.9%	64.8%	10.8%	10.8%	13.2%	65.0%
Being too old/learn new things	10.8%	11.2%	9.3%	68.5%	1.8%	4.5%	13.7%	79.8%	6.1%	12.2%	3.6%	78.0%
Access to a computer	5.5%	6.3%	8.0%	80.1%	2.7%	2.7%	6.4%	88.0%	6.1%	8.6%	4.9%	80.2%
The speed of my broadband	25.6%	18.4%	15.8%	40.1%	28.8%	18.9%	11.7%	40.5%	28.5%	15.4%	13.1%	42.8%
The reliability of my broadband	26.9%	20.2%	16.3%	36.4%	26.3%	22.7%	11.8%	39.0%	26.5%	14.4%	18.0%	40.9%
The quality of mobile reception	34.8%	17.6%	11.8%	35.8%	35.1%	18.0%	9.0%	37.8%	32.9%	14.6%	8.5%	43.9%
Concerns over cyber safety and security	52.5%	19.4%	14.6%	13.3%	33.0%	21.4%	12.5%	33.0%	26.5%	20.4%	13.2%	39.7%

Residents n = 542

Business n = 113

Community n = 89

The open-ended responses confirmed the quantitative responses with the most common issue raised being internet infrastructure, and personal respondents most commonly raising concerns around the security of online banking. Time and again business respondents returned to barriers associated with the internet infrastructure within their community, both in terms of broadband and mobile connections. One respondent, who splits their time between the Highlands and the central belt of Scotland emphasised the enormous contrast between infrastructure and the quality of online access differentiating the two areas.

Personal respondents also emphasised the limited range of tasks that could be carried out online, pointing out that some tasks can only be carried out face to face. Even those who were positive about online banking, highlighted the on-going need for over the counter transactions, commonly making reference either to a preference for accessing advice and information, or as a means of resolving any bank mistakes or problems. It was pointed out that more complex tasks such as applying for Power of Attorney or those that require anti-fraud requirements such as opening or changing the type of bank account can only be done face to face. The quantitative surveys confirmed these views showing what customers value in branch banking. Accessibility is the most valued aspect for around 60% of all respondents, but human/face-to-face aspects are also key – knowing and trusting staff are important aspects for around 50% of respondents, and knowing that individual or business needs are understood is important for over a third of customers.

Business and community organisation respondents made similar points, stressing that online banking could only meet some of their needs, and that they still have a critical need to access cash handling and cheque deposit facilities. A minority of personal respondents indicated that they would never bank online, and that they had no interest in doing so. Other respondents reported banking online, but were doing so reluctantly and felt they had been forced to do so.

Community organisations highlighted that they were not able to open online accounts due to the requirement for two signatories, and that in some cases this had left their online banking solely limited to checking their balance. As highlighted previously, this is an erroneous belief and shows that more information is required from banks on how community businesses can use online banking. Generally changing signatories is seen as a difficult process with 40% of community survey respondents stating that the signatory change process is not easy. These poor experiences may explain the general reticence, and general lack of knowledge around online banking in community organisations.

A number of respondents mentioned issues with accessing online banking because of age or an impairment, including some respondents talking about sight loss. Notably, one older respondent who had happily used online banking, now felt age was increasingly impacting on their ability to do so. Community organisation respondents reflected similar concerns about barriers that older people might experience to using online banking in relation to skills.

Reflecting use for both business and community organisations there were more open-ended comments that were positive rather than negative. In general, online banking was seen by these respondent as a major boon, creating ease of access to perform key banking tasks.

SWITCHING BANKS

Where an alternative bank is still operating within the local area, one option for people losing their local branch is to switch bank. However, there has long been an issue surrounding customer reluctance to switching bank.

Past experience of switching and willingness to switch

Switching was less common amongst community organisations and businesses than amongst personal customers (Figure 19). The vast majority (87.6%) of community organisations and businesses (73.9%) have never switched their bank account compared with 59.4% of personal customers. Within the personal customer group there was a small minority who appeared to do considerable shopping around, with 5.1% having switched banks more than three times.

However, respondents across all the three different customer categories did suggest willingness to switch to another bank in the face of closures, with a majority of each customer type expressing they were at least 'likely' to do so.

Figure 19: Likelihood of switching current account as a result of branch closures (all)



Reasons for not switching banks

The most commonly identified reasons not to switch was the lack of an alternative branch nearby with 42.0% of businesses, 48.8% of personal bank customers, and half (50.6%) of community organisations stating this. Other key reasons for not switching was the time and trouble involved, and the loyalty to their current bank.

Open-ended responses in both personal and business quantitative surveys gave a real insight into the determination on the part of some people to switch banks. While for some customers this was primarily about practicalities, for others it appears more a matter of principle, driven by both anger and irritation with their existing bank. Many customers felt let down by their current bank closing their branch. Some expressed this

by suggesting that a company that had shown them no loyalty could not expect any in return, while others more forcefully expressed this as a way they could “*hit back*” at their bank. Some of those who were very clear about their intention to switch have been very long-term customers.

However, some respondents identified previous bad experiences of switching providers and did not wish to repeat it, being nervous about mistakes being made during the switching process or for some, worried about not being able to handle the switch due to their age. For community organisations the burden of switching presented a very clear deterrent in doing so, sometimes based on the difficulties experienced when switching signatories in the past, and sometimes based on previous personal experience of switching providers.

The lack of alternative providers was generally referred to in relation to the closing bank being the only one that had been available locally, and there being no point in moving banks to another with no local presence. Other respondents felt, sometimes based on previous experience, that the alternative bank was not likely to offer a service of equal or better quality. For some community organisations there was a fear that a new bank would not replicate their current level of service. One barrier specific to community organisations was that switching banks would require them to make contact with all their supporters to advise them of their new bank details, which in one case would involve several hundred people, and may run the risk of losing some of them in the process. Again, this highlights the lack of understanding around bank processes.

Some personal respondents indicated that switching was not worth the effort given: *‘they [the banks] are all the same’*, while other respondents felt that alternative banks would only be concerned about them whilst they were new customers. There was also a significant number of respondents who felt that switching to another provider was not worthwhile as they could potentially also close their branch.

The respondents who felt they were unlikely to switch were happy with the service they currently received from their bank, although this was often based on their familiarity with staff who would no longer be available. Respondents also suggested that they did not wish to switch because they held their mortgage with their current bank and preferred to access banking and borrowing services from a single provider.

One group of personal respondents who were in the process of switching, or felt that they would switch in the near future, felt negatively about the whole process, because they felt they were being forced to do so, or were doing so with some reluctance. Respondents even described a feeling of being *‘pushed’* into doing this as being *‘distressing’*.

Other personal and community organisation respondents had already switched, and a handful of the former already had a second account with another bank, to which they had now transferred all their activity.

SUMMARY

The key points to emerge here is that the current alternatives each have their limitations, and do not go the whole way to replace what is being lost. Each has the capacity to fill some part of the branch service offered by the bank, whether it be accessing cash or paying in cash or cheques. Where it really fails is in respect of the face-to-face contact with someone in the organisation who can offer advice and resolve problems. Each of these partial solutions bring some difficulties and frustrations which were most evident in relation to the mobile bank, but were also comprehensively discussed in relation to the Post Office. While for many accessing their bank via the Post Office is the best option available, for others it brings with it a great deal of additional trouble, time and thus expense.

MITIGATING THE IMPACT OF BANK BRANCH CLOSURES

This section outlines what is currently being done to mitigate the impact of bank branch closures and considers how the banking requirements of communities in the Highlands and Islands could be accommodated without local bank branches. This is drawn from the information obtained through the literature review and the qualitative survey and stakeholder interviews.

INFORMATION AND SUPPORT TO CUSTOMERS ABOUT CLOSURES

Under the Access to Banking Standards, banks who are closing branches are required to provide information and advice to their customers who are losing this service. In terms of the closures scheduled for 2018, RBS stated that everyone impacted by the bank closures is contacted and advised about the closures, and is given information about specific alternative sources of services, including use of the Post Office. They were very confident that every 'regular user' (people who go into the branch once a week in 23 out of 26 weeks) of the bank will be spoken to, and for the vast majority, this will be face to face. All businesses who are 'relationship managed', will be directly engaged with, as these will be larger businesses. Every customer who is identified as being 'vulnerable' is contacted.

Some of the work preparing customers for closure will be carried out by local branch staff who are trained to support people through the change. RBS also has additional dedicated staff who work on particular aspects of the change. Further, RBS already have a network of 'community bankers' based and working long-term in local communities, with a focus on building local links and supporting local customers. These staff can give support around any aspect of customers' banking and financial needs, including with banking paperwork, and even carry out home visits for 'vulnerable' customers. They deliver workshops and hold surgeries in community locations such as libraries and village halls. They also take a lead in engaging with community organisations around the issue of closures, and are intended to embed themselves in networks and relationships with local organisations. RBS also employ staff they call 'TechXperts', who are in the branches until they close. These are staff who will help with all digital needs, not just banking, but will also assist and advise in relation to use of the Post Office and mobile branches.

RBS support for businesses going through the change is led by use of their 'business growth enablers', who are locally-based members of the bank's business growth team. Their prime function is to talk about various options, finance and banking issues, and can talk through concerns about the changes with any current customer.

Crucially, RBS see themselves as further strengthening their links with the Post Office, as a core part of helping people make the post branch closure transition. They provide information about the Post Office in the information they send out, covering the location of local Post Offices, and the activities that can be carried out within them, though they do acknowledge customer awareness of this service offered remains a challenge for them. Given this, community bankers are seen as playing an important role in improving the transition to using the Post Office.

Finally, RBS made one further commitment, namely, that they will not remove the branch ATM, once a branch has closed, unless there is another free to use one within one kilometre.

Delivery of information and support – survey analysis

Respondents to the quantitative survey were asked about the information they had received on branch closures. Between 48.2% (community) and 60.5% (business) of respondents stated that their bank was due to close. In all categories only around half of the respondents who are due to have a bank closure confirmed that they had received information and support.

Information was most commonly received by post, followed by information face to face in branches. The most common advice provided was about how to continue accessing the banking service locally, followed by help with answering concerns and questions.

Satisfaction levels with the information provided was not high. Most respondents were dissatisfied with the information and support they had received. This was most acutely felt by the business customers where two thirds of businesses experiencing a closure were dissatisfied with the information and support provided. Community groups were the least concerned about the information and support provided.

From the community organisations qualitative interviews, only two out of the 12 places surveyed mentioned the community banking service, one being Beaulay, which was organising a meeting with them, and Grantown where the member of staff is currently based. There was also not a widespread awareness of community bankers amongst the third sector stakeholders interviewed. However, there was some interest in linking with them from one of the local Citizens Advice Bureau (CABx), who felt that they could usefully be plugged into existing financial capability and financial exclusion work.

BANKS AS A PUBLIC SERVICE

There was felt to be a need for local communities to have reasonable access to basic banking facilities. A few respondents offered the suggestion that one bank should be retained, in order to provide that public service, and if the commercial providers could not collectively come up with a solution to allow this to happen then, if necessary, there should be a public bank to provide these basic banking services. Alternatively, banks could have non-competition agreements, with each covering different areas across the Highlands and Islands.

Community respondents expressed an appreciation that all banks are private businesses, and so have to make appropriate commercial decisions. However, they equally expressed the view that uniquely RBS is currently not strictly a private commercial entity, given that is still part-owned by the UK Government. Given that many felt this meant that RBS belonged to them, or at least to the State, then they felt it should have some responsibility or obligation to continue to offer a service to all communities. Many respondents considered that government should use its power, particularly in the context of the stake that it owns in this bank, to compel it to keep branches open, or share premises to provide a core standard of service to rural communities. This was a commonly expressed view, and was part of a wider public narrative at the time of the interviews.

This took the conversation into a wider debate about what level of service provision should be available to people residing in more remote places. The provision of banks, Post Offices, ATMs, petrol stations, health care facilities, schooling, Police and Fire and Rescue and such like all came into the picture, given the scale of rationalisations and closures that had been experienced over the last few years. Emerging out of this, many felt there was the need for a wider discussion and debate about the minimum level of provision of local services within any community, and how some of these services might need to be better linked and co-ordinated for efficient, but essential local services.

VIEWS ON MITIGATING THE IMPACT

The most commonly expressed response to the question of how to mitigate the impact of bank closures was simply that they should not happen or, in some cases, that closed branches should re-open. Some respondents pleaded for a stay of execution.

Respondents felt that this could be achieved simply with a reduction in banks opening hours. This would keep a local bank presence and access to banking services, just for less time across the week. Many believed that this was an acceptable trade off. It was also suggested staff could be shared across branches to facilitate this, or that staff could be involved in fielding phone calls as well as engaging face to face with the public. To a degree, this response mirrored some of the mobile bank discussion, though there was little faith in that

approach, given the limited hours and accessibility. A fixed bank with more accessible hours was still a compromise.

Many respondents also ventured that joint working between the banks could help ensure local access. They proposed that premises be shared between banks to keep overhead costs down, creating hubs with staff from each bank using the premises at different, or even the same times. There was also limited mention from respondents of banks partnering with community organisations using community or local authority premises to provide such local access. One respondent discussed the concept of including local banking services offered at public service points.

Other suggestions focused on the role of the Post Office, looking for them to offer a greater range of services, more investment in the capacity of Post Offices to deliver banking services, including better training of staff, and/or promote more advertising and publicity to encourage people to bank with or through the Post Office. Others expressed the view that Post Offices should go back to having dedicated premises, or at least a dedicated counter, and be part of creating a 'one-stop shop' for people's financial needs.

Mobile banking was seen to be a solution by others, though not that many, via expanding their opening hours and making more frequent visits to the local communities. Others wanted more investment in ATMs availability and reliability, including those that can be used to deposit cash provided at key locations as a way of reducing long trips to pay in cash.

A handful of respondents wanted to see the creation of a new regional community bank providing services across the Highlands and Islands, perhaps operating on a franchise basis, and/or a social enterprise. Two respondents mentioned the 'Bank of Dave' based in Burnley, recently featured on Channel 4. Given what has been revealed about the significance of community organisations, their banking needs and the amounts of money that pass through their accounts, it was suggested there could be some merit in government, or its agencies investigating the feasibility of this option. A few suggested the creation of a new National Bank for Scotland to support vulnerable communities.

SUMMARY

From these discussions it would appear, with a degree of creativity on the part of a number of public and private bodies, there is a way to mitigate the bank closures across the HIE area. The critical player is the Post Office, which despite the many criticisms of their current operation, does have an infrastructure in place to step in both as a bank and as a means to link to other banks to ensure the continuation of their service locally. That said, there are major issues to be resolved here in relation to staff skills, internal Post Office facilities and uniformity in respect of the service offer.

It would also seem local authorities' service networks and local offices could offer a backup facility. This concept could be explored between the banks and all the local authorities in the HIE area. As part of these discussions, it would be helpful to have pay in ATM facilities provided here, as local businesses and others needing a pay in service might prefer to use this facility. At the same time, the Post Office might want to review their practices, though given the perceived privacy and professionalism concerns, then an ATM pay in facility might still be preferred.

CONCLUSIONS AND RECOMMENDATIONS

Bank closures have long been a feature in rural places, which has been driven over time by a variety of factors. The original drivers were competition between banks, and then rationalisation. Recently, different ways of banking and continued efficiency drives are the justification. Of equal importance has been the relatively recent advent of the online market place. In the past banks quietly cut back their local branch network, one branch at a time, but when a large programme of bank closures was announced for 2018, this quickly became an issue of public concern. One consequence of that is that we now have a better understanding and appreciation of banks, and their place in the well-being of local communities, both economically and socially. This is relevant in the Highlands and Islands where the economic, social and geographic context requires particular attention in the context of bank closures.

Key findings and recommendations

Cash is critical

Cash is critical to the day-to-day functioning of the local economies and communities across the Highlands and Islands. The most striking conclusion from this research is the persistence of the need for cash, amongst individuals, businesses and community groups. The survey evidence revealed some reduction in the use of cash, and a much bigger decline in the use of cheques. There is a corresponding increase in the uses of debit and credit cards, as well as electronic payments, whether online or by card, but cash is still critical. Current patterns of usage and the rate of change suggests the move to different payment channels will be relatively slow in the Highlands and Islands. There is still a need for cash, particularly within the more rural and remote communities.

Cash is particularly crucial to the functioning of small retail shops and local businesses, prominent in rural areas, and access to facilities to process both cash and cheques is thus fundamental to their day-to-day functioning and long-term viability. Cash was also found to be core to the functioning of tourism, agricultural and fishing businesses, partly because of their seasonal demand for labour but also their traditional reliance on cash. These businesses need access to cash beyond that which is available at ATMs.

Having banking facilities and the ability to deposit and access cash also underpins the day-to-day functioning of many community organisations. The Highlands have a high level of participation from community organisations and this underpins the fabric of many communities. Banking facilities also need to be understood as being a core to the functioning of local community infrastructure. It is clear that community organisations' banking methods are more traditional, and while much could be done to encourage channel shift for these businesses, that change will take time. Given the number and the breadth of contribution provided by these various community entities, bank branch closures could negatively impact on the running of these organisations, the life blood of many communities.

Residents, tourists and many businesses in the Highlands and Islands need ATMs to be present and reliable. The findings show that while ATMs may be present, they are not always available 24 hours, and more critically are not reliable, especially those based within shops or other premises.

Taken together these findings show an apparent disconnect between banking closures and economic development initiatives, especially in relation to tourism. Successes in growing tourism as a means to generate income within local and fragile communities could run the risk of being undermined by the loss of ready access to cash via local banks. This potential undermining of the local economy is not only in relation to the apparent lack of support for the cash economy, but also the apparent 'running down' of communities where banks as the linchpin of the local high street is lost, and with it there is a perceived impact on the economic wellbeing of places.

Geography remains challenging

The other factor to which the research consistently returns is to geography. The sheer distances, time and money involved in accessing branch-based banking services across the Highlands and Islands even prior to the branch closures may not be understood by decision makers based in Scotland's central belt or elsewhere in the UK. This geographic challenge will be worsened after closures and add yet another factor that makes living in remote rural places more challenging. What have until now been simple, local transactions could become long and expensive trips.

Online is part of the solution

Bank branches closures have been driven partly by changing customer behaviour and the shift to online/electronic banking. This is most clear for personal customers, but evidence suggests that there are two distinct issues around online banking in the Highlands and Islands – for residents/personal customers, and for business online. Basic broadband coverage across the Highlands and Islands is generally adequate for household use and online banking, and the challenge here is around building capacity and willingness to engage with online banking as part of a response to bank closures. Fears about cyber security were shown to be a significant barrier to using online banking. Community organisations/businesses are markedly less engaged in online banking and maintain more traditional approaches to banking than other customer groups.

There appears to be different challenges for businesses, particularly for businesses not located in exactly the right area in a 'hotspot' within a main settlement. This is important in the context of Highlands and Islands where there is a higher prevalence of small and micro businesses many of which are not located in the larger settlements or internet hotspots. A large proportion of businesses now need constant reliable internet connection which allows ongoing business transactions and business development that goes beyond the basic requirement that residents need for online banking. This challenge has been identified through the planned £600m Scottish Government investment in internet infrastructure. The ability for businesses and the local economies in rural and remote areas to grow will depend on the careful targeting of these funds.

Apart from the adequacy of internet infrastructure, the study has shown anomalies in how some small tourist businesses currently carry out their activities online. For example for accommodation providers, for many businesses it is possible to view and book accommodation online, but the ability to pay online may not be available with cash still predominating. This suggests scope for supporting small businesses in harnessing the benefits of online payment methods.

Face to face still has an important place

The ability to carry out over the counter transactions was not the only aspect of the branch banking service valued by customers. The ability to have face-to-face contact with staff to discuss concerns, or just to help with everyday banking tasks will be sorely missed by many customers. Its replacement by telephone is not appreciated, and there are capacity issues around online solutions particularly for older households, often driven around fears of cyber security problems. Customers value the fact they can trust bank staff in their local branch.

However, the majority of customers were not necessarily resistant to the new ways of banking, but customers do believe that new ways of working are best delivered when they work hand-in-hand with a counter service. For some customers including those without ready access to the internet building capacity and enabling access will require face-to-face engagement in some form to mitigate against financial exclusion.

Post Office solutions, and challenges

The Post Office is well placed to be part of the solution due to its network of premises, but based on the study findings there is much work to be done. In some areas they are uniquely placed to provide local over the counter services in the absence of a bank, but this study shows that relatively few people use Post Offices

services for banking. There are differences in actual experience compared to generally negative perceptions about the Post Office banking service, but the customer experience falls significantly short to that of using a bank branch.

The research has found concerns around quality and consistency of service, and poor experiences in relation to privacy and confidentiality. There are also concerns about the adequacy of Post Office premises for banking purposes which would need to be resolved to attract more banking customers, and therefore support the economic infrastructure as a replacement for bank branches.

The vast majority of Post Offices are no longer standalone but exist as Post Office contracts within the premises of another business. This research has provided evidence of concern around sustainability of some of the contract Post Offices in the Highland and Islands. There also remains a degree of trepidation across some of these communities about the imminent review of the Post Office contract, the first to occur post privatisation with the potential impact on the more fragile Post Offices.

Mobile banks, limited and limiting offering

The mobile bank network offers another means of ensuring over the counter services are able reach out into the Highlands and Islands. However, customers facing a shift to mobile bank service considered this a backward step, given the more constrained accessibility, limited service offer and poor-quality environment, when compared with their existing branch. There were also concerns voiced about the potential discriminatory environment it offers to those with mobility and disability problems.

Again, whilst the actual experience of using mobile banking services, as reported by the surveys does not bear out the fears expressed of having to rely on such service, it was still not considered as satisfactory as that of using a branch.

Recommendations

The study findings show that the loss of local bank branches throws up some real challenges to local economic development and community sustainability strategies which have long been pursued by HIE, local authorities and the Scottish Government in the Highlands and Islands. These challenges demand a whole system response to ensure solutions are developed to address the withdrawal of basic banking infrastructure. This should be a co-productive approach involving Scottish Government, HIE, the affected local authorities, community members and delivery partners including the banks and Post Office.

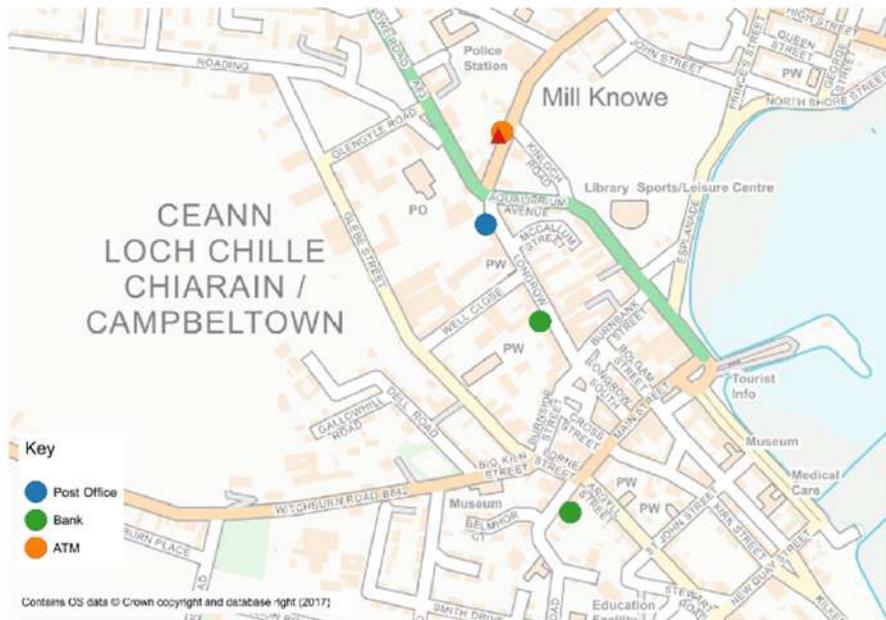
The response should build on the work of this study to consider the banking services required by customers (residents, businesses and community groups), the availability and appropriateness of alternative banking options, and the need for any additional provision in communities affected by bank closures. Ensuring the internet infrastructure is adequate for business banking and business development requirements, and provision of alternative face-to-face access to banking support services is also key. As such the priority areas for policy development and partnership working are:

1. **Recognition of the importance of cash in local economies** – this study has clearly shown the importance of cash in rural and remote communities in the Highlands and Islands. While the direction of travel is moving to digital banking, the move in this region will be slower due to internet and mobile connectivity. Economic development policy should therefore recognise the place cash holds in these economies and support it to enable a sustainable transition to digitally-based economies over time.
2. **Digital inclusion strategies** – building on existing strategies, local partners should review and develop digital banking inclusion programmes to build capacity, confidence and trust in online banking and support financial inclusion across all types of households and banking customer. These digital inclusion strategies should include support to businesses to harness the full benefits of digital banking and digital business including promoting payment methods online.

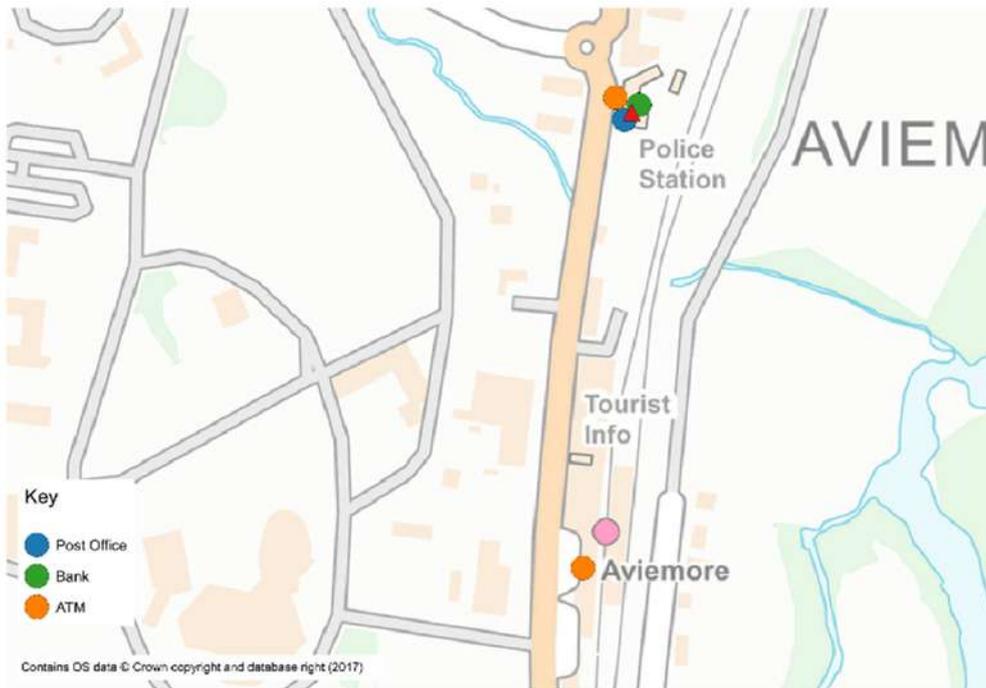
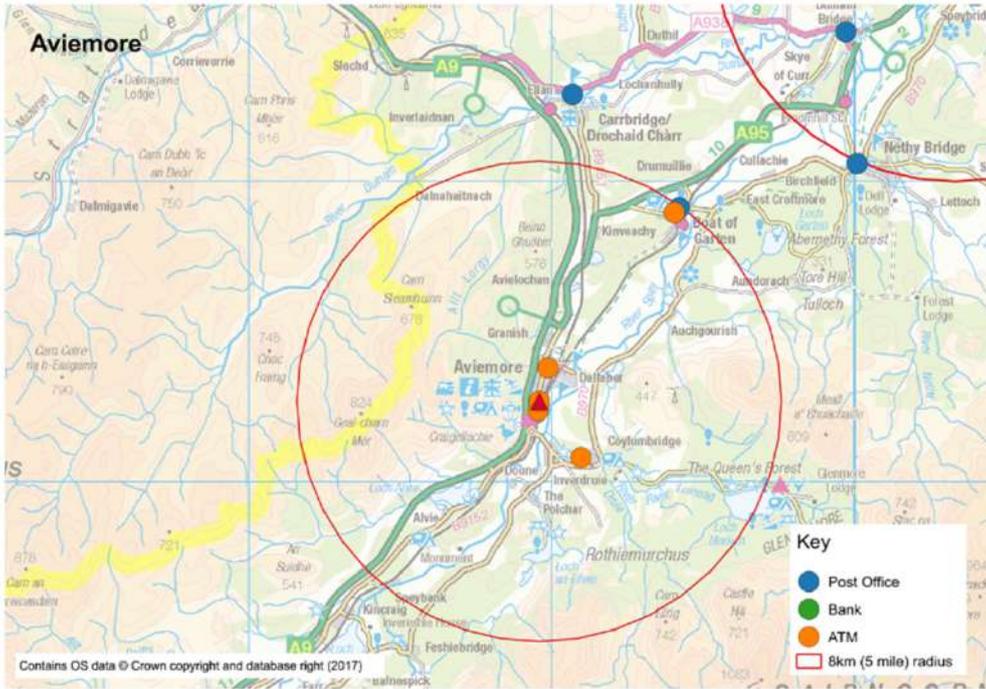
3. **Investment in internet infrastructure** – the challenge has already been identified through the planned £600m Scottish Government investment in broadband and additional investment in mobile infrastructure in the Highlands and Islands. This investment programme should recognise the need for sufficiently fast broadband to support business growth and economic development in remote and rural communities.
4. **Post Office banking strategy** – This study suggests there is scope for the Post Office to improve on its delivery of its banking services framework, particularly through the contract Post Offices. In addition to reviewing and monitoring standards of service (including physical standards), there may be a requirement for public sector partners to develop a strategy to ensure the long-term sustainability of contract Post Offices to support the local economic infrastructure in remote and rural communities. There is also a requirement for better promotion of Post Office banking services, including awareness raising on the standards that customers can expect, and methods of redress where standards fail.
5. **Collaborative banking hubs** – In considering other possible banking solutions, consideration might be given to developing collaborative branches. These could involve bank staff using existing community buildings or local authority 'service points' to provide part time over the counter and digital support services. In some places this may offer a better service to the current alternatives in terms of privacy, comfort and online accessibility, especially where a Post Office or mobile bank are not locally available. This may provide the opportunity to create partnerships involving local authorities, the Post Office, banks, local development trusts, community organisations and credit unions to use local premises to create a 'banking hub'.
6. **Access to Banking Standard** – Government should consider whether there is a need for a minimum banking service standard to supplement the existing Access to Banking Standard which only covers information provision in the case of a bank closure. A revised standard could require banks to undertake an economic impact, and equalities impact assessment for the communities in which a bank closure is proposed. The findings from this work might help influence further thinking in this respect and also opens up a wider conversation as to what banking services people should be able to expect when they reside in a remote or rural community.

APPENDIX 1 – COMMUNITY MAPS

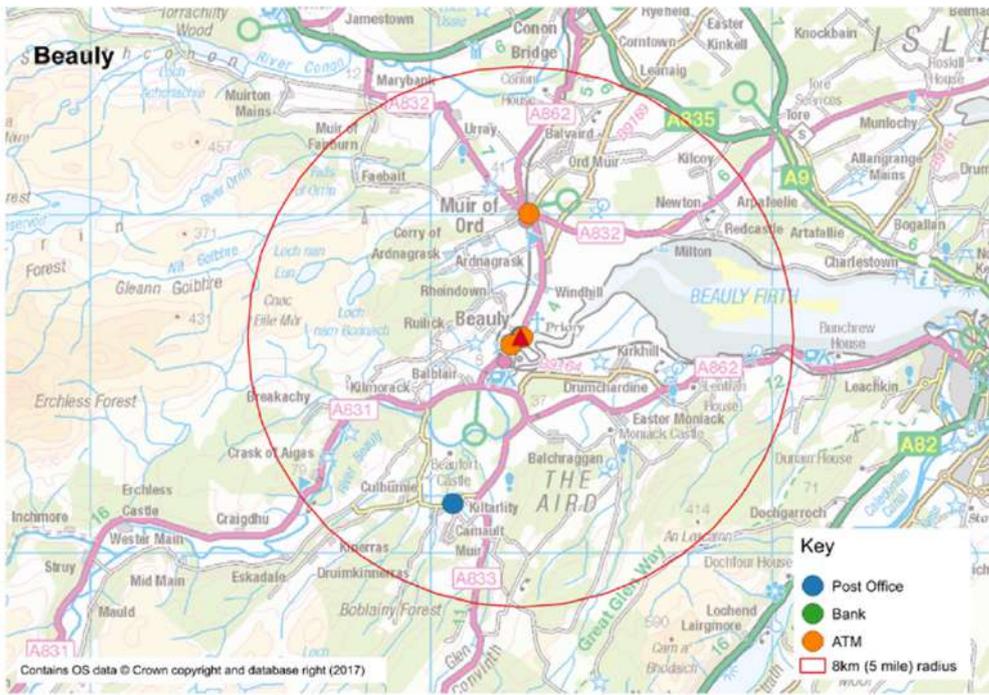
Campbeltown



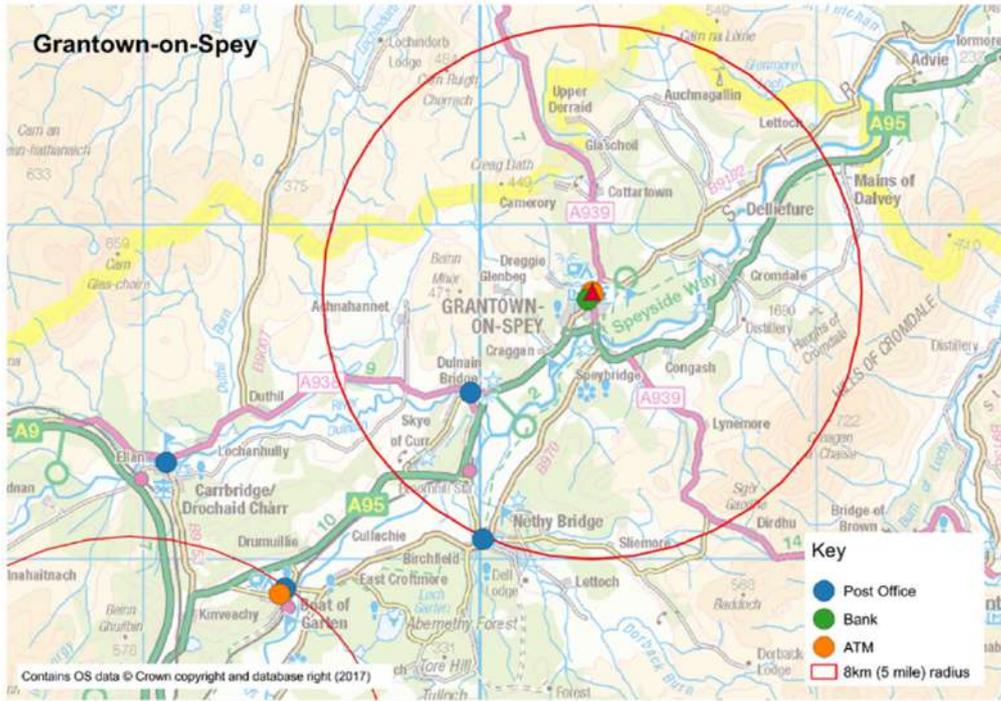
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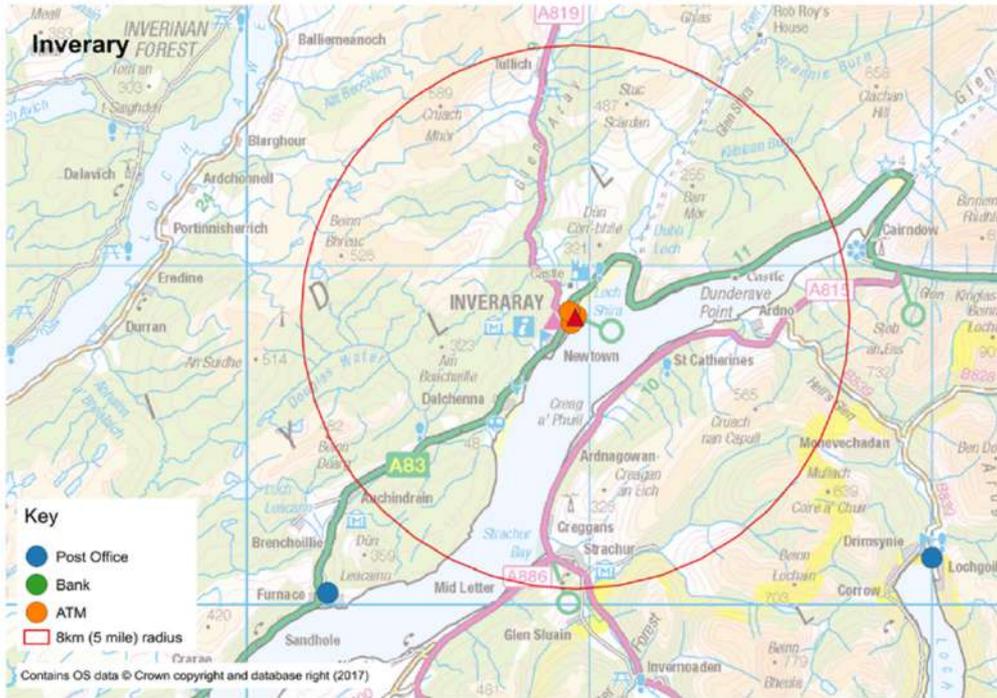
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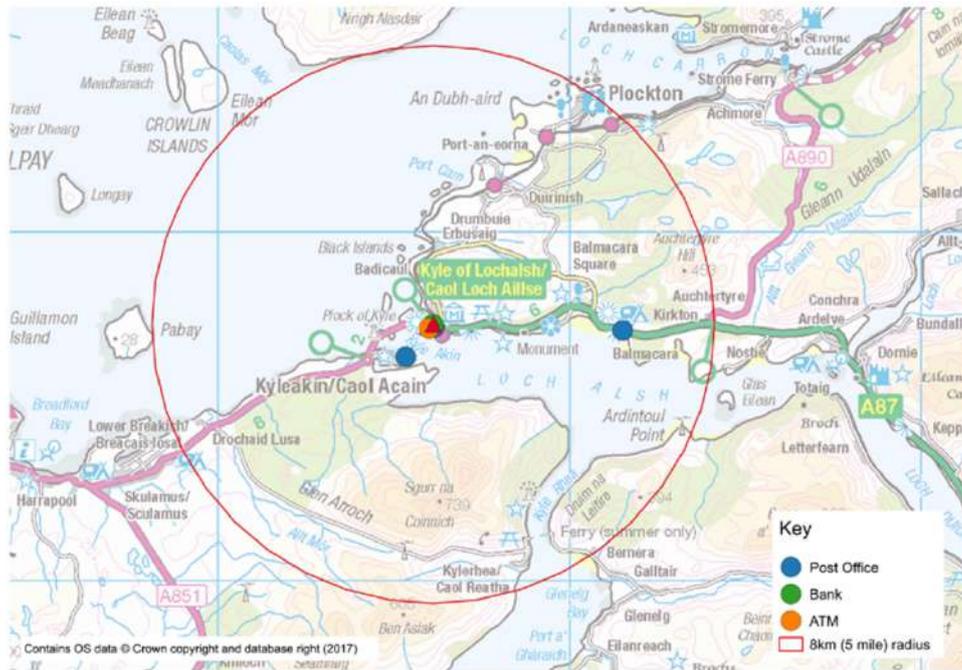
Granttown-on-Spey



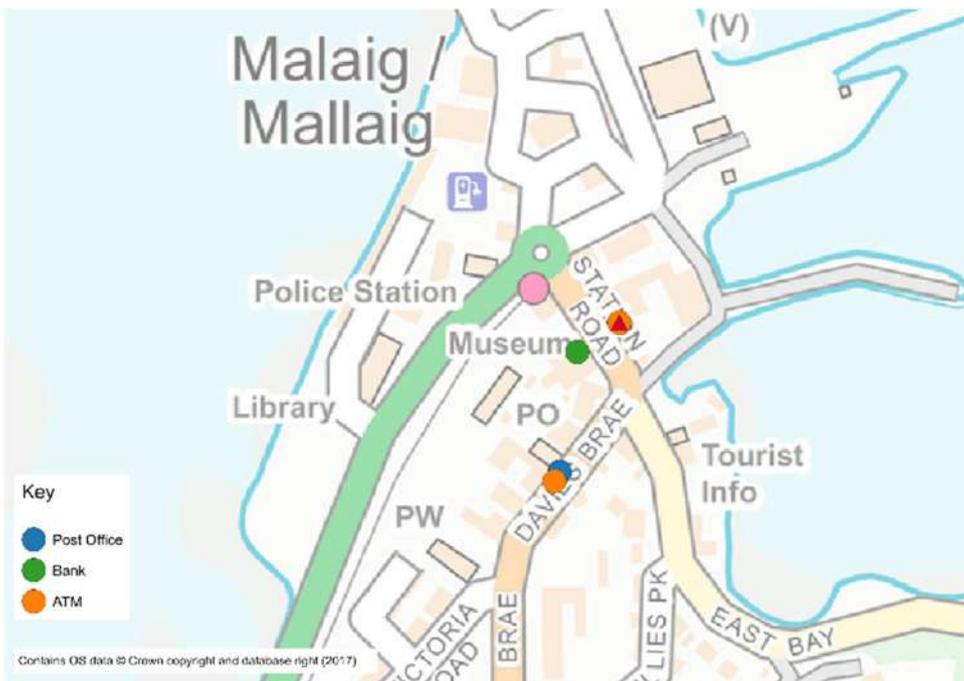
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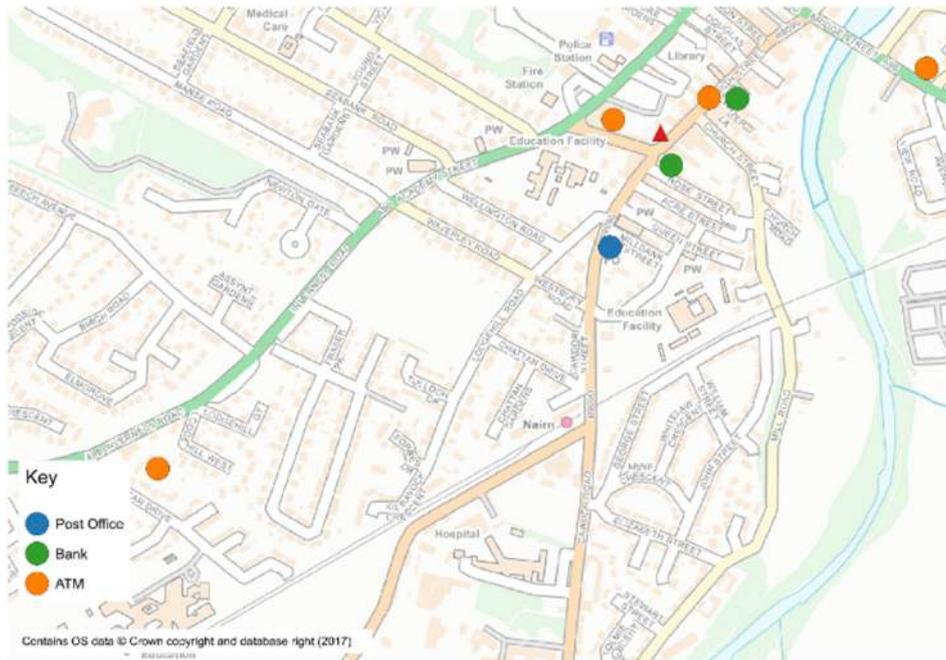
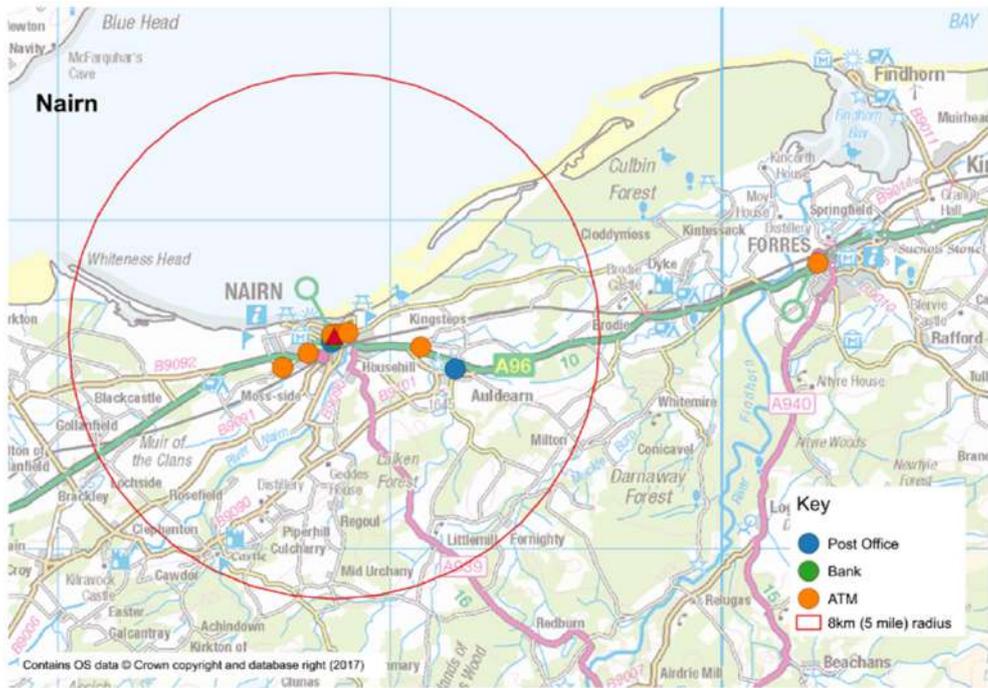
Kyle of Lochalsh



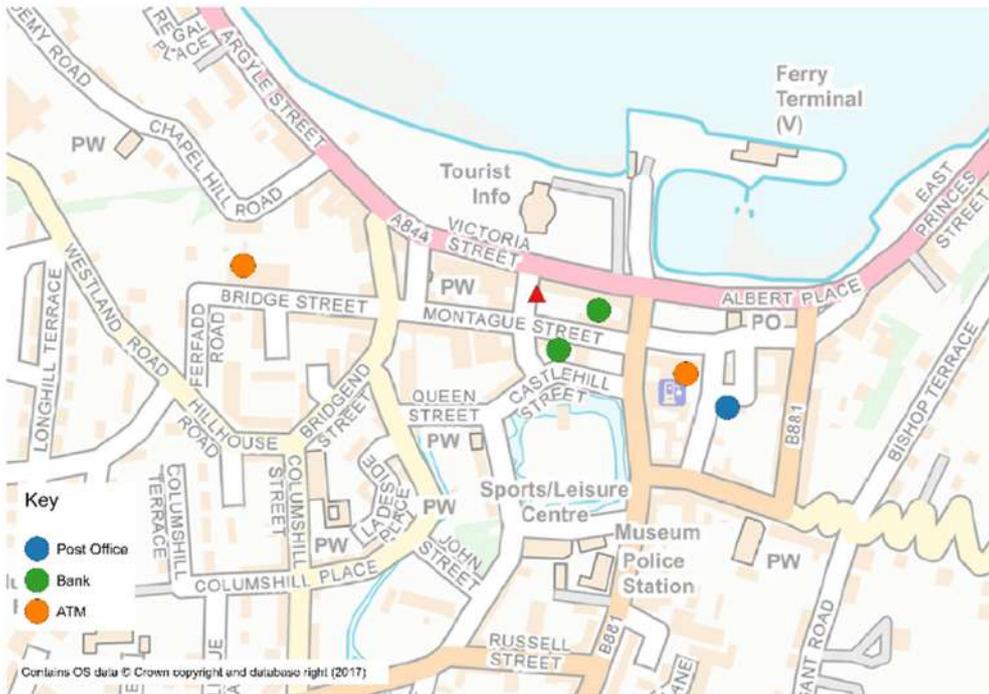
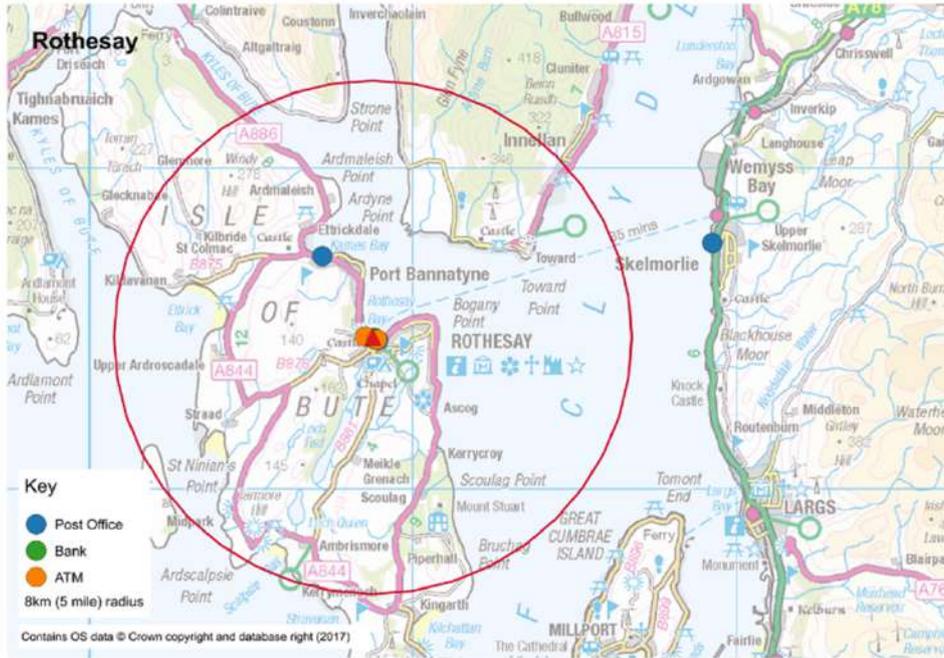
Mallaig



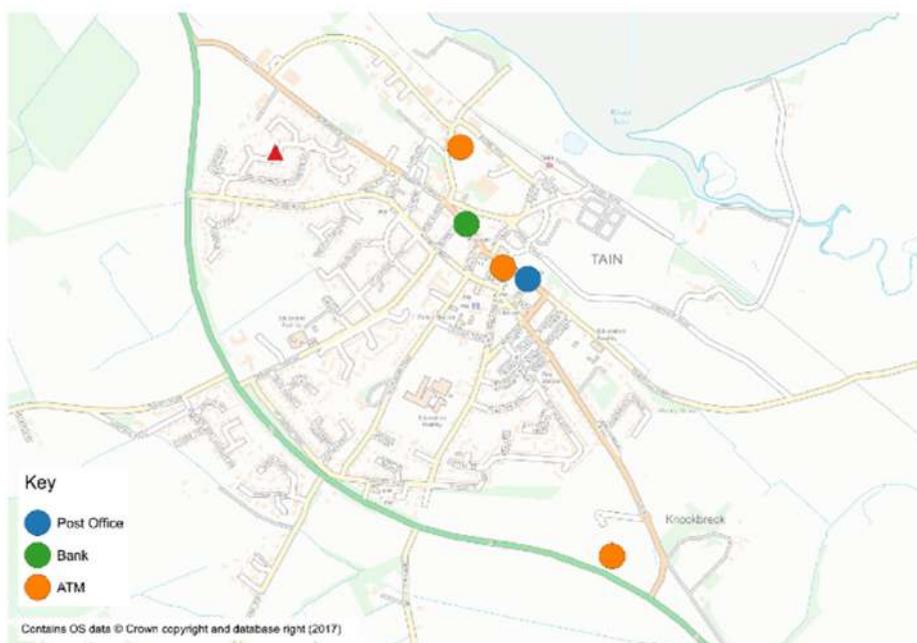
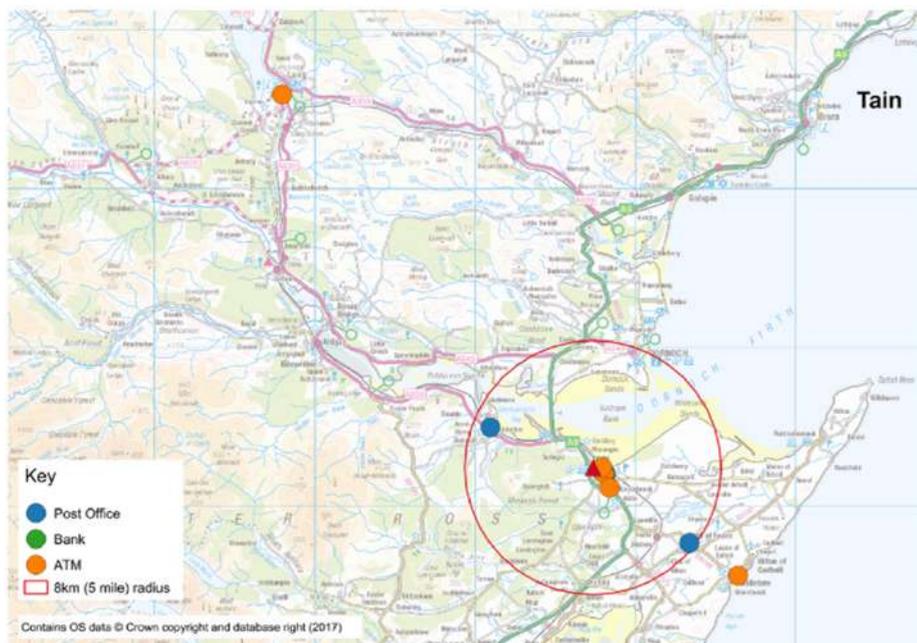
Nairn



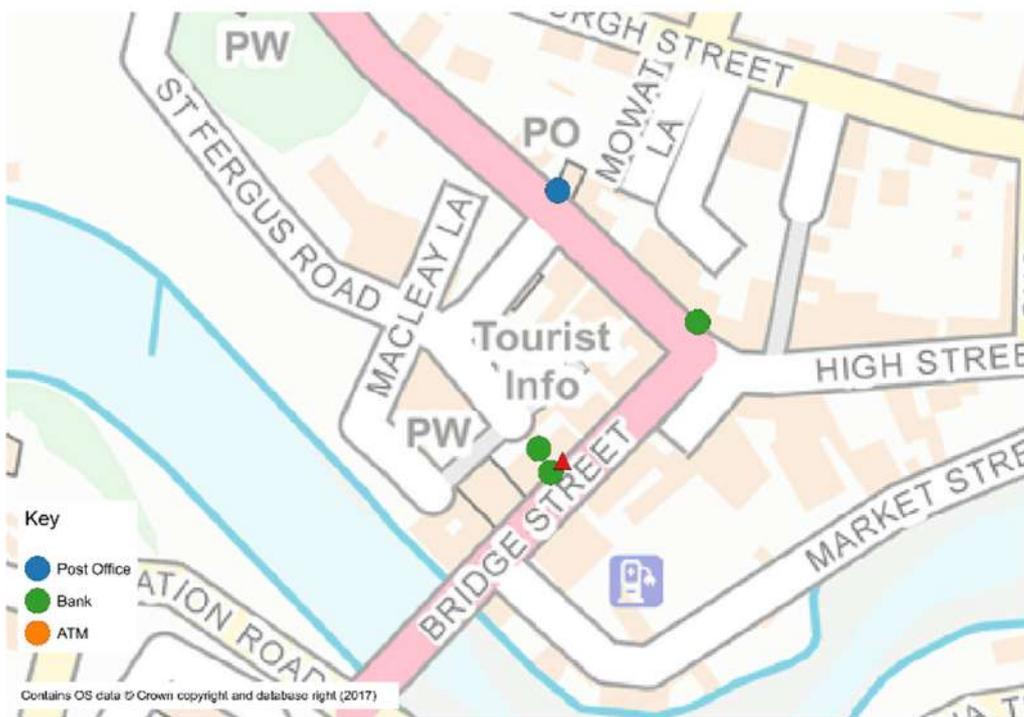
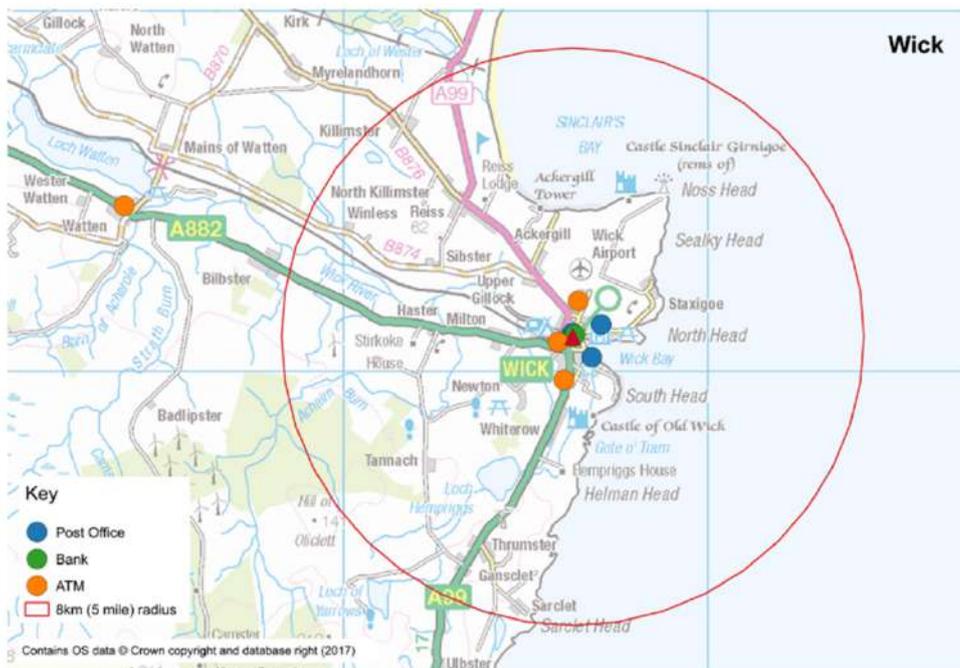
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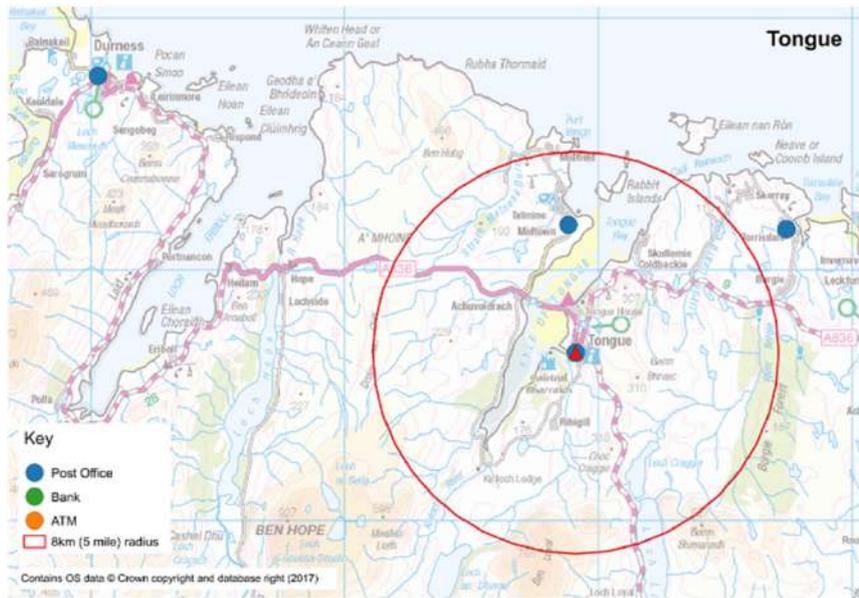
Tain



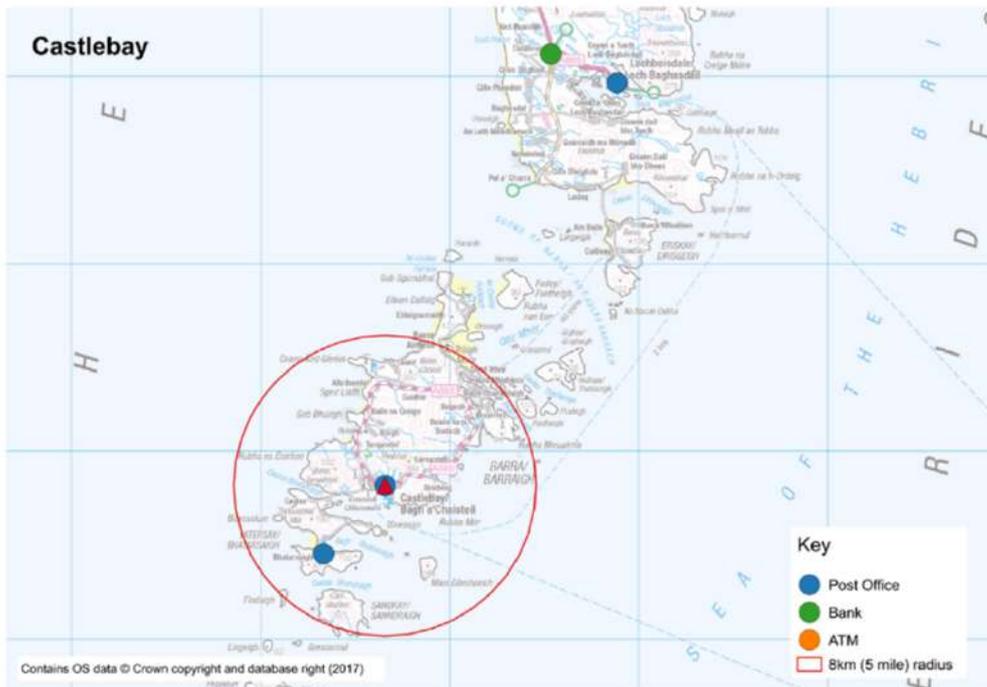
Wick



Tongue¹⁹



Castlebay



¹⁹ Note: detailed maps for Tongue and Castlebay are not provided as there are no overlapping alternative banks.

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