

ACCESS TO BANKING SERVICES IN RURAL AREAS

Executive Summary – July 2018

INTRODUCTION

Highlands and Islands Enterprise (HIE) commissioned the Indigo House Group to undertake research on access to banking services in rural areas.

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 UK and it is estimated that this network would be just below 8,000 by the end of 2016. According to the Scottish Parliament's 2018 inquiry on bank closures more than a third of Scotland's banks have closed since 2010. Since 2015 there have been 28 bank closures² in the Highlands and Islands, with 14 further closures planned by the Royal Bank of Scotland in 2018. Seven of these closures are in areas designated as fragile by HIE.

Banking is changing with more people choosing to conduct their banking electronically. This is reflected in recent statistics² which state that since 2014:

- branch usage is down 40%;
- mobile and online transactions have increased by 41% (since the second half of 2014);
- the number of customers using mobile apps has increased by 43%; and
- mobile app transactions are up by 73%.

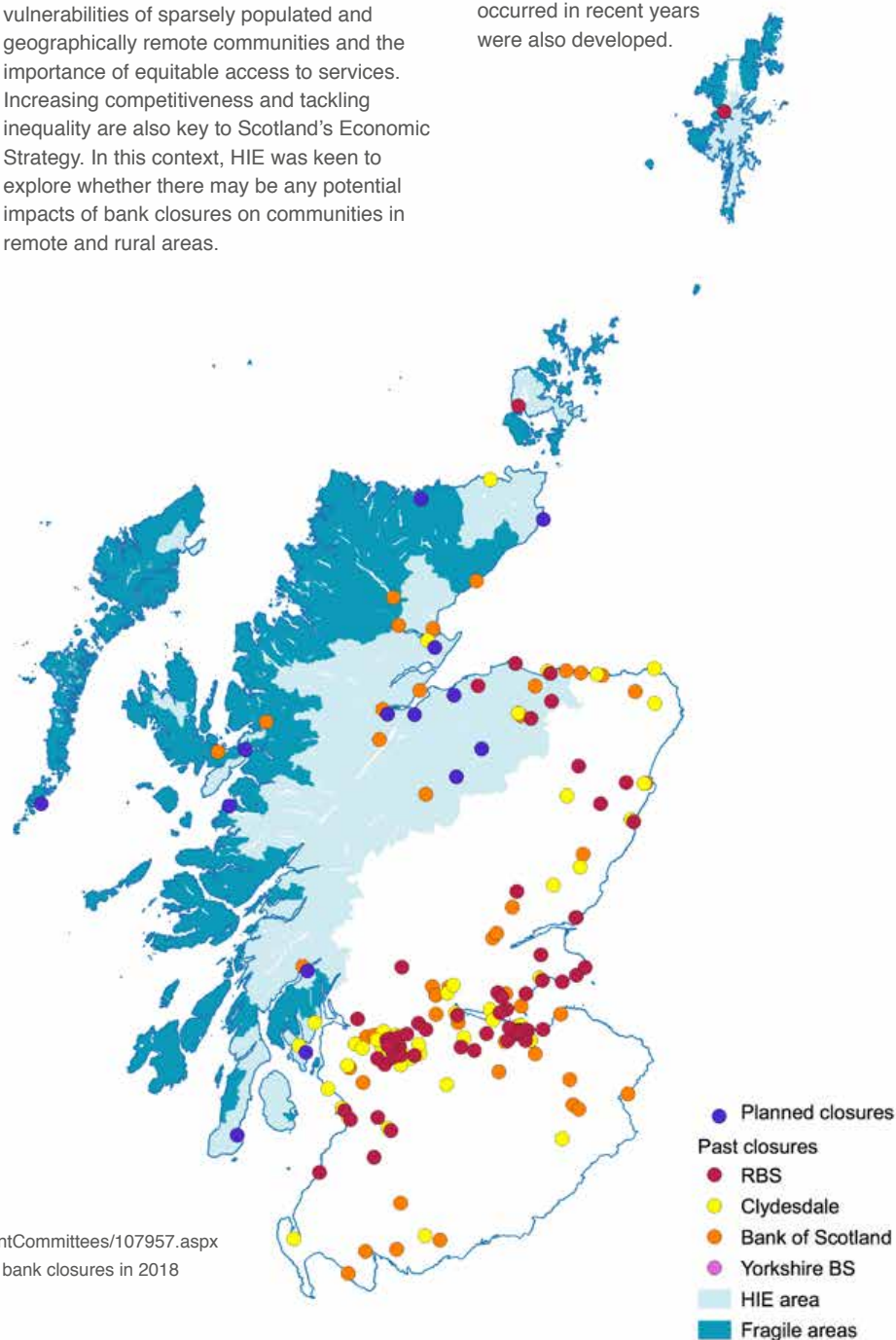
Adaptation has been possible given the increased use of digital technology which, in the context of areas where there is generally good internet mobile connectivity, allows ease of use for personal and business banking. However, in some rural and remote areas internet and mobile connectivity is less strong, which can impact on the readiness or ability of residents and businesses to use electronic banking methods.

In addition, the geographic context in the Highlands and Islands can make accessing alternative branch based services challenging. Customer information for recently announced closures shows that the nearest alternative branches in the Highlands and Islands can be over 50 miles away and in some cases, also requires a ferry crossing. Most are over a 15-mile minimum distance.

With its unique remit for community development, HIE has long recognised the vulnerabilities of sparsely populated and geographically remote communities and the importance of equitable access to services. Increasing competitiveness and tackling inequality are also key to Scotland's Economic Strategy. In this context, HIE was keen to explore whether there may be any potential impacts of bank closures on communities in remote and rural areas.

The study therefore explores the banking services used by customers in the Highlands and Islands (residents, businesses and community groups); considers the proposed and existing alternatives for ensuring continuity of banking services; investigates how banking services are accessed/delivered where bank branches do not, or no longer have a presence; and identifies what is required to support the future delivery of banking services in rural areas.

The research was undertaken between February and June 2018 involving literature review, depth interviews with stakeholders and qualitative surveys of representatives from the 14 communities where bank closures are planned in 2018, or have already taken place. This was supplemented by three quantitative surveys to obtain detailed information from personal, business and community organisation bank customers, with a total of 992 responses received. Case studies on communities where bank closures have occurred in recent years were also developed.



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

2 Information provided by RBS to customers experiencing bank closures in 2018

KEY FINDINGS

CASH IS CRITICAL

Cash is critical to the day-to-day functioning of the local economies and the 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 larger decline in the use of cheques. There is a corresponding increase in the use 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 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. 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. There are 1,196 social enterprises currently operating in the Highlands and Islands, with 85% of these led by, and accountable to, people in a particular community. In remote and rural areas, these groups are often providing key services not otherwise available. 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. In the meantime, bank branch closures could negatively impact on the operations 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 driven by public sector agencies, 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 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. After some of these closures, distances to an alternative branch may be between 15 and 50 miles away. For some areas the alternative branches may require a ferry trip, and a whole day or more away from home and business. This, combined with poor weather conditions in the winter could make access to branch banking services in some areas very difficult, 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 branch closures have been driven partly by changing customer behavior and the shift to online /electronic banking. This is most clear for personal customers, but evidence suggests that there are distinct issues around online banking in the Highlands and Islands for personal customers, and for businesses which increasingly require constant and reliable internet connectivity to be competitive. Basic broadband speeds and coverage across the Highlands and Islands is generally adequate for household use and online banking, and mobile connectivity is also continuing to improve. The challenge here is around building capacity and willingness to engage with online banking as part of a response to bank closures with fears about cyber security being shown as a significant barrier. Community organisations are markedly less engaged in online banking and maintain more traditional approaches than other customer groups.

There appears to be different challenges for businesses, particularly for those not located in exactly the right area in a 'hotspot' within a main settlement. This is important in the context of the Highlands and Islands where there is a high prevalence of small and micro businesses (98% of businesses in the region have less than 50 employees), many of which are not located in the larger settlements or internet hotspots. A large proportion of businesses now require a constant reliable internet connection which allows ongoing business transactions and development that goes beyond the basic requirement of residents for online banking.

This challenge has been identified through the planned £600m Scottish Government investment in internet infrastructure. The ability of businesses and the local economies in rural and remote areas to grow depends on 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, many accommodation providers have a website with online booking facilities, 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.



However, the majority of customers were not necessarily resistant to the change but believe that new ways of banking 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 Office 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 Highlands 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 a mobile bank service considered this a backward step, given the more constrained accessibility, limited service offered 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 growth and economic development in rural and remote 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.

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