



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# **Economy, Energy and Fair Work Committee**

**Tuesday 10 December 2019**

**Session 5**



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**ECONOMY, ENERGY AND FAIR WORK COMMITTEE**  
**35<sup>th</sup> Meeting 2019, Session 5**

**CONVENER**

\*Gordon Lindhurst (Lothian) (Con)

**DEPUTY CONVENER**

\*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

**COMMITTEE MEMBERS**

Jackie Baillie (Dumbarton) (Lab)

\*Colin Beattie (Midlothian North and Musselburgh) (SNP)

\*Jamie Halcro Johnston (Highlands and Islands) (Con)

Dean Lockhart (Mid Scotland and Fife) (Con)

\*Richard Lyle (Uddingston and Bellshill) (SNP)

\*Gordon MacDonald (Edinburgh Pentlands) (SNP)

\*Andy Wightman (Lothian) (Green)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Dr Pete Cheema OBE (Scottish Grocers Federation)

Richard Cooper (Cardtronics UK Ltd)

Andrew Cregan (British Retail Consortium)

Martin Kearsley (Post Office Ltd)

Eric Leenders (UK Finance)

Tom Mason (North East Scotland) (Con) (Committee Substitute)

Paul McBain (National Federation of SubPostmasters)

Barry McCulloch (Federation of Small Businesses)

Peter McNamara (NoteMachine UK Ltd)

Adrian Roberts (Link Scheme Ltd)

**CLERK TO THE COMMITTEE**

Alison Walker

**LOCATION**

The David Livingstone Room (CR6)



## Scottish Parliament

### Economy, Energy and Fair Work Committee

Tuesday 10 December 2019

*[The Convener opened the meeting at 09:47]*

#### Decision on Taking Business in Private

**The Convener (Gordon Lindhurst):** Good morning and welcome to the 35th meeting in 2019 of the Economy, Energy and Fair Work Committee. I ask everyone in the public gallery to ensure that any electrical devices are turned off or turned to silent. We have apologies from committee members Jackie Baillie and Dean Lockhart; Tom Mason is present as a substitute for Dean Lockhart.

The first item on the agenda is a decision on taking business in private. Do members agree to take agenda items 3 and 4 in private?

**Members** *indicated agreement.*

## Bank Closures

09:48

**The Convener:** We now turn to agenda item 2, on bank closures. On our first panel today are, from my left to my right, Dr Pete Cheema OBE, chief executive of the Scottish Grocers Federation; Andrew Cregan, head of payments policy at the British Retail Consortium; Barry McCulloch, senior policy adviser at the Federation of Small Businesses; and Paul McBain, a non-executive director of the National Federation of SubPostmasters. Welcome, and thank you for coming to the committee.

I will start with a general question. Do the panel members have any comments on access to cash and the challenge that that may pose to small businesses and other businesses nowadays? If there is such a challenge, have ways been found to overcome it?

**Barry McCulloch (Federation of Small Businesses):** I will kick things off. Thank you for the invitation. I gave evidence last time around and found the subsequent committee report excellent as a building block for a further conversation about what we can do to turn the tide against bank branch and ATM closures.

To answer your question, closures of ATMs, particularly free-to-use ATMs, have obvious impacts on local businesses. We have statistical data and anecdotal evidence that suggest that such closures can lead to reduced sales and footfall. That is particularly an issue in poorer communities and rural communities, where cash remains a popular payment method for consumers. Although the trend is downwards, cash is still a vital part of local economies across Scotland and, as such, local businesses continue to find it difficult not only to service customers but to access cash.

**The Convener:** Has anyone come up with any solutions?

**Barry McCulloch:** I think so. During the summer, Link made a welcome announcement of a scheme to try to ensure that we have free-to-use ATMs in every high street across the United Kingdom. My one note of caution, or perhaps scepticism, about that is that Link said that the reduction in the interchange fees would not lead to free-to-use ATM closures, but it did. I am hopeful that the intention is sound, but I am slightly wary about how that will pan out in local economies.

**The Convener:** Dr Cheema, has much changed since the committee issued its report in 2018?

**Dr Pete Cheema OBE (Scottish Grocers Federation):** Not really. I think that 76 per cent of

customers in convenience stores still pay by cash, as indicated in the “Scottish Local Shop Report 2018”.

We feel that a duopoly is in place with ATMs, which is having a detrimental effect on convenience store operators. They have been given three options: to have an ATM that pays no commission; to remove the ATM; or to keep the ATM with a surcharge on which they have no say. We are having a look at the types of contracts that are provided by the two ATM operators, which are very restrictive. I would say that, in 99.9 per cent of cases, the convenience store operators have no choice and just have to accept having a surcharge. The bigger operators such as Tesco, Sainsbury’s, Morrisons and Asda, because they have higher footfall, can dictate policies to the ATM operators. Our convenience stores are predominantly in areas where we are an integral part of communities, including rural communities, so it is imperative that the situation with regard to ATMs changes.

**The Convener:** Can you give an indication of the level of surcharge involved?

**Dr Cheema:** The ATM operators are forcing surcharges of about 95p or £1, and in some cases £2. The bad part is that that goes against the retailers, because people often go elsewhere or they do not take out cash, which has a knock-on effect on other local businesses.

**The Convener:** Will you explain the basis on which the 95p surcharge is calculated?

**Dr Cheema:** That is a question for the ATM providers. It is a charge that they impose; it is not dictated by the retailer. Retailers do not want a surcharge; they want free-to-use ATMs. Every single week, we get at least four or five complaints from people telling us about what is being dictated to them.

**Andrew Cregan (British Retail Consortium):** To pick up on that point, it is worth while pointing out that the Payment Systems Regulator is currently looking at the issue. Obviously, I am not here to speak for the PSR, but I am aware of that and I submitted the BRC’s response to its call for evidence. The PSR is looking at the structure of the Link interchange fees that lie behind the operation of ATMs, with a view to changing that structure.

It is the level of interchange fees that has led to a significant decline in ATM provision across the country: we have seen that dip from a high of just over 70,000 ATMs across the country to around 65,000—a loss of 5,000 ATMs. There was also the announcement of the implementation of consecutive cuts to Link interchange fees, which raises issues about the viability of ATMs across the country. Where ATMs have been lost, there is

a significant social justice issue, as well as a geographical issue. There are ATMs across the country that are protected because they are more than a kilometre away from another method of accessing cash. However, the areas in which ATMs have switched to being pay-to-use ATMs tend to be more socioeconomically challenged. We have a serious social justice issue in relation to the transition from free-to-use ATMs to pay-to-use ATMs that I am sure that the committee will be concerned about.

**The Convener:** Do the figures on ATMs that you have just given relate to the whole of the UK?

**Andrew Cregan:** Yes, those are UK-wide.

**The Convener:** The committee’s figures show that in 2010 there were just over 63,000 ATMs, rising to more than 70,000 in 2015. The numbers fell back down to just under 62,000 in June 2019. The figures have risen and fallen.

**Andrew Cregan:** I am sorry; my figures might be a little dated.

**The Convener:** The location across the country of the ATMs that are being lost or replaced is perhaps of more interest. Do you have that information?

**Andrew Cregan:** I do not have information on where the ATMs are. My understanding is that one of the things that the PSR is looking to do with the restructuring of the interchange fees is to provide a financial incentive for the provision of ATMs in geographically isolated areas, in addition to the provisions that are already in place in relation to the 1km protection.

**The Convener:** Dr Cheema can make a brief point, and then Barry McCulloch can answer before we move on to questions from Gordon MacDonald.

**Dr Cheema:** I have several points to make. Some retailers are able to buy out the remaining life of the ATM, although they have to pay a significant fee to buy out those contracts. One of our members refused to sign a contract to switch from a free-to-use ATM to a pay-to-use machine, but the ATM provider was able to proceed anyway. Retailers often have no choice in the matter.

I want to make it apparent to the committee that too much is made of the Link interchange fees. The first 5 per cent reduction took place in July 2018 and the second 5 per cent reduction took place in January 2019, reducing the fee to 23p per transaction. However, that is not what is happening in the real world. If there was an actual 10 per cent reduction in commission, most of the retailers probably would not mind, but that is not what is happening. Retailers have the three choices that I mentioned—their commission is

being taken away altogether. If there were a 10 per cent reduction in commission and the Link interchange fee, people would not mind.

We must remember that the fee is only paid on cash transactions, yet Link pays ATM providers on cash balance inquiries, too—retailers receive no commission for those. It is an unreal and unfair world for independent retailers.

**Barry McCulloch:** I would direct the committee to the Which? research on cashless communities, which showed that there has been a 10 per cent reduction in the ATM network in the past year in Scotland, which translates into the disappearance of more than 550 free-to-use ATMs. As the committee may be aware, that has happened in certain postcodes—such as EH18 in Edinburgh and AB13 in Aberdeen—that have both large populations and no access to either a cash point or a post office. That has led Which? and us to label the emergence of cash deserts as a potential social and economic issue.

10:00

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** I want to ask Pete Cheema about ATMs. You have discussed the options presented to individual retailers in relation to accepting a machine that charges a fee. Do you know whether there is a uniform policy by ATM providers to treat large supermarket chains the same as small independent retailers? We are being told that there has been a slight increase in the number of free-to-use machines, but has that been targeted at large supermarket chains, rather than at small convenience stores?

**Dr Cheema:** Our experience is that the larger retailers—the multiples—are the ones that benefit and the smaller retailers are really suffering. We see that time and again. We get so many complaints. The small retailers are unable to negotiate; they do not have the power, income or resource to negotiate the contracts that the large multiples can negotiate.

I will give the committee an example. There is a convenience store retailer out towards Blackburn who has been forced to take on a fee-paying ATM, yet there are stores on either side just 20 yards away that have non-fee-paying machines, which are owned by the same company.

**Gordon MacDonald:** What impact does having fee-paying ATMs have on footfall?

**Dr Cheema:** It has a detrimental effect—there can be a decline in footfall of up to 20 per cent. That situation, added to everything else that is going on, such as the cumulative cost and legislative burdens that we are constantly forced to

deal with, is forcing many retailers to shut their shops.

**Gordon MacDonald:** Does anyone else have experience of large supermarket chains and small retailers being treated differently from one another?

**Andrew Cregan:** As the British Retail Consortium is skewed in favour of large retailers, I should probably say something on that. The viability of ATM provision is something that threatens the larger retailers as well as the independent ATM providers, because of the interchange fee reductions. The reduction of interchange fees makes it less viable for a supermarket such as Sainsbury's that maintains its own ATMs on sites across the country, just as it does for independent ATM providers that operate on sites that are owned by retailers.

However, I would be the first to admit that all the data that the BRC receives is skewed in favour of large retailers. An Asda, Morrisons or Sainsbury's supermarket will have high footfall. The footfall of a smaller, independent retailer in rural Scotland is not the same. The circumstances are different, and in those situations there should be greater concern and provision by those who have the power, such as the Payment Systems Regulator and the Financial Conduct Authority. When it comes to the regulation of cash services, there should be concern at the highest level across the UK—that includes the Bank of England and the Treasury.

There is clearly much debate around access to cash. However, we expect to see some shifts. One of the things that I mentioned earlier was the change to the structure of interchange fees, which the PSR is looking into. However, neither that nor the revisions that the Bank of England is considering for reviewing the cash services infrastructure will be a silver bullet for the situation.

We need to have something that is comprehensive and Government-led. Of course, it is essential that business organisations—acting independently—this committee and the Scottish Government make representations to the regulators and the UK Government, to ensure that something happens to protect access to cash in our most vulnerable communities.

**Dr Cheema:** Let us be absolutely honest about this, Andrew: it is the smaller, convenience retailers that provide most of the services that the larger retailers do not want to take on, such as the Post Office services, the payment services and PayPoint. We are the ones at the heart of the communities—we are the ones who are providing those services, which the larger multiples do not want to provide.

**Paul McBain (National Federation of SubPostmasters):** The post offices have an integral part to play in relation to cash. We have 11,500 offices in the United Kingdom, each of which provides free cash withdrawals.

The rates on ATMs has been mentioned. If we are not getting a fee for having the ATM, that ATM represents a cost to the retailer. In the north of Scotland, where I operate, I got one of my ATMs taken out—it was not a Post Office one; it was a NoteMachine one—because the provider stopped commission rates and I was left with the burden of paying the rates. I cannot pay for a free-to-use cash machine. Now, I have a post office in the shop, which offers free cash withdrawals.

It is not plain sailing with regard to ATMs coming in or going out. There are a lot of hidden issues for retailers that the public does not know about, and the one that gets to me the most—as someone who runs a post office and is an independent retailer—is the issue of rates on ATMs.

**Gordon MacDonald:** In March 2019, the final report of the access to cash review was published. Andrew Cregan said that any solution has to be Government led. However, the UK Government responded to the committee's report on bank closures by saying that it was not UK Government policy to intervene in commercial decisions such as those relating to the closure of bank branches and so on. How can we find a solution to the issues that we are dealing with when banking regulations are reserved to the Westminster Government, which has already indicated—as recently as September—that it will not intervene in commercial decisions?

**Andrew Cregan:** That question is spot on. It is for all of us across society to ask big questions about what a public good is; what constitutes a viable service and where the thresholds are in that regard; whether we should demand more of our banks; what actions, mandates or directions we should expect the Government or regulators to take in circumstances in which those banks are not co-operating or are operating in such a way that people or businesses in vulnerable communities are left behind; whether the regulators are too close to the organisations that they regulate; and whether we should be more forthright with the Bank of England, the Financial Conduct Authority, the PSR and the Treasury.

From the British Retail Consortium's perspective, it seems that action in the payment space, which is where I work, always takes too long—it is too little, too late—and the harms have already significantly impacted the industry before action is taken. There is no situation in which the impacts are more damaging than the kind of situation that we are talking about, which concerns communities that are vulnerable because of their

size and isolated location. We are talking about a critical level of economic viability being breached in area after area and cash deserts being created in parts of the country.

It is crucial that we expect the Government to act more urgently on that issue, or that we expect the Government to be more demanding of the regulators, such as the FCA and the PSR, to which it has devolved these matters. We get extremely frustrated about the lack of action, but, for small independent retailers—some of whom we represent in our membership—and for vulnerable communities, the impact of that is critical.

**Barry McCulloch:** Gordon MacDonald has probably raised the key point of this session. Do we leave it up to the market, or should the Government intervene and regulate? As he mentioned, the UK Government has not shown the appetite or willingness to do the latter. Our position remains similar to that of the committee: we must get a grip of the issue before it is too late. We need a systematic study into the impact that the branch and ATM closure programmes are having. What impact is the establishment of a basic banking provision having on the Scottish economy? What does that basic banking provision mean not only for the current economy, but for the future?

We are proceeding on the basis that the future will be cashless. As the access to cash review showed, a fifth of the population will continue to use cash. That report cited Sweden, which is far along the path towards cashlessness, but a fifth of the population still needs access to cash. We must put protections in place. This is an issue of financial exclusion not just for communities but for local businesses.

**Dr Cheema:** I recognise the fact that the post office is one of the most valuable services that is offered at a convenience store. In total, 23 per cent of Scottish convenience stores offer post office services. They should be remunerated accordingly. That point is often overlooked.

I want to talk about having a Scottish system—the SGF is looking at that. For too long, we have gone down south and given evidence. We have gone to the PSR meetings and we are giving evidence here, but we are not really getting anywhere. We know what the banks are doing to us. Loans for small businesses are restrictive and their covenants create problems. The banks are driving cash out of the business, to make sure that we are driven one way without wanting to go that way. It is about time that we looked at having a Scottish system. We are considering what that would look like, but it is imperative that we go down that route now.



**Gordon MacDonald:** When it comes to the cost of running a post office, we have had a recent review, following which 28 banks signed up for a new three-year agreement starting in January. Paul, will that address the concerns of post offices that dealing with bank transactions is not profitable for them?

**Paul McBain:** We are getting better—that is, the Post Office has put more money into the purse of the postmaster. More money will come in April. Is it enough? No. However, for a postmaster, because of the amount of business—especially the business banking coming through the counters—there has to be a change in the formats that we have in situ. In a main post office with a security area, that is not an issue. However, the majority of post offices in the north of Scotland are local offices, where it is less easy to accept money and to dispose of it securely.

Those issues are being looked at. The closure of the banks has been thrown on us as post offices. We need to change, but we need time to do that. However, we do not have time, because it is happening now. For a sub-postmaster, the biggest thing that could be done to help us would cost the Post Office nothing, although it would obviously cost the banks something, because we are doing their business.

I will give you a scenario to explain what I mean. As a businessman, I pay my bank £1 per £100, to debit my cash to them. As a sub-postmaster, I get paid £1 per £1,000 for doing that. I am not arguing with that; what I am getting at is that I never walk into a Santander bank, because I bank everything through the Post Office, but my bank still charges me for the cash that I bank for it at the Post Office. If there was some sort of free banking for a postmaster, or something better that gives a discount, that would go a long way to help struggling postmasters. For example, my bottom line would benefit by £6,000 a year through the cash that I deposit with my bank, and that would not cost the Post Office.

10:15

Again, it is about red tape. It does not matter who we are talking about. I can see simple solutions, but the simple solutions are not normally the easy solutions.

**The Convener:** I know young people who use no cash at all. Just to put the counterargument—I am not saying that this is my view, and it is not the view that the committee expressed in its previous report—if 80 per cent of the population choose not to use cash, the difficulty is that, if a small minority continue to use it, there will be costs in the provision of that. Andrew Cregan said that it is a conversation for everyone. Do people need to be

made more aware of the fact that there will always be those who need to use cash, for whatever reason, and that the trend of people generally moving to not using cash is creating problems for that part of society?

**Andrew Cregan:** There has clearly been a long-term trend across the UK and the western world of people using less cash. The British Retail Consortium produces an annual payment survey, which I put together. The survey that was published this year using last year's statistics showed that, in 2018, we had £80 billion-worth of cash transactions in the retail industry alone and that 8 billion of the 20 billion retail transactions that took place were made in cash, which is almost 40 per cent. We are not talking about small numbers of people. The Payment Systems Regulator's research shows that 31 per cent of people in Scotland prefer to use cash over any other payment method. That statistic almost universally grows when we move out of urban areas into rural areas.

There is also the issue of those who need to use cash. People choose to use cash for a range of reasons. Of cash preferrers, 58 per cent choose to use it for budgeting reasons. That is clearly a significant reason to want to use cash and it should be protected. For some people, there might be security reasons. Cash Services—I think that that is now part of UK Finance—has shown that 2.2 million people are dependent on cash to make their day-to-day transactions. That definitely needs to be taken into consideration in whatever debate we have about the future of payments for the UK. A huge swathe of people who currently use cash will continue to use it for the foreseeable future, so preserving the cash infrastructure that lies behind that is critical. ATM provision and bank branches are clearly a part of that, and the interchange mechanisms are also part of it.

**The Convener:** My question is whether more needs to be done to make people more broadly aware of that and, if so, what can be done to that end. If more people go one way rather than the other, will that not inevitably lead to a difficulty?

**Andrew Cregan:** I would not say that it is people who need to be aware. The banks and businesses that are in a position to provide that critical cash infrastructure need to be incentivised or mandated to continue to provide it so that we do not lose that for our communities across the country.

I do not really see the need for a public information campaign as such, because, let us face it, the main reason why cash use is diminishing is that people are choosing to use cards and make digital payments and they are choosing to use less cash. Therefore, I do not think that there needs to be a public education

exercise on the virtues of using cash if people do not choose to use it. However, we have a civic responsibility across industry and Government to ensure that, for those who need, or prefer, to use cash, the provision of the infrastructure is maintained.

**Dr Cheema:** The main point is that retailers are really responding to demands for other payment methods, such as contactless payments or debit cards. For example, 92 per cent of our stores take debit cards, 88 per cent take credit cards and 82 per cent allow contactless payments. We are therefore responding to that change, but cash is still king.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** I would like to broaden out the discussion on the post office side. I have experience in my constituency of Midlothian North and Musselburgh of bank branches being closed and ATM facilities vanishing in both rural areas and more urban areas. The reassurance that we get at the time is that post offices are there as a back-up and will provide the substitute facilities. Do post office branches offer a suitable substitute for small business needs, and if not, what does the Post Office have to do to address that issue?

**Paul McBain:** That is a good question. First and foremost, we are able to do it. However, when a bank closes, it walks away from a community that it has served for possibly 20 or 30 years without a by-your-leave, which is extremely disappointing. In doing so, the banks show no regard for the vulnerable and infirm, although those people tend to come to the post office because they are the ones who need a one-to-one service. As long as a post office is still there, they will continue to go there.

On the question of what banking facilities the post offices can provide now, we can do cash withdrawals and cheque deposits. At the moment—the situation may change—the biggest issue with cheque deposits is that, although the person who is depositing a cheque at the post office can get the cheque envelope that they need from the post office, the paying-in slip is available only from their bank. The banks do not tell their customers that; they say that people can deposit cheques at the post office, which is true, but they cannot do so without a paying-in slip, which they can get only from their bank. That is the major hurdle that we have when banks close.

For business banking, people can deposit cash of up to £2,000 in a local post office—such as the open-plan post office that was mentioned—but that can have a detrimental effect on businesses that might have £4,000 or £5,000 to bank at a time. At the moment, the only way they can do so at an open-plan post office is by coming three

times, because we can take only £2,000 for security reasons.

**Colin Beattie:** Can I please clarify that point? If a retailer comes with £2,000 three times in one day, that is acceptable, as the £2,000 limit is per transaction.

**Paul McBain:** Yes—it is per transaction.

**Colin Beattie:** Is that because of costs or charges?

**Paul McBain:** No, it is because of security. There is a maximum amount that the drawer can hold at any one time, which the Post Office has agreed. The maximum used to be £1,000 and it was changed to £2,000, but the money must be dealt with securely. Normal combi units—open-plan units—have a facility underneath that allows a roll of cash to be put away safely, or there might be a BidiSafe that they can slide the money into. There is a secure way of doing it, but the business may have to come back two or three times, which is not good for the retailer. However, that is the service at the moment.

In a main office, businesses can bank up to £20,000, or more if an arrangement has been made between the postmaster and the business.

**Colin Beattie:** Does the Post Office perceive that that meets the needs of the retailers? Is it tailored to that?

**Paul McBain:** It is certainly not tailored to that. We have various issues. For example, on Mondays, we have people coming to the till with their weekend banking, but we also have everybody coming in for their pension. We still have a bit of a queue on a Monday—I know that that is unbelievable, given the way things are going. People might have three days' worth of business banking and that takes for ever. The Post Office is considering a facility to enable businesses to come in with their money and drop and go, which means that they can drop their money without having to wait. There will be an agreement with a business bank so that they can do that. If I were to check the money and find that it was £10 short, the onus would be on the business to give me £10 back—there will have to be an agreement about that.

The Post Office is looking at different ways of making it quicker but, at the moment, business owners have to come in, stand there and wait for their money to be checked. We have a banknote counter, which is much quicker, but another issue for us as a post office business is forgeries. We are now liable for all forged notes. The bank shut the door and walked away—fine. However, who dealt with the forgeries before that? It was the banks. Who deals with them now? Paul McBain, or whoever the postmaster is. It is not the Post

Office or the banks that deal with them; it is the individual postmaster. If we pick up a forged note, it is sent back to us and we lose that money. We get £1 per £1,000, so if we miss a forged £10 note, we have to handle £10,000 before we have paid off that loss.

**Colin Beattie:** Out of curiosity, what volume of forgeries do you encounter?

**Paul McBain:** In the north of Scotland, there are not many, but it is different in Glasgow. There are forged Bank of England £5, £20 or, sometimes, £50 notes, and there are a lot of forged Bank of Scotland £20 notes on the go. I would not like to put a figure on it, but forged notes are prevalent.

The issue is that we are liable, even though we check notes on a machine. For security, our machine does six-point detection, which knocks back Bank of England notes. For Scottish £20 notes, it only has two or a maximum of three. We have to separate all the notes to ensure that we are doing it correctly. If we do not separate the notes and just count them, we are liable to get forgeries. It means a lot of extra work.

**Colin Beattie:** What is the retailers' point of view?

**Paul McBain:** If we know that a forgery has come from a particular retailer, we hand it back to them.

**Colin Beattie:** What is the retailers' view of the services that are offered by post offices as a substitute for banks?

**Paul McBain:** We can give them the services that they want, including cash deposits and providing them with change. That is what they are looking to do at the moment.

**Colin Beattie:** I was hoping that the rest of the panel might have a view.

**Paul McBain:** Oh, I beg your pardon. I was on a roll there. *[Laughter.]*

**Barry McCulloch:** As Colin Beattie highlighted, the banks continue to rely on post offices as their main alternative when they desert local communities, which they continue to do. I noted that, in a letter to the committee from the Royal Bank of Scotland, it almost implied that post offices are better than RBS branches, because they offer "longer opening hours", as well as weekend access. That is the idea but, as Paul McBain said, it is not panning out that way in reality. That is because however good the post office is or becomes, it is no substitute for a well-resourced bank branch that has intensive knowledge of the local business base and economy, and can provide not only basic banking services but business advice. That is important for a small business that is taking its next borrowing

decision. We are losing that infrastructure and, again, Paul McBain illustrated the capacity and capability issues that exist in the post office network to perform that task for business customers. There are also questions about the financial support that post offices provide.

There are also longer-term issues. When the Post Office promotes itself to businesses more aggressively, will post offices be able to cope? I am not quite sure that they will, and that is to say nothing of the fact that the service that they provide can be variable depending on where they are and, as Paul McBain said, whether it is a post office plus a retailer or a retailer plus a post office. It depends on the dominant focus.

The overriding message that I would convey to the committee is that post offices are a poor substitute.

10:30

**Dr Cheema:** The banks have been clever in deflecting their problems on to the Post Office.

**Paul McBain:** Hear hear!

**Dr Cheema:** That has to be recognised. One of the nice ways they have done that is by imposing maximum cash charges on retailers. Gone are the fixed charges and the 20p per £100 charges. Now, for every £100 deposit, you have to pay 69p. Great, isn't it?

**Colin Beattie:** What additional services does the Post Office need to look at providing in order to be an effective support for small businesses? I am not talking about charging, because that is a separate issue. I am talking about the facilities that post offices provide?

**Dr Cheema:** They are never going to be able to provide all the facilities. Different people bank with different banks, and they have different relationships within those banks. Post offices can only provide cash-in and cash-out services. If people want other services, whether it be a credit card, overdraft facilities or loans, they will have to go back to their bank. How will they do that? Where will they go? Who will they talk to? What kind of relationship can they have with somebody down in Manchester who knows nothing about their business?

That is a clever way of deflecting something on to the Post Office. It is not a substitute for banks. That is another reason why I ask the committee to start to consider a Scottish system.

**Paul McBain:** I think that we can do the business. Post offices are capable of doing the banking for small businesses. We are not a bank; I have never said we are. However, there are other simple things that we could do to help when a

branch closes, such as accepting payment for credit card bills, which people have to post at the moment because the bank probably provides the credit card for someone else. It is not as simple as having a Bank of Scotland credit card. Banks facilitate the provision of credit cards for A, B and C. Something like that could be done; it is as simple as a barcode transaction.

Another thing that we could and should be able to do is transfer funds from one bank account to another. If someone has a Bank of Scotland savings account, we cannot touch that. We cannot withdraw from a savings account at a post office; people are not told that. They can withdraw from a basic bank account, but they should have the facility to transfer money from one account to another, and to get a balance.

Also, in the north of Scotland, we often get foreign cards trying to withdraw cash. They can do it at an ATM, but they cannot do it at a post office, and we are looking to be able to provide that service so that people can withdraw money from a post office with a Deutsche Bank card, for example. At the moment, that is not possible.

There are things that we postmasters feel should be available.

**Colin Beattie:** Is the problem not that the Post Office is not a clearing bank? You can correct me, but it is not part of the clearing system.

**Paul McBain:** I cannot answer that. There is an esteemed colleague of mine sitting in the gallery who will probably be able to answer it later on. We take the money in and it goes away every week. The volume of that has trebled in five years, and I am talking six figures. That money has to be checked and sent away. We can do what a small business requires us to do, but we cannot provide a bank account service for a client.

**Colin Beattie:** The focus seems to be all on the handling and disposal of cash, which brings us back to where we started with all this. Is cash really the critical thing for retailers? I understand what Pete Cheema was saying about the credit facilities and dealing with the bank. However, is the critical factor for retailers still handling cash?

**Dr Cheema:** Cash and ATMs.

**Colin Beattie:** It is as basic as that.

**Dr Cheema:** Yes, it is. However I echo one other point. Paul McBain would have mentioned it; he might have forgotten about it. We must make the post offices more viable. We must give them the income to deal with the extra burden that they have been lumbered with. At the moment, if his intake and workload have trebled, I bet you your bottom dollar that he is not being paid treble the amount of commission. The Government is all talk

about the living wage, but a lot of sub-postmasters do not get half of the living wage.

**Paul McBain:** I do not disagree with Pete Cheema, but that is not relevant for this meeting. There are issues with the way we are paid, but we are talking purely about banking and the availability of cash. As an NFSP member and a sub-postmaster, I feel that the Post Office is listening to what we have to say about how we are paid, and things are happening. We are not paid sufficiently—I will not dispute that. However, that is not for this meeting. I am looking just at what post offices can offer small businesses and the availability of cash.

**The Convener:** Before we move on, can you comment on the point about your commission not having trebled?

**Paul McBain:** What do you mean by commission?

**The Convener:** I do not know. Dr Cheema commented that he would bet that your commission had not trebled, despite the fact that your handling of cash had trebled.

**Paul McBain:** If we are talking about business banking, our commission has trebled. It is not sufficient but, to answer the question, yes, it has trebled.

**The Convener:** Okay. Thank you.

**Richard Lyle (Uddingston and Bellshill) (SNP):** I have a number of comments. I was a grocer and I worked for a bank. I handled cash and took it down to the night safe. You do not have night safes in post offices, do you?

**Paul McBain:** Not at the moment, sir.

**Richard Lyle:** In the village where I stay, we had a local post office, which the Post Office closed and moved into a convenience store. It did that to save money because it would not need to pay the postmaster.

In the past 20 or 30 years, there has been a massive change in financial situations. I have several questions. Dr Cheema, how do shopkeepers now get change and how do they pay in their cash? Do they get it uplifted by a security firm? Do they take it to the convenience store or, if they have a post office in their own stores, or do they pay it into the post office?

**Dr Cheema:** The 23 per cent of our retailers that have a post office pay the cash straight into the post office and they use its change facilities. However, the remaining 77 per cent have to drive somewhere else. That means car parking fees, extra insurance and time taken out of their business. Often, because they have a lone-worker situation, it means that they have to bring somebody else in and pay additional wages.

There is the added security risk and insurance cost of doing all that. There are fundamental issues. For example, there is only one bank left in Stirling and it is inside a shopping mall. If someone from Alloa, Dunblane or Tillicoultry wants to go to the RBS, they have to drive all the way to the Stirling branch, which is a 16-mile round trip.

**Richard Lyle:** In Bellshill, which is one of the towns that I represent, there were four banks on the high street and there is only one now. I hope that the Bank of Scotland stays.

I will ask a brief question now and maybe come back in later. If I can get money out of any ATM—even abroad—why can I not pay money into any bank anywhere in the world?

**Dr Cheema:** I have no idea. That is a question for the ATM providers.

**Richard Lyle:** And for the banks.

**Dr Cheema:** Absolutely.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** I want to ask about where we are with the public perception of the shift in services from banks to the post office network. Are people being made aware of the range of services that are available? What do the public think about that? Do members of the public expect staff in the post office network to give the same level and quality of advice that they perhaps used to receive in the local bank? I think that Barry McCulloch touched on that. Do we need to do more to improve that?

**Paul McBain:** Yes. I run a shop in Keith, where the Bank of Scotland closed. It was very up front with the customers and made them aware of what they could do at the post office. I met the manageress there, and we tried to negotiate how to make things as smooth as possible. Once the service gets up and running, we see the little holes. The cheque deposits are a prime example. A person who had always used a card could not then use it; they had to use their debit card. People would take funds from A to B.

I still think that the banks are not doing enough to support the post offices with regard to what we can do for them. It is too broad to say that the Post Office can service people's needs. We can to a degree and we want to, but what we can offer at this point in time has to be accepted. That will always be a difficulty.

A Bank of Scotland client should be aware that they do not have to go to a Bank of Scotland ATM to withdraw cash. They should understand that they can go to any ATM and withdraw cash. A majority of customers will use only their own bank's ATM. They are unaware that facilities are available from post offices.

We used to deal with Clydesdale Bank. We have done all its business for the past 10 years. We did not shout about what happened, and nobody knew. We now do the work of nearly every bank, although not Nationwide Building Society, as it is a building society. However, we are not shouting about that sufficiently.

**Barry McCulloch:** I completely concur with Paul McBain. There is a lot of work to do to raise awareness of the work of post offices among local businesses in particular. I give a note of caution, which I hinted at earlier. We might be stimulating demand that we cannot service. We would therefore welcome working with the Post Office to do more to raise awareness of the service. Discussing that has to be part of a wider discussion about how we can build the post office network to do as much as it can to be an alternative to bank branches.

**Willie Coffey:** Do you see the banks having a clear role to play in that? When the banks left Stewarton, which is in my constituency, I asked whether they would send anyone to provide banking advisory services in the post office facility, and the answer was no. Should they do that?

**Paul McBain:** We have a difficulty. As a sub-postmaster, I am not FCA compliant. We can offer products, but we do not give advice; we give information. In a bank, a person will sit down with a bank officer who will give them information and advice. That will never happen with us, unless we go the next step up and become compliant. We can give information, but we cannot advise. If we are talking about a Bank of Scotland adviser going to a post office one day a week, who is to say that that could not work?

**Willie Coffey:** Are there any other views on how that advisory service that has been lost could be provided?

10:45

**Barry McCulloch:** There is a clear role for the banks, but whether they take that on is another matter. Let us be honest: their primary motivation in closing branches is to cut costs. It is not likely that the banks will work in partnership with post offices to build up that service and that will be a loss. Many of our members go to their local branch for advice and, as Paul McBain pointed out, they will be unable to get that advice at the post office. RBS has community bankers, but we have not heard much about them, what they do and what impact they have; mobile vans are fine, but none of them is a substitute for a good branch network.

**Paul McBain:** At the moment, the customer can go to the bank and speak to the manager or a clerk. As a business customer, that service was lost to me about 10 years ago. We had to start

dealing with business managers from Edinburgh or Glasgow. They have pulled the rug out from the businesses and they are now doing the same for the customers. If the bank needs to speak to a customer, it will contact them and facilitate a meeting in one of the local offices.

There is something in having the post office provide a service where we could help with information, especially in certain areas. Lossiemouth in the north-east now has the only RAF base in Scotland, but there is no bank. That is ridiculous. However, we have a post office.

**Andy Wightman (Lothian) (Green):** Less cash is being used now, but the access to cash report suggests that there is more cash in circulation—I am not sure what explains that. Although less cash is being used, the cost of the cash infrastructure—from printing to distribution to recycling—has remained virtually constant, which means that the cost to keep cash in circulation has risen.

Given that we are not going cashless any time soon and that we need to keep cash in circulation, it seems to me that we need, as Andrew Cregan said, a comprehensive and Government-led process in place to ensure that that all works. All the little bits of the system—the banks, providers or regulatory bodies—have made many individual changes, which have not been tied together or looked at comprehensively. Is there any scope for a comprehensive Government-led review?

I also have a question for Peter Cheema. What would a broad Scottish solution look like? I would be interested to hear more details on that.

**Dr Cheema:** Let us get back to basics. First, you said that there is less cash in society, but that is not the case in Scotland. Our records show that, over the past four years, cash has been relatively constant: there has been a 76 per cent demand in convenience stores for taking cash. There has been a demise in cash south of the border, in London and the south-east. Too often, everyone thinks that whatever happens down there is replicated everywhere else, but it is not. Cash is still very important to us in Scotland.

Even when cash becomes less prevalent, the rural areas will be the last to go. Who is driving all this? It is the banks. The banks are making it harder to pay in cash and making it more expensive. They do not want cash because it is a real cost to them.

**Andy Wightman:** Do the banks not want cash?

**Dr Cheema:** They absolutely do not. They do not want to handle cash.

**Andy Wightman:** Andrew Cregan talked about a comprehensive Government-led review. Cash is still required.

**Dr Cheema:** Yes.

**Andy Wightman:** Dr Cheema talked about the situation in Scotland. The figures on ATM withdrawals in the report of the access to cash review are that, in Scotland, there has been a 3.3 per cent reduction in withdrawals, while the figure is 4.3 per cent in the east midlands, 4 per cent in the west midlands and 3.3 per cent in Wales. On the metric of cash withdrawals, we are not so different from other areas. I understand that the figure might be a bit higher here for withdrawals from convenience stores, for example, and that there are various ways of measuring the issue.

**Dr Cheema:** On 24 November this year, *The Herald* ran a story on the issue, which pointed out that the number of free-to-use ATMs in Scotland is now below 5,000 for the first time, and that 85 per cent, or 426, of those that have been lost were lost in the previous six months, at a rate of 71 a month. This year, around 10 free-to-use ATMs have been shut every single week.

**Andy Wightman:** The question therefore is: what does a Scottish solution look like? What are the elements of that? I do not expect a detailed answer, but what would it look like in broad terms?

**Dr Cheema:** In broad terms, we have to control our own destiny, because people down south do not—

**Andy Wightman:** What does that mean?

**Dr Cheema:** I really do not know. We need to discuss the issue, but it is something—

**Andy Wightman:** The problem for the Scottish Parliament is that a lot of the powers over financial services are reserved.

**Dr Cheema:** That is understood, and that is one reason why I say that we should look at a Scottish system. That has never been discussed or proposed, which is why I am highlighting it now.

**Barry McCulloch:** In this context, it is important to bring together the loss of free-to-use ATMs with the loss of bank branch closures and to ask whether we have enough of them. As Pete Cheema pointed out, we have fewer than 5,000 free-to-use ATMs in Scotland, and the committee's report showed that there are just over 500 bank branches operating in Scotland. With a business population of 350,000, is that enough ATMs and bank branches? I do not think that it is enough but, as the committee report pointed out, we do not know, because there has never been a comprehensive look at the issue across the UK.

The FSB would certainly welcome moves to do something in Scotland to get a clearer idea of where we are and what is required. Our fear is that it is already too late and that we are going in a certain direction when we perhaps do not

understand the impact on local businesses. Those who oppose branch closures and the loss of free-to-use ATMs are being characterised as dinosaurs, which I do not think is fair. We need a more objective debate about the future of local banking services in Scotland.

**Paul McBain:** I have a point about the correct number of ATMs for Scotland. With my Post Office hat on again, we have 11,500 post offices. Is that right? If I am honest, I think that we have too many, but Government pays a subsidy to ensure that we meet certain criteria. If we were to be in control of our own destiny, what would be the cost to the Scottish Government to have what you would say is a sufficient number of free-to-use ATMs?

**Andy Wightman:** The access to banking standard has been an attempt to force the banks to behave a bit better with regard to the loss of bank branches and ATMs. Is that sufficient, or do we need a statutory universal banking standard that defines what banking is, people's needs, and the minimum criteria that should be met in order to have a banking licence?

**Barry McCulloch:** Without a shadow of a doubt, we need something better. The access to banking standard governs how branches are closed. As many people have pointed out, banks are not required to consult customers before they close branches. They gather data and then consult on the nature of the closure.

The fundamental point to understand is that there is no ability to change the bank's decision, albeit that RBS paused a number of closures. We have to strengthen the banking standard, whether that is done through legislation or otherwise, because—to be completely candid—local businesses think that it is a bit of a joke and a fairly meaningless document that does not have any impact in the real world. There was a review by Professor Russel Griggs, but there has to be an ability to independently assess the proposal that is put forward by the bank. The bank may say that the branch is not viable because it does not have the footfall or the customers, but we have to ask whether that is true. Depending where you go, local communities and businesses will say otherwise and will do their own analysis. Therefore, we need something that is rigorous and robust and that is independent, in order to try to parse some meaning from the bank's data.

**Jamie Halcro Johnston (Highlands and Islands) (Con):** Access to cash is really important in my Highlands and Islands region. Is it still possible for retailers to provide cashback services? People used to be able to get cash, usually by paying a charge. Is that service still available, given that people can now pay for a cup of coffee without cash?

**Dr Cheema:** We still provide that service.

**Jamie Halcro Johnston:** Is there still a charge for it, and has the charge come down or changed?

**Dr Cheema:** There is no charge.

**Jamie Halcro Johnston:** There is no charge for the cashback service.

**Dr Cheema:** No.

**Jamie Halcro Johnston:** Can any business provide that service, regardless of its sector? Is there a charge to a business for providing the service?

**Andrew Cregan:** I have recently been doing quite a bit of work on provision of cashback services on behalf of our members. Again and again, it comes down to the mechanisms that lie behind the service, such as fees and charges, as boring as they might be to discuss. The interchange fees that are levied on card transactions are quite excessive for retailers, although that is a different discussion. I spend most of my time campaigning for those fees and charges to come down. The fees are applied in various ways, depending on who the retailer is—most of our larger members, such as the big supermarkets, will pay a card fee for the proportion of a transaction that is a purchase, and no interchange fee will be charged for the part of the transaction that is the cashback service.

Many smaller retailers might provide a cashback service, but will have to pay a fee to the bank for providing a service that the bank should be providing to its customers. The retailers are, essentially, providing a banking service but are paying the bank for the privilege of doing so. That needs to be reversed: we have been campaigning for a reverse interchange fee, such as there is for ATMs. The fact that the ATM interchange fee has been going down and making ATMs less viable is cause for concern, but when it comes to the cashback service, we are looking at completely the opposite situation. We need to move to retailers being remunerated for the cashback service that they provide.

Mastercard recently announced that it would reimburse retailers for cashback transactions on its debit cards, although Mastercard transactions do not constitute much of the debit traffic in the UK, which is largely Visa transactions. If Visa were to make a similar undertaking, that would be a very positive move that would be an incentive for retailers up and down the country to provide a cashback service. That is part of the access to cash debate and is a key element in our meeting the obligation in that regard.

**Jamie Halcro Johnston:** The reimbursement of retailers could be an opportunity to widen access

to cash, without any real requirement for infrastructure.

**Andrew Cregan:** Indeed, yes. That would be the case if retailers were to be provided with that incentive.

11:00

**Dr Cheema:** I will add to that. There is a payment charge for a terminal, and there is a payment charge for a debit or credit card transaction, which all depends on the company. You might all have gone into a business and presented “Your flexible friend” but had the card declined with the comment, “We don’t accept that one.” The reason why some retailers do not accept some cards is that the charge is excessive. It all depends on the type of card and the retailer. Andrew Cregan is correct to say that retailers currently have to swallow those costs as part of providing that service.

**Jamie Halcro Johnston:** If the charges could be reversed, that could be a solution.

We have heard a lot today, as we did during the committee’s inquiry into bank closures, about issues to do with the Government, the banking code and the like, but we do not always hear solutions to the question how banking services should be delivered. It is about access not just to cash, but to mortgage advice, debt advice and business advice, particularly in our more remote areas.

Are there examples in the UK or internationally of people going through the process that we are experiencing—or anticipating it—and finding a model that can deliver the services from which banks are pulling back? Can you point to practical examples?

**Barry McCulloch:** I can point to the piloting of shared banking hubs in England. Our members’ view, which we set out earlier in the year in our report, “Transforming Towns: Delivering A Sustainable Future For Local Places”, is that if a model that has long been thought not to be commercially viable can be piloted in England, it could be piloted in a rural location in Scotland, to see whether it works. It seems such an obvious solution. Would it replace other services? Absolutely not, but it could complement the services that a post office offers. We are learning lessons from the pilot in Birmingham, but how the approach could work in a largely remote and rural country such as Scotland is unclear.

**Jamie Halcro Johnston:** Who co-ordinates and funds those trials?

**Barry McCulloch:** I think that the pilot was developed, organised and implemented by RBS, through its NatWest brand. Earlier in the year, at

the United Kingdom Parliament’s Scottish Affairs Committee, the managing director of personal banking talked about how useful the service could become. However, in our engagements with the Government and banks there has been no appetite to introduce it. To pick up on the sentiment behind your earlier question, I say that it is important that we get on with implementing solutions rather than just talking about them.

**Jamie Halcro Johnston:** Did the pilot in Birmingham focus only on banking services? Can the approach be widened to include advice, sub-post office services and so on?

**Barry McCulloch:** From my reading of what was said at the Scottish Affairs Committee, it seems that quite a narrow service was being provided.

**Jamie Halcro Johnston:** Sustainability is key, and the ability of the service to attract business is important. The service cannot be stand-alone and unsustainable; the banks argue that that is the problem with their branches, although others argue differently.

**Barry McCulloch:** That takes us back to your point about the cashback service. There is a need to take account of the unique circumstances in the Highlands and Islands—in particular, in considering how to make shared banking hubs work. It would be possible to widen access to cash by providing cashback facilities more readily in local businesses. However, a business that is finding it difficult to deposit cash will naturally think twice about increasing the amount of cash that it has on site. We have members who have to travel for more than an hour in each direction to deposit cash, particularly in the high season, when they have a lot of cash and cannot wait for the mobile banking van. That is a particular problem in remote and rural areas. To be honest, I am not entirely sure how we can overcome it.

**Paul McBain:** I will pick up on what Barry McCulloch said. When Lossiemouth’s last bank was closing, a conversation about doing a sort of hub in Lossie, which would involve banks and the post office, was led by me and Douglas Ross. Although the post office would be the main occupant in the hub, there would be pods that could house a number of banks.

As to who should pay for it, the banks should pay for it. They have walked away from an area in Moray, and the people there are devastated because they have nothing there. The banks have walked away and have left everybody demanding something else.

In trying to develop the hub, we came across all the red tape. Correct me if I am wrong, but I think that two banks cannot be under the same roof due to banking legislation. Some strange things came



out with regard to having a number of financial services under one roof. I am not saying that it cannot be done; indeed, I would love to see it being done. It would be a way forward in the north of Scotland and even in the south of England, where there are very rural areas.

**The Convener:** I thank our panel very much. That is all that we have time for.

11:06

*Meeting suspended.*

11:10

*On resuming—*

**The Convener:** We welcome Richard Cooper, who is the executive vice-president of international product and marketing at Cardtronics UK; Peter McNamara, who is the chief executive officer of NoteMachine UK Ltd; Adrian Roberts, who is the chief commercial officer at Link; Eric Leenders, who is the managing director of personal finance at UK Finance; and Martin Kearsley, who is the director of banking at Post Office Ltd. Thank you for coming today.

I will start off by asking about the £370 million investment over two and a half years to improve services in Post Office Ltd that the UK Government announced. How much of that has been spent, and what has it accomplished?

**Martin Kearsley (Post Office Ltd):** I will take that one. I do not have detail on the specific spend, but we can provide information to the committee. As a colleague mentioned earlier, it is important to note that it was multiyear spend to support some of the more remote estate out in rural areas—the Highlands and Islands and the tips of the UK.

The spend in respect of access to cash has been very different. There is no doubt that spend has consisted of some components of that. I will bring more information to the committee. However, more important are the renewed commitment from the banks and the significant increase in revenue to the Post Office from the banks, courtesy of the banking framework that we recently renegotiated with them. That has gone a long way towards fixing some of the challenges that the committee raised the last time I gave evidence. I have noted that in the report, and will be happy to come back to the committee at some point.

**The Convener:** If further information can be provided by any of the panel, please share it with the committee in writing, following this evidence session.

**Martin Kearsley:** I will be happy to do that. My final point on that money is that it is very clear that the last contribution from Government was the last contribution. The Post Office is expected by the Government, from the expiry of that deal in 2021, to be completely stand-alone, sustainable and self-sufficient on its own two feet. It is expected to be a commercial going concern that is no longer paid for or subsidised by the UK taxpayer.

**The Convener:** It looks like others do not wish to comment on that, so we will turn to questions from Andy Wightman.

**Andy Wightman:** First, I have a small question for Eric Leenders. You published a report called “UK Cash and Cash Machines 2019”, which I was

keen to read. However, I discovered that it cost £1,500 plus VAT. Why do you not publish such reports—which are in the public interest—and provide them on the internet for free?

**Eric Leenders (UK Finance):** We publish a significant amount of data and put it in the public domain. Equally, as other commercial entities do, we have a commercial franchise that helps to cover the cost of running our business. One of the ways that we recover costs is through our data publications.

**Andy Wightman:** How many copies have you sold?

**Eric Leenders:** I cannot give you that detail. However, based on the depth and quality of the research, I think that you would find, if you were to look at the cost of other academic research, that it is probably priced comparably in the marketplace.

**Andy Wightman:** Academic research is free to the public.

**Eric Leenders:** I am sorry. I meant the academic standard of the research.

**Andy Wightman:** I do not doubt the standards. I am just wondering why a trade body did that, because most trade bodies usually publish research in the public interest and for free, although their reports are obviously slanted from their members' point of view.

One of the issues that came up in the evidence session that we just held was the needs of small businesses and, in particular, the need to deposit cash. We heard that the limit for post office deposits was £2,000, so businesses might make two or three visits a day to deposit their cash. What is the problem with having a universal standard whereby cash deposits are possible at all ATMs?

11:15

**Adrian Roberts (Link Scheme Ltd):** Link has the view that the ability to deposit cash in ATMs would be a helpful facility for consumers and businesses, so it has invested in and built the technical capability for that to happen. It is a broader industry decision as to whether that capability is turned on. If the industry and Link members want it to be activated, we would be happy to do that.

**Andy Wightman:** What would it mean for the technology to be turned on? Is it a software or a hardware thing?

**Adrian Roberts:** It is a bit of both. Some ATMs in bank branches are already able to accept deposits, as the hardware is there, but other ATMs would need to be upgraded. There is also a

software element at the back end to reconcile the deposit and make it happen.

**Andy Wightman:** Is the hardware expensive? Is it just a question of unbolting a piece and bolting another piece on, or does the whole ATM have to be replaced with a new one?

**Adrian Roberts:** That is quite a complicated point. At its simplest, it could just mean putting a new module—a cash acceptor module—into an existing ATM. It would depend on the ATM.

**Andy Wightman:** Are the barriers at the moment regulatory? What are the key barriers to turning on that capability?

**Adrian Roberts:** The barrier is the industry not saying that it wants to do it.

**Andy Wightman:** So it is the banks.

**Adrian Roberts:** It is not just banks, but ATM deployers, too.

**Peter McNamara (NoteMachine UK Ltd):** We have been campaigning to have that mechanism for a long time. It is a nonsense that ATMs only pay out cash as if the inbound mechanism for cash did not exist. We provide the inbound mechanism to many banks, but it only works for their customers at their branch. We would dearly love to provide that technology at locations that are not bank branch related, so that where there is no branch, cash can be paid in, be that through an ATM at a retailer or another type of through-the-wall device.

As Adrian Roberts says, quite accurately, the software system and mechanism exist for cash deposits, and we provide them to banks all the time—many of our customers are banks. It is a nonsense that the devices do not exist on a stand-alone basis, because that would go a long way to address some of the concerns that we have heard about paying in cash. The costs of paying in cash through an automated device are far lower than doing so over a bank counter.

Fundamentally, it is important that Link pushes the issue, which it is doing, as Adrian Roberts mentioned. It has a mandate to innovate, but that innovation is currently being somewhat stifled by other parties. It needs to move forward.

**Andy Wightman:** Who are those other parties?

**Peter McNamara:** The banks show a fundamental lack of interest in doing it.

**Andy Wightman:** I have a small technical point. We heard from the representative of the National Federation of SubPostmasters, Paul McBain, about their liability for forged banknotes. Are questions of liability separate from the mechanics of depositing cash?

**Peter McNamara:** No, not entirely, because the devices that take in notes carry out a degree of checking at the point that a bad note goes in. The solution is partly technically available—although it is not perfectly technically available—and is a jolly good answer that would stop the vast majority of inbound fraudulent notes.

Frankly, the number of fraudulent notes is amazingly small, apart from in one or two critical locations, as was indicated in the earlier session. Generally speaking, it is not an issue. It is easily covered by the technology, which can carry out a series of routine checks on inbound notes.

**Eric Leenders:** I want to provide the perspective of the banking sector.

The technology is currently being piloted by three of the leading brands in three sites using a shared business banking facility. We have to be thoughtful about introducing new technologies and have to ensure that they are absolutely effective.

One component is the software/hardware upgrades within the Link network. The other key component is the extent to which it needs to interact with individual firms' systems—substantive testing is required for that.

On the specific issue of the hardware rather than the software, most of the banks that have their own ATMs will have a replenishment cycle—in effect, they will have a programme of replacement for their machines—and they would not want to break that cycle, because of the costs involved.

I just wanted to add those nuances to the points that have already been made.

**Andy Wightman:** Mr McNamara said that banks were among the other parties that were getting in the way of the provision of such facilities. Do you refute that?

**Eric Leenders:** As I said, across the industry, three large brands are already piloting the use of cash-in, cash-out machines in a shared facility.

**Andy Wightman:** Do you envisage those pilots being concluded and the whole system being rolled out within the next five years? Is that feasible?

**Eric Leenders:** We are mid pilot. I would not want to speculate about the outcome of the pilot, but if it were to prove successful, the intent would be to roll that out further.

**Richard Cooper (Cardtronics UK Ltd):** An issue that has not been touched on in the answers that have been given is that a fundamental thing that is missing from the deposit structure is a fee—an interchange fee or a fee for a deposit. Once the business case can be built, rolling out those machines will be possible, but until that business

case can be made, we cannot make the investment.

**Martin Kearsley:** I would like to return to the start of Mr Wightman's question, when he mentioned the £2,000 limit that my colleague from the NFSP talked about. That limit was set three or four years ago; the previous limit had been £1,000. As was explained, that was to do with the amount of cash that we can handle in each drawer in each branch.

Although we welcome and fully support the trials, the working up of a business case and the eventual roll-out of a new scheme, from the point of view of practicality on the street right now in our 11,500 branches, of which 1,368 are in Scotland, we are about to raise that limit again, from £2,000 to £4,000. That is in direct response to the fact that, with the emergence of the banking framework, we have had great success with cash coming into the branches. That is not without its challenges, but it is a success; I will come back to that shortly.

As banks have closed and small businesses have chosen to bank in their local post office, there has been a huge increase in the volume and the value of the cash that comes into post offices, as Paul McBain mentioned. The £2,000 limit used to cover about 95 per cent of all transactions, so we had pretty good coverage of the entire market. That amount has now gone higher. In many cases, small businesses are generating and bringing to us sums in excess of £2,000. Rather than splitting the transactions or asking those businesses to come back again the next morning or later in the day, we are raising the limit to £4,000, which will enable us again to capture 95-plus per cent of transactions.

Many post offices deal with businesses that generate more than that. About 80-plus per cent of all transactions are carried out at 4,000 branches UK wide. The percentage is probably slightly higher in Scotland, because of the more disparate rural estate. A significant part of the volume comes into a smaller number of post offices than you might imagine. Where those larger sums are brought in, postmaster, bank and customer make the right arrangements for that to happen. One of the challenges that was raised the last time I appeared before the committee, which has been commented on again today, is the level of pay. I would like to correct what Dr Cheema said about the need for better remuneration; we are continually working to pay more.

I will provide some specific sums, because it is appropriate to talk about the amount that we pay, which is vital in supporting local postmasters, who are bearing the brunt of the huge amount of cash that is coming in while the banks are restructuring, trying out new systems and so forth. We used to

pay a postmaster 45p per £2,000. We all accepted that that was way below what was acceptable and survivable. We now pay £2.31 for that same transaction, which represents a fivefold or 500 per cent increase in the transaction payment. For transactions of £10,000, which some of the larger businesses are bringing in, we used to pay £1.73. From April 2020, we will pay £11.03, although we have paid some of that already. That represents a sixfold increase.

We have worked with the banking industry and have put in significant price increases—there is now a lot more coming into the Post Office from the banking industry. That was a difficult discussion, as Eric Leenders and I will testify. No one likes a price increase, but it is reflective of the cost of cash around the country. We have made significant inroads to making banking more profitable for postmasters around the country, to help them to encourage their local businesses to stay in town, stay open and bank their money on the way home, rather than driving to the nearest big town.

Some of those changes since our last conversation have been extremely positive. We want to do more. However, we are doing practical work, on the ground, right now, while the industry restructures around us.

**Andy Wightman:** I have two short technical questions. Is it the Post Office that sets the limit of £1,000, £2,000 or £4,000?

**Martin Kearsley:** We have set that limit.

**Andy Wightman:** Is that within your gift?

**Martin Kearsley:** Yes, it is.

**Andy Wightman:** As I mentioned earlier, the access to cash study says that, UK-wide, payment volumes for cash have declined dramatically over the past 10 years, but the value of cash in circulation has risen dramatically. Am I being stupid? Why is that not contradictory?

**Eric Leenders:** Our analysis has shown a consistent decline in the use of cash for payment transactions across the UK in general. We have consistently looked to predict where the decline might fall year on year and we underestimated that—there has been quite an aggressive decline in the use of cash. We understand that there is a lot more hoarding—customers and individuals tend to carry more cash than they did previously, rather than spend it. That is the reason why the two numbers do not immediately appear to correlate. Another data point that might substantiate that is that customers are making fewer cash withdrawals than they did previously. There are volumes of cash that are not being recycled through the system but are staying with consumers as informal savings.

**Andy Wightman:** The payment volume of cash has dropped from about £22 billion in 2007 to about £6 billion, but over the same period, the amount of cash in circulation has risen from about £40 billion to £70 billion. It is not just a lack of correlation—those figures are heading in opposite directions. Perhaps we will find out the answer to that somewhere else.

**Peter McNamara:** The explanation is simple. The very low interest rate cost of cash means that the management of cash has become deeply inefficient. That is the consequence of why the notes in circulation increased disproportionately to the use of cash.

**Andy Wightman:** You said that the management of cash has become inefficient.

**Peter McNamara:** Yes, indeed. In effect, the cost of holding cash is much lower than the cost of moving it. It is as simple as that. That is what is causing the system to have very high levels of cash in circulation—notionally, not very much.

I would come back on one point. People keep on talking about the demand for cash falling. That is like saying that the demand for bread is falling when we have closed all the bakers. Let us take Scotland as an example. Sir Mark Boleat suggested that 300 ATMs would close in the coming year. That has been overachieved considerably, because the price reduction in interchange fees has closed 500 ATMs. Furthermore, the number of free-to-use ATMs in Scotland has reduced by more than 20 per cent in the last year.

It is unsurprising that the number of cash withdrawals is falling if there is a more limited supply.

**Andy Wightman:** On that point, in 2010, the number of free Link ATMs in the UK was 41,581 and it is now 48,465. There might have been a decline in the past year, but the number of machines has risen in the past 10 years.

**Peter McNamara:** Yes, it has and, until recently, so had the supply of and demand for cash.

**Adrian Roberts:** There are about 4,600 free-to-use ATMs in Scotland today, whereas back in 2010, there were about 4,000. However, it is not the number of ATMs that is important—it is the coverage. We can all think of busy city centres where we can step out on to the high street and find 30 or 40 ATMs within a five-minute walk. There is good provision—or indeed, one might say, overprovision.

We need to focus on what we call protected ATMs, which are a kilometre or more away from their nearest ATM, because consumers value them. If a few ATMs close in Edinburgh city

centre, there will probably be little or no consumer detriment. However, if ATMs close in more rural or deprived areas, that can have a real impact on people's lives. Therefore, Link has chosen to focus on those ATMs.

We are broadly happy with the stability of our protected ATM estate in Scotland. Link protects around 350 of those ATMs in Scotland.

11:30

**The Convener:** On the points that Peter McNamara made, I am interested in cash usage. People such as me might like using cash but, in my experience, a lot of younger people do not use any cash. That might be in spite of the fact that they live in a city centre where cash is freely available if they want it. That is anecdotal. Are there figures that show how cash is used by different generations and age groups, depending on where people are, such as in rural areas or cities? I appreciate that you will not have those figures on the tip of your tongue, but could you supply figures to us?

**Peter McNamara:** Yes. There is quite a lot of research on that. We are certainly seeing a reduction in cash usage among the millennials. It is interesting that those in the post-millennial generation tend to be quite high cash users, as are more elderly people.

It is important not to forget—it is easy to do so in groups such as this one—that the majority of people use cash as a mechanism for budgeting. That is absolutely key. Most people in this country have to budget carefully, and doing so using cards or phone devices is extraordinarily difficult. If it is known that the £50 or £100 that we put in our purse or wallet has to last for a week, that is straightforward and manageable by most people. The poorer a person is, the more frequently they will have to access cash to be able to budget carefully. There is a high correlation there.

Many of the ATMs that we deploy tend to be away from the city centres, in which there is a density of ATMs—Adrian Roberts referred to that—and in lower footfall locations in which there are fewer ATMs, because that is logical in order to meet the demand in those places, where, functionally, budgeting with cash is more important. That is why we have had a business model that has been focused entirely on the provision of free-to-use cash for a number of years. However, it is now not able to do that because of the reductions that have been applied to the interchange price, which have pushed up the numbers of ATM transactions that have to be done at each location before a free-to-use ATM breaks even.

**Martin Kearsley:** I very much support what Peter McNamara said in answer to the question about the split between generations and locations. That is telling. I am sure that we all recognise that there is pretty much a post office on the corner of every street in the country. There are more than 6,000 post offices in rural locations, and there are many in deprived urban locations.

One of the great benefits of the cash withdrawal service that we offer is that people can withdraw to the penny. I support what Peter McNamara said about many people budgeting very closely or to the penny every day. Around 20 per cent of our cash withdrawal transactions are for less than £20, and they are not round amounts. They are not for £50 or £100, which might be withdrawn from an ATM; they are for amounts such as £6.13 or £12.43, or whatever the particular customer who accesses their account several times a week—or each day, in some cases—needs for that moment.

There is a very trippy acronym—we all love acronyms. SGEI stands for services of general economic interest. The Post Office provides a mandatory service on behalf of the Government to ensure that the benefits of cash withdrawals and access to cash are available to the entire population. We are very proud to serve many customers who withdraw to the penny. That is a vital part of helping them to budget. The physical demographics of where we are show that we are right at the heart of where people who live on cash need us to be.

I think that we will see a disproportionate continuation of the use of the Post Office over a number of years. As Adrian Roberts said, we all know city centres with 10, 20 or 30 ATMs. We should focus on supporting the most vulnerable, the people who need cash to the penny, those who live in the rural estate and those who live in urban deprived areas. Those are the people whom we should support most, because they are the ones who will need cash for the longest.

**The Convener:** I would like to move on to questions from other committee members—specifically Gordon MacDonald—but Eric Leenders can come in briefly.

**Eric Leenders:** I absolutely support the view of the witnesses this morning that customers should be able to choose the type of payments that they make—be that digital or cash. We are supportive of that and we have worked proactively with the Post Office as one of the channels to access cash.

However, it is not a straightforward binary choice. There is value in budgeting by using cash, but making payments digitally brings protections that are not available for cash payments. We need a wider discussion about the best way to pay, as opposed to whether cash or another channel

should be made available. However, I appreciate that the discussion this morning is around access to cash.

**Gordon MacDonald:** Mention has been made of the reduction in the interchange fee. Can you give us an idea of the level of reduction over the four years, not by percentage but by pence?

**Adrian Roberts:** Yes, I can. There are a couple of different fees in play, but the one that is most relevant is the cash withdrawal interchange fee at non-bank locations. Today, that is about 26p. Before Link made the reductions, it was about 29p.

It might be helpful to give the committee some background on the Link interchange. At the beginning of 2018, Link took the decision to reduce the standard rate of interchange that was paid and to do that in 5 per cent increments, two of which have now been completed. Link decided to do that for two reasons. First, the rate was too high in the urban city centre locations, which was evidenced by the proliferation of ATMs that we have spoken about. Those ATMs are paid for by the banks and building societies. Because of the model of banking that we operate in this country, that means that, in effect, they were being paid for by all of us around this table. There were too many ATMs in a world where cash usage is falling.

Secondly, on the flipside, we thought that the interchange rate was not high enough in rural areas, with the result that, in a world where ATM usage is falling, some of those rural ATMs were at risk of becoming economically unviable, changing to pay-to-use or closing. Link increased the interchange rate on those rural machines and, in some cases, it increased it by more than 10 times. At the beginning of 2018, Link took action to protect consumers and to act in the public interest to rebalance that interchange, as was needed at the time.

**Gordon MacDonald:** In previous evidence and in the banking inquiry, we heard that the introduction of fees for cash withdrawals was happening because of those interchange fees. According to information that I have in front of me, NoteMachine is in the process of removing 10,000 free ATMs across the UK and charging 99p, Cardtronics is talking about removing 3,000 free ATMs and the average fee is between £1.50 and £2 per cash withdrawal. However, you are telling us that the interchange fee reduction is 3p.

**Peter McNamara:** Can I respond on that?

**Gordon MacDonald:** Yes.

**Peter McNamara:** Over the past 12 months, compared with the preceding 12 months, the reduction in fees and the reduced supply saved the banks £263 million; circa £50 million to £60

million of that was in Scotland. In practice, the amount of subsidy that is being provided to the locations that need support is under £10 million. You can see how low the level of concern is about providing that access. The subsidy is highly derisory; it is barely a sticking plaster on a massive amputation.

**Adrian Roberts:** I will respond to that. There are about 1,300 pay-to-use ATMs in Scotland today. It might interest the committee to know that, back in 2015, there were 1,500. Although the number is growing, they still account for only about 5 per cent of withdrawals.

Notwithstanding that, Link's position is that pay-to-use ATMs offer convenience but that all consumers must have a choice about whether they use them. If someone is willing to pay for that level of convenience, that is fine, but if they do not want to pay to access their cash, they should not have to. Link has built an ATM locator and an ATM app, so people can see where all the ATMs and post offices in the country are. That allows them to make a decision about whether they want to visit an ATM that charges or one that does not.

We have talked at a policy level about what is happening. We recognise that, on the ground, there may well be gaps in free access to cash provision; communities and elected representatives are probably the best people to say where those gaps are. That is why Link introduced an initiative that enables communities to request an ATM. Under that scheme, any member of the public can contact us to say that there is a problem accessing cash near where they live—either there is no access to cash or they have to pay for it—and we will investigate the situation and install a free-to-use ATM if one is needed. It might interest the committee to know that we have had 275 requests from Scotland since we started the initiative in October, and the first ATM that we are installing as a result is going live this week in Durness. We are taking action now to preserve and maintain access to cash where it is needed.

Link recognises that Scotland is a bit different from the rest of the UK, as it has a lot of extremely rural areas, and it can take a long time to travel from one location to another. We have therefore ring fenced funding for 20 or 30 ATMs in Scotland—members might have a view about whether that is enough. If you let me know where you think that there are gaps in your constituencies, we are happy to act now to fill those.

**Eric Leenders:** UK Finance is also developing a community access to cash initiative. Under the pilot, the solution might not be an ATM; it might involve an alternative solution, which, again, elected representatives might consider would be

helpful for their communities. We will launch that initiative in the new year, after the general election. We would welcome your thoughts on how we might support your communities in a way that preserves continued access to cash. The initiative builds on the work that Link has done, and also the work that we have done through the banking framework with the Post Office.

**Richard Cooper:** At Cardtronics, we do not believe that the Link interchange cuts have been effective. They were designed to reduce the oversupply in city centres, but what has happened is that we are losing a lot of the ATMs in the more rural and suburban districts. We have always felt that the best way to proceed is through a zonal interchange structure, which compensates ATM deployers for putting ATMs in places where they are needed in an effective way that does not involve simply thinking about one ATM at a time, and allows us to ensure that the right compensation is provided for putting an ATM in a place that is more expensive to serve. We can zone that to ensure that the city centre ATMs get less interchange than they do today, which will encourage a reduction in supply, and that people get more money for deploying ATMs in the outer edges, which cost more to serve.

**Gordon MacDonald:** Earlier, Adrian Roberts made a point about the number of free ATMs. I have received a letter from a retailer in one of the poorer areas of Edinburgh, who has a NoteMachine ATM. They have been told that there is going to be a 99p fee for a withdrawal. I accept that that is a bit cheaper than the average fee, which seems to be £1.50. However, the maximum amount that a young person on jobseekers allowance gets is £57.90 a week, which must be paid into a bank account. If they are charged £1.50 to withdraw that money, that represents a tax of 2.5 per cent, which is equivalent to us going Christmas shopping and being charged nearly £8 when we withdraw the maximum that we are allowed to withdraw, which is £300. If people were charged £8 to get access to their cash, there would be an uproar, but companies such as Cardtronics and NoteMachine regularly charge the poorest in our community 2.5 per cent. Is that acceptable?

11:45

**Adrian Roberts:** No—it is not acceptable that anyone should have to pay to access their own cash. The point that I wanted to make earlier is that this is all about giving consumers choice. I would be interested to hear more about the example that Gordon MacDonald gave and to know whether there is a free-to-use ATM nearby that could be used as an alternative. If there is not, perhaps Link should look at that location as part of

our community request scheme and consider putting one in. It is absolutely not acceptable that people should be forced to pay to access their own cash.

**Peter McNamara:** I would like to respond to that. This is a critical issue for NoteMachine. Historically, our business model has always been one of providing free-to-use access—indeed, for 10 years, it was the only thing that we did. For the past three years, we have argued that the changes that are now being put in place by Link to lower the costs associated with ATMs would lead to the detriment that they have clearly led to.

We are hearing that there is one ATM going into Durness when Scotland has lost 1,100 free ATMs over the past 12 months. It does not work that way—that needs to be seriously understood by everyone. In practice, you cannot do it through that mechanism. We have got the cost of a cash withdrawal down to 23p. However, if you put a person in to pay away cash, there is no way that such a service could be made economic at that price. If there are going to be people handing cash over counters to address that concern, the charge will have to be far more, as we heard earlier from the British Retail Consortium and Pete Cheema.

We strongly believe that cash supply must become a regulated utility if it is to be provided free—which, for all the reasons that we have just alluded to, it should be. The average ATM cash withdrawal is often quoted as being around £70, but the modal number—that is to say, the amount that is withdrawn most frequently—is nearer £20. People should make no mistake about what is going on. Everywhere—in urban as well as rural locations—poorer people are having to budget carefully, and the need for cash is a universal one. Frankly, the present mechanism just does not work. Previously, it had worked quite well, but now it has largely been destroyed. The network will not be capable of being replaced once it has gone, and the cost of putting it back into place would be huge. The rate of decline that we have seen over the past 12 months will continue, if not accelerate, as contracts come to an end. The demand for cash will not go away, but the supply has been radically reduced.

We should not forget that the absence of ATMs removes economic activity from the locations where they used to be and puts it somewhere else. To be very blunt, the lack of cash availability means that we are sleepwalking into disaster. I am afraid to say that Scotland is leading the way in that, because it is losing more ATMs than anywhere else—just as it lost more bank branches than anywhere else. That is a very serious matter, which is not being adequately addressed. It is not currently being looked at, but there needs to be

some mechanism to guarantee the supply of cash, otherwise the infrastructure will not exist in future.

**Eric Leenders:** There are probably more dimensions to the discussion than we have just heard. Previous witnesses have discussed measures such as the cashback pilot, which I understand that Visa and MasterCard are interested in pursuing. That would put cash withdrawal availability into the economic hub, because people would, in effect, be taking that cash out at the retailer.

To give a similar answer to the one that I gave previously, we are talking about a pilot that is in train. The early signals are positive. That would add a free cashback availability that is not currently widespread in the market. People would then have availability through bank branches, post offices and ATMs, as well as through the very retailers with whom they might be spending their cash. To me, that feels as though it would provide broader availability at the free-to-use price point, which is very important. I again point out that we need to consider how the world is moving forward just as much as we consider how things are today.

**Martin Kearsley:** From listening to the panellists beside me, the committee has heard about the challenges in the ATM structure. I will go back to the practical reality of things that are happening in post offices. Those challenges are one reason why, year on year, there has been close to a 10 per cent increase in cash withdrawals from post offices UK-wide, in terms of both volume and value. Interestingly, there has also been more than a 40 per cent increase in cash deposits, but we are talking about cash withdrawals and people being able to access cash.

In all these discussions, there needs to be strong consideration of the whole cash cycle, because local businesses that still trade in cash and that take in cash from their customers need somewhere to bank their cash. Increasingly, they are doing that at the post office, so completing the cash cycle in that way has led to the biggest single rise. That brings us back to my point about raising the limit from £2,000 to £4,000. We should start to focus on the cash cycle, as well as on how customers can access their cash. However, there has been significant growth in both areas in the past year while the restructuring has carried on around us.

**Richard Cooper:** I have two very brief points. We need to think about who bears the cost of serving the consumer. We have talked about fees on ATMs. The consumer carries that cost. When fees are introduced on ATMs, the banks pay nothing, so they get a free service for their customers at the expense of the customer. I agree that cashback has a role to play, but that puts the

cost on to the merchant, because they have to hold more cash and there is more risk and more time to serve. The banks are getting the service for free. At some point, we have to understand whose customers these people are, what service is being delivered and who should pay. I think that that is really clear.

**Willie Coffey:** I want to shift the discussion on to digital online banking services and the impact that those might have had on more vulnerable sections of society. When the banks closed their local branches in my constituency, we heard that more and more online transactions were being carried out. However, an important section of the community was left behind, including vulnerable people and, possibly, older people. Did we get that wrong? Is there still a demand for people to access services in a non-digital way? Can we improve the online digital environment to ensure that people can fully participate?

**Adrian Roberts:** By referring to the independent access to cash review from earlier this year, we know that, 10 years ago, six out of 10 payments were made in cash. Today, the figure is about three in 10, and it could be as low as one in 10 in 15 years' time.

We need to recognise that digital payment methods do not work for every person in every place at every time, which is why maintaining cash is really important. That is why Link has made a very public commitment to do whatever it takes to maintain a broad geographic spread of ATMs. Innovation in payments is a wonderful thing, but cash plays a very important role, not just in addressing the needs of specific parts of society but in providing resilience to the payments system overall.

**Peter McNamara:** In Scotland, we have opened 14 branches. The objective of the branches is to provide a wider range of financial services, which we deliver on behalf of others. We are working with a number of banks to provide facilities that can distribute remote advice from the bank to the location, and we are providing mechanisms whereby inbound cash can be deposited at retailer level. With a number of the smaller banks and one large bank, we have a technology trial under way to look at that issue.

I strongly encourage members of the committee to look at what we are doing, because the types of technology that we are using are available to others, including the Post Office and retailers. That might be an answer to providing a more cost-effective and economic way of providing physicality. A lot of financial services are too complex to be used even by people who are adept at using digital forms, because people do not purchase them that frequently. Without some degree of advice and hand holding in relation to



the technology, the system will not work, which makes things very hard, given that there are very few locations where that support can be provided.

The only answer to that, which has been much discussed and alluded to, is probably the sharing of input through electronic connections to other banks that enable the provision of services. That is a practical digital way forward, which we see as being relevant, as it provides a physical element of branch in locations where conventional bank structures are uneconomic.

**Willie Coffey:** You are saying that that provides a core advice service in the online world.

**Peter McNamara:** Yes. We are putting in place screens that connect people with the contact centres of banks and other providers so that they can get the advice that they need for more complex financial products, as well as services such as the provision of foreign currency, transfers between accounts and the ability to pay money into bank accounts at what we might call a semi-industrial level for small businesses and retailers.

**Willie Coffey:** My experience of using the online world to get advice has been pretty poor—the online assistants are pretty hopeless.

**Peter McNamara:** With the service that I am talking about, the customer can talk to a real person via a screen, and another screen on the other side shows the documentation.

**Willie Coffey:** Good.

**Peter McNamara:** Via that route, the customer is enabled to speak to a real person at the other end, in the bank or service centre.

**Martin Kearsley:** Last time we discussed the subject—this was mentioned earlier this morning—the Royal Bank of Scotland talked about community bankers. It is important that, when a bank physically removes itself from a local community, it recognises that a number of customers are not comfortable talking to a screen or talking online, and that many people do not have access to reliable broadband and always-online services.

We have started to provide a kind of surgery, much like the surgeries that you hold, and we are considering how to accommodate different bank representatives in post offices in local areas so that a real human being comes along each week. In particular, that involves community bankers visiting branches to talk to their customers. Because we are trying—nobly—to be independent, we have asked them not to try to secure one another's customers: no poaching is allowed.

That approach means that the customer can arrange an appointment because they have a

question about a direct debit, a mortgage or a more complex issue, and they can discuss it face to face in a staffed post office. I fully recognise that many post offices, such as the tiniest village ones, do not have the necessary space for that, so that will be a challenge, but in our larger post offices, a desk, a chair and an online connection can be provided to enable that face-to-face communication with bank representatives.

The Post Office has never set out to be a bank. We are there to support communities that have been left behind by the banks, and if we can give them a physical location to encourage them to come back and talk to their customers who need that face-to-face help, we will look to do that. We welcome all genuine online and digital services, which address a certain part of the market, but we are here for the individuals who want a little bit more than that.

**Eric Leenders:** Martin Kearsley makes a valid point about the community bankers who operate out of the Royal Bank of Scotland and NatWest. As a former NatWest bank branch manager, I know that we should not underestimate the reassurance that some customers draw from the knowledge that what might be a straightforward task to many of us has been completed in a face-to-face interaction, so that approach is welcome.

I also commend the digital eagles project that Barclays is running. It has had high success rates from talking through with customers the different options and digital solutions for everyday banking, and that does not necessarily break down according to particular age demographics. It has had success in showing people that services are useful, convenient and helpful. There are some individual case studies on that approach, as well as on the emerging shared services.

We run a consumer advisory group, which is chaired by the chief executive officer of Citizens Advice, and it has representation from Citizens Advice Scotland as well as bodies in the other devolved nations. We have been considering our priorities for 2020, and during the second, third and fourth quarters of next year we will be looking to broaden out our consideration of the challenge of access to cash to include access to banking services. We are looking to address the immediate challenge first, and we will then broaden that out to consider some of the points that have been raised in our conversation thus far.

**Willie Coffey:** Good. Thank you for that.

12:00

**Richard Lyle:** I have listened to what you have said. My view of Link is that banking has changed over the years, so if I can put my card in any non-fee-paying machine to take money out, I should be

able to pay money in. I can walk into RBS and pay money into a machine; I do not need to stand in a queue. It is quite good. It is a pity that Clydesdale Bank does not do the same. Are you saying, following Andy Wightman's question, that Link could offer that service? My bank—RBS—tells me that it does not want to do that with outdoor machines because of the security risk: a person on the street might want to pay £1,000 into a machine, but there the risk that somebody might hit them over the head and take the money. Do you see that service coming in over the next five years?

**Adrian Roberts:** From a technical point of view, the technology exists to do that now. I accept that there are process issues around whether people would want to do that in the street or inside a building. As I said earlier, whether and when that happens is an industry decision. If the decision is taken away from the industry, I guess it will become one for the Government or regulators.

**Richard Lyle:** Basically, a bank could build a booth outside where I could pay money in. Your machines could accept any card and the money could go into any bank account.

**Adrian Roberts:** Yes, it would be an interbank deposit.

**Richard Lyle:** Ok. That makes my point. What are the barriers to introducing a universal standard that includes access to cash and face-to-face services? There are still people who do not have bank accounts—I do not know where they get their cash. On trying to get a bank account, I asked at another bank, where it would take an hour and a half and I would need to bring along a passport and so on to prove who I am. It is very hard to get a bank account, nowadays. What would be the best way to introduce a universal banking standard or system that would revolutionise how banks could work together?

**Peter McNamara:** I can partly answer that. We have already alluded to the fact that a mechanism or structure in terms of fees would be needed for doing that. The technical interfaces exist, largely, as Adrian Roberts said. It requires the will to go ahead and do it. Much of what is needed is not technically very difficult. The kit that you alluded to the Clydesdale Bank having is stuff that we provide, operate, service and keep running for it. That is what we do for banks at present. There is no reason why a person who is in possession of a debit card cannot pay money into their bank account, subject to their doing an appropriate security input at the same time. It is all doable. The will to do it is in question—that is where there is a battle to be fought.

I agree that the processes for the customer to get a card are complex in the first place, but there

are lots of ways that it could be done partially digitally. Again, however, it is difficult for some of the people who would most need the service: it is the age-old conundrum of there being a very low correlation between a wonderful app that helps people to budget and its use by the people who need to use it.

**Richard Lyle:** Yes. Only when the Royal Bank and the Clydesdale Bank unfortunately moved out of a town in my constituency—Bellshill—and I found that I could get a payment book to pay into my Royal Bank account through the post office, did I find out that you also deal with the Clydesdale Bank. Why does the Post Office not advertise that it has, all in all, basically taken over the role of local banks?

**Martin Kearsley:** The question of awareness is significant: I shall come back to it in a moment.

You asked where people who do not have bank accounts access cash. We support two significant service sectors. Over the next couple of months, we will bring many dozens of credit unions into the banking framework—we are doing that increasingly. Whether their account is with a bank or a credit union, people can access it through a post office.

The other group is Post Office card accounts, which is the Department for Work and Pensions mechanism whereby benefit payments are paid to citizens around the country. We still support a million accounts every week, and pay out about £1 billion a month in benefit payments in cash to recipients. We serve people who are outside the banking infrastructure in post offices.

On Peter McNamara's earlier point, there is technology that can speed up transactions and help all customers, which we are trialling at the moment and aim to roll out. At the moment, everybody crunches up to the counter in a post office, whether they are business customers who want to deposit rapidly and get back to the business or elderly customers who perhaps need a bit of extra help. We aim to roll out automatic deposit machines and technology to recycle cash behind the counter, and to help with the counting and treatment of cash in the branch that Paul McBain spoke about earlier. We aim to serve customers better by giving the right service to the right customer in a multibank utility model, with business customers depositing quickly so that they can be gone. We hope to roll that technology out next year.

We are doing what we can—which is possibly going in a different direction to that which has been taken by the industry—to improve how our post offices are used and how our customers can access them through deployment of technology.

Your final point was about awareness about Clydesdale Bank. In the past year, we worked with Eric Leenders and UK Finance and the banking industry after entreaties to the industry by the Economic Secretary to the Treasury, John Glen, to make people more aware. We ran two major trial campaigns in north-west England and in Dumfries and Galloway. They had exactly the same message—"You can bank in a post office"—but used different mechanisms. There were radio adverts and posters in stations and beside roads in north-west England, and in Dumfries and Galloway there were local press articles about banking and postal drops to every house. The trial was to see whether we could shift the dial on awareness. We did—awareness moved from about 45 per cent to just over 50 per cent.

We can make a difference by telling people about post offices, but we all go to the post office to do something transactional—send a parcel, buy stamps or send something to Auntie Dot for Christmas. People do not think of post offices when they do not need one, so a billboard or something in the press has an impact that is subliminal but not huge.

The biggest impact is if we work with our postmasters, the FSB, chambers of commerce and the local MP to create a local event. The postmaster and my team and I will come to present what the post office can do for people who have businesses, and what it can do to support the local community. We can keep cash there: as was mentioned earlier, money that stays in the community helps the community to thrive. As soon as the money goes to the next town, the community struggles.

There is no doubt that we could do more nationally, but the biggest impact is from local messaging through our postmaster network. One reason why we made such a significant change to remuneration was to encourage postmasters to go out to tell people what they do. Their post office businesses will benefit, as will the community, because people who need cash will get access to it.

**Richard Lyle:** How do banks identify which customers would be most impacted by the loss of a local branch? I have mentioned that I lost three local branches in three years. The banks told me that only 25 people were going in in a week, so I stood outside a bank for two hours and 90 people went in and came out. Most of the people who walked past were going into the banks. What is your view about how the banks have presented the facts on why they are closing? Do they just want to close them?

**Eric Leenders:** I take issue with your feeling that banks just want to close branches. As a

former bank manager, I know that we saw a decline in activity even back in the 90s.

To ensure that customers are appropriately advised when a branch is no longer viable, we introduced a banking protocol, which was revised into the access to banking standard. Within that, there are specific provisions on customers who are more vulnerable or are in more vulnerable circumstances. We worked with Citizens Advice to ensure that that particular cohort of customers is well catered for.

The Lending Standards Board oversees the access to banking standard to ensure that it is applied appropriately. In the discussion with the previous panel, there was criticism that the standard does not necessarily influence the commercial decision. Clearly, that is a matter for the bank concerned, but the standard is, nonetheless, helpful in local communities. There have been a number of instances in which a closure has been delayed because of a local issue such as road works or another frustration. In that sense, we have a mechanism in place to support customers, albeit that we have to acknowledge that the on-going economic viability of a bank branch is a proprietary consideration for the bank concerned.

**Richard Lyle:** Pete Cheema said earlier that we need a Scottish solution for a Scottish problem. Do you agree?

**Peter McNamara:** There is a good case for that, because of the geography in Scotland and because it has been adversely impacted by bank closures and is being adversely impacted by the loss of free-to-use ATMs. I will happily forward to the committee some thoughts about the cash supply and pricing mechanism that we put in our white paper on the issue. We have submitted those thoughts to the Payment Systems Regulator and others to look at, so they might form an option for Scotland.

I would happily welcome you on a visit to locations where we will shortly be installing, to have a look at what can be done. As I said, we have opened 14 branches in the past couple of years and we will extend the range of services that they deliver over the next few years.

**Richard Lyle:** I happily extend to you an invitation to come to Bellshill and open a branch there.

**Peter McNamara:** I would be happy to do that.

**The Convener:** Out of interest, where are the branches in Scotland that you have opened?

**Peter McNamara:** I have a list here. There are a couple in Edinburgh, a couple in Braehead and ones in Ayr, Irvine and Dunfermline. I will forward the full list. We have more than 200 in the UK.

**The Convener:** Are any of the ones in Scotland in rural locations?

**Peter McNamara:** Some are in semi-rural locations, but there are none in completely rural locations because, for obvious reasons, we are dependent on footfall. However, we are very picky in that we analyse carefully where footfall is now, rather than where it might have been many decades ago. We are thoughtful about installing branches in appropriate places.

**The Convener:** If you could forward the list to the committee, that would be helpful.

**Peter McNamara:** We will do that.

The option that I referred to earlier is interesting. If we can get several financial institutions to participate, the economics become far better than the economics for one institution on its own. That is the critical metric that needs to operate in Scotland.

**Tom Mason (North East Scotland) (Con):** My question is for Martin Kearsley. Given that the Post Office will be an integral part of all possible future systems, and that 15 to 20 per cent of people will still require cash, the Post Office will end up with a multitude of services. Is there sufficient training and is it possible for one post office to have sufficient knowledge and expertise to handle all the different services, as well as selling toothpaste and doing the other things that it might have to be involved in? Certainly in my local post office, there are multiple queues. Some people are there for Post Office services, others are there to get the milk or a newspaper. Some people want to go fast and others want to sit around.

**Martin Kearsley:** That is a good question. Prior to the creation of the first banking framework in 2017, we had exactly that challenge writ large across the UK. We had served banks bilaterally—that is, with different arrangements and types of service—for a number of years. In essence, the framework was established to bring everybody together and to start the move towards standardising services so that whatever we do is the same for every bank.

12:15

We are three years on and are heading towards the new banking framework. We have reached the point at which pretty much every transaction—bar use of pay-in slips for cheques, which I will try to come back to, in a second—for cash in and cash out, which make up 90 plus per cent of our total transactions for banking, is paperless. They are all done by debit card or through an ATM terminal using chip and PIN. We have greatly standardised services.

The challenge—which the committee raised earlier—concerns what other services a post office could offer. As committee members have all seen, we have queuing issues, especially at Christmas. We would work to avoid anything that would take more time at the counter. We look to do rapid and useful local community transactions. We call it everyday banking. With the toothpaste, milk, cigarettes or whatever people want to buy from the shelves behind us, we want speed of throughput.

In response to the point that was made earlier, postmasters are not independent financial advisors, nor could we get 50,000 staff UK-wide trained to deliver that advice. We can do the everyday service that is required, as long as we can pass on customers who wish to talk about complex products to the right banking-trained people.

We have pretty much standard services for the vast majority of things that we do. Paying in of cheques is a challenge, so we are increasingly working with the industry on cheque imaging, which we welcome. That involves taking a picture of the cheque on a phone and removing the need to physically put paper over the counter, with or without a paying-in slip or an envelope. That variation is a challenge: we have to do more to get rid of cheques, cheque envelopes and paying-in slips. That is the last transaction that—so far—is non-standard; everything else is at a point of standardisation.

**Colin Beattie:** I have a small question. We have all been talking about the reductions in the number of ATMs and in the volume of cash withdrawals from them. I understand that ATM use fell specifically during the first half of 2019. Given that the trend has been more of a gentle drop, is the bigger drop that we faced then the start of a trend, or is it simply an aberration?

**Adrian Roberts:** On current trends in ATM usage, the decline is increasing: year on year, the reduction in cash withdrawals is more than 10 per cent. We produce an eight-week rolling average, and as we move through each cycle, the 10 per cent figure is increasing by about 0.1 per cent—

**Colin Beattie:** Can I interrupt? The figures that I see in our papers do not indicate a 10 per cent year-on-year drop. It is variable, but certainly up to 2018, it seems to have been less than 10 per cent.

**Adrian Roberts:** The decrease was less than 10 per cent up until 2018. However, if I do year-on-year analysis up until today—

**Colin Beattie:** This year, the rate of decrease in usage has become 10 per cent.

**Adrian Roberts:** It has. We saw variation between parts of the UK. We are now starting to see different parts of the UK coming into line; for

example, in Scotland the decrease is just over 8 per cent, against the 10 per cent UK average.

**Colin Beattie:** I presume that ATM usage has been analysed to death, because that is your business. What is the reason for the drop, other than the obvious?

**Adrian Roberts:** The way that people pay is changing. Contactless cards are a good example; the rate of growth in contactless transactions has been huge. We are now seeing growth in use of wearables—people paying for things with their watch. People are also buying online; footfall is moving away from the high street, where there is the opportunity to pay with cash. We can all think of things that we have bought on Amazon, with the convenience of that purchase turning up on our doorstep the next day. We cannot pay by cash on Amazon; we have to use an alternative payment method.

**Colin Beattie:** Is there any indication that the drop is more accelerated in affluent areas than it is in areas that have traditionally had high levels of cash users?

**Adrian Roberts:** There is variation, but it is not as great as we thought it might be. Over time, the variation is getting smaller.

**Peter McNamara:** We must not forget that there has been a loss of nearly 10 per cent of ATMs so, in practice, the supply has been significantly reduced. Cash use is not solely a function of demand—it is always a mixture of the two.

**Colin Beattie:** Are you saying that the per capita usage of ATMs has not dropped?

**Peter McNamara:** There is a lower usage, but there are fewer devices, so it is a combination of the two.

**Eric Leenders:** Towards the end of this week, we will publish data on use of contactless debit and credit cards, which might be interesting for the committee to read.

**Richard Cooper:** On Peter McNamara's point, we are finding that the cash value that is being withdrawn through our machines is relatively flat. This year, we expect to put about £28 billion of cash into the UK economy. The volume is decreasing on some estates, but because of bank branch closures, some of that volume is migrating to our machines. The value is relatively stable.

**Adrian Roberts:** If the problem was undersupply of ATMs, we would expect people to take out more cash each time they visit an ATM. I will give you a Scotland-specific number. The average withdrawal value in Scotland is £65. That has moved by only just over 3 per cent in the past year or so, which is not much more than the rate of inflation.

**Peter McNamara:** We must be wary about averages, because the modal average is about £20. The average is a function of a few people pulling out £300 and a lot of people pulling out £10.

**The Convener:** On that note, we will conclude the public part of today's meeting. Thank you very much for coming in.

12:21

*Meeting continued in private until 12:48.*



This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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