House of Commons Library

Research Briefing

By Steve Browning
26 September 2023

The future of local banking services and access to cash

Summary

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Contents

Summary

People are relying less on both physical cash and traditional bank branches:

- Cash was used for only 14% of all payments in the UK in 2022 (pdf), according to data from the trade body, UK Finance.
- The number of bank and building society branches in the UK fell by about 34% between 2012 and 2021, according to the Office of National Statistics.

Who’s affected by the changes?

While such changes reflect wider economic trends, the independent Access to Cash Review highlighted the risks to millions of people of “sleepwalking” into a cashless society. Research by the Financial Conduct Authority (FCA) in 2022 found that the digitally excluded, older people, people in poor health, those with lower financial resilience and those with lower financial capability depend more on cash.

In 2019, the FCA identified similar groups as being most likely to be affected by bank branch closures. Many small businesses also depend on physical branches, according to a report from the Federation of Small Businesses in 2016. The Scottish Affairs Select Committee reported in 2019 that whole communities – especially in rural areas – are affected when the last branch in a community disappears.

Threats to the future of cash

In 2022, automated teller machines (ATMs) provided about 90% of the cash withdrawn in the UK. But the number of free-to-use ATMs has fallen over recent years, partly because fees payable to machine operators have reduced. Those operators have often responded by introducing pay-to-use ATMs.

Although there have been attempts to remedy that trend, the National Audit Office warned in 2020 that providing ATMs could become uneconomical, leading providers to withdraw. But the number of pay-to-use ATMs has also fallen since 2019.

Many businesses and traders have also moved towards non-cash payments. This could also threaten the future of the cash distribution industry (pdf).

Responses to branch closures

There has been widespread public and political concern about the closure of bank branches and the subsequent effects on communities. Successive governments have acknowledged the concerns but maintained that these are commercial decisions that it would not intervene in.

From 2020, the Financial Conduct Authority (FCA) has published guidance setting out expectations for banking providers that intend closing or reducing branches, services or free ATMs. It expects the provider to analyse the effect, communicate with customers, and support them to find alternative provision.

A new focus on protecting access to cash

In recent years, wider policy and political discussion has focused more generally on the future of access to cash than on branch closures.

In 2019 the Access to Cash Review called on Government, regulators, financial services and others to work together to "keep cash viable for the foreseeable future". Government and regulatory responses have since referred to and build on the review's recommendations:

- The Government said in 2020 that it was committed to supporting the use of cash, noting its importance to people who are financially excluded.
- The Financial Services Act 2021 enabled traders to offer cashback without a purchase.
- The Financial Services and Markets Act 2023 gives the FCA powers to ensure that customers have "reasonable access" to free cash deposit and withdrawal facilities. The Treasury notes that currently most people and businesses in urban areas have access to such facilities within one mile, while most people and businesses in rural areas have such access within three miles. It says that the Government's broad aim is to maintain this.
- The FCA will consult on further detail. It says that new rules should be in place by summer 2024.
- The 2023 Act also gives the Bank of England powers to oversee and protect the wholesale cash infrastructure.

Post Offices, banking hubs and other provision

- The Post Office has signed an agreement with about 30 banks and building societies to offer basic banking facilities to personal and business customers. Almost 3 in 10 people used those services in 2021.

- LINK, which runs most ATMs in the UK, undertakes Community Access to Cash Reviews for communities that believe their needs are not being met. Those reviews may result in the provision of new services. One such service -the banking hub – provides a physical site where a range of providers offers in-person services to customers This is in addition to wider cash services offered though the Post Office’s service.

- By September 2023, seven banking hubs had opened and 83 more had been approved. There have however been concerns about delays between other banking services closing and banking hubs opening.

Further reading

- Statistics on access to cash, bank branches and ATMs and Post office numbers (contain more detailed data and discussion of trends.

- Protecting access to cash gives a detailed snapshot of policy and statistics in 2021.

1 What's at stake?

1.1 The decline of cash

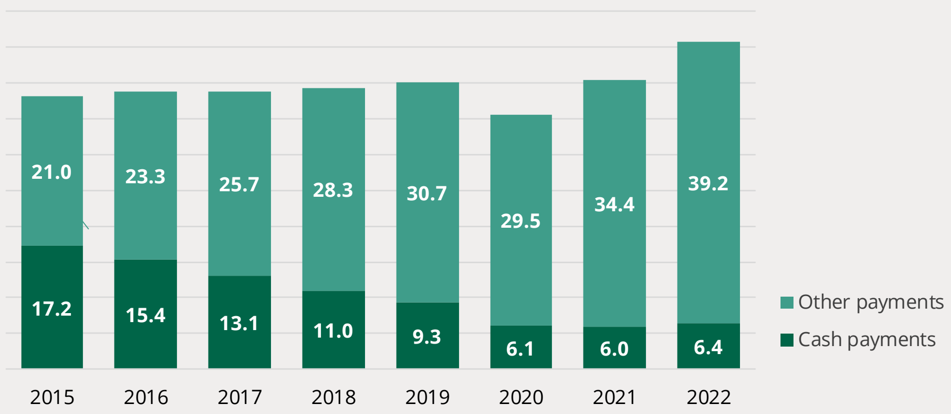
See the Commons Library research briefing Statistics on access to cash, bank branches and ATMs for more data.

In recent years, cash has been used less often for payment by people and businesses, while the use of digital payment methods – led by debit cards – has accelerated.

The Covid-19 pandemic saw a particularly sharp drop in cash use. Cash payments accounted for just 14% of all payments in 2022, as set out in the chart below.

Payments by cash and other methods, UK

Billions of payments per year



Source: UK Finance, UK Payment Markets Summary, 2016 to 2023 editions

Digital payments offer a range of advantages to consumers and businesses, including the following, as identified by the Access to Cash Review[1]:

- speed and convenience
- maintaining efficient records of payment
- helping to prevent tax evasion
- more protection for consumers, notably in cases of theft or payment disputes
- providing evidence to improve individual credit ratings

[1] Access to Cash Review, Access to Cash Review: final report, March 2019 (pdf), p28-31

- helping to reduce abuse and exploitation, including coercive control and financial abuse of vulnerable people
- potential environmental benefits – less need for printing notes and transporting cash

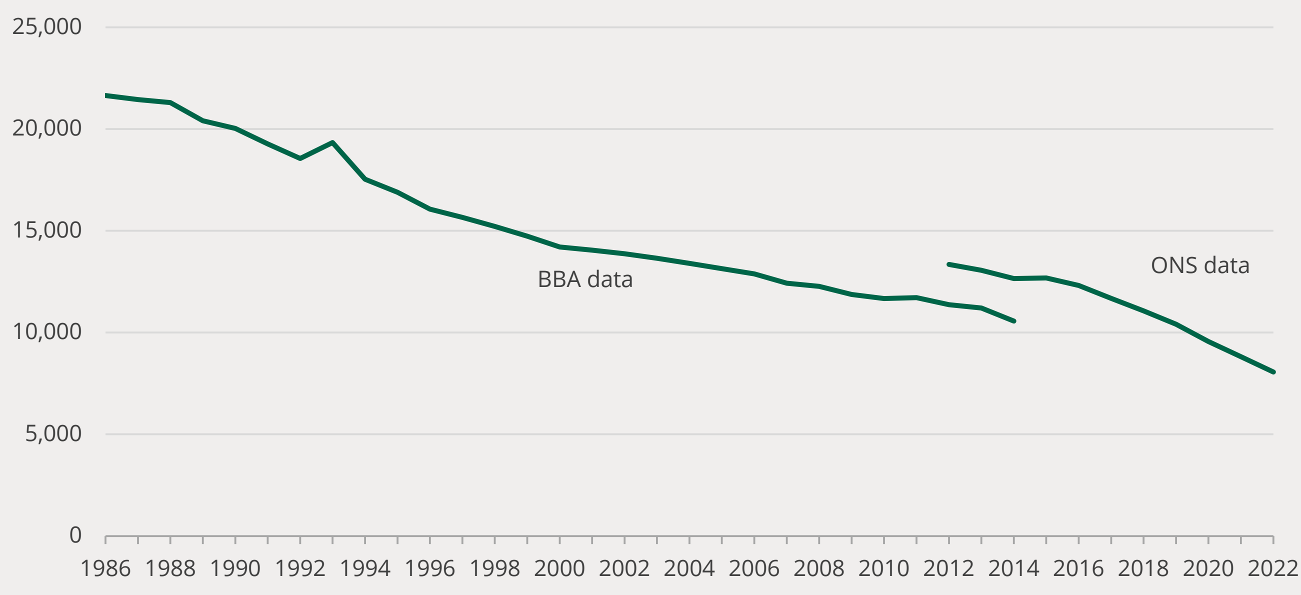
Nevertheless, characteristics of digital payments that help one individual – such as making it quicker and easier to spend money – might also harm another (for example, by making it too easy to spend money).

1.2 Bank branch closures

Since the mid-1990s, the number of bank branches in the UK has been falling steadily. The number of building society branches has been more stable.

As outlined in the chart below, the total number of bank and building society branches fell by 40% between 2012 and 2022. See the Commons Library briefing Statistics on access to cash, bank branches and ATMs for further information.[2]

Bank and building society branches in the UK



Source: 1986 to 2014 = BBA data; 2012 onwards = ONS, Business activity size and location, via the NOMIS database (UK Business Counts variable)

[2] Commons Library research briefing CBP-8570, Statistics on access to cash, bank branches and ATMs

Why are branches closing?

High-street banks have traditionally delivered their services through physical branch networks. But business and technological change have allowed banks to offer more efficient – and generally online – methods of operating.

As outlined above, there has also been a wider overall decline in the use of cash in many areas of the economy. The use of cheques is one clear example. Between 2007 and 2022, the number of cheques written fell from 1,518 million to 129 million.[3] Their use had in fact peaked in 1990.[4] The introduction of cheque imaging, which allows customers to scan cheques they receive, has further reduced the need for visits to branches.[5]

In 2018, the Financial Conduct Authority (FCA) noted that banks were making savings from closing branches, and predicted that the trend would continue with changes to technology and customer behaviour.[6] That trend was only reinforced by the rapid changes during the Covid-19 pandemic – most notably a move away from physical interaction.[7]

In 2021, Sarah Coles, senior personal finance analyst at Hargreaves Lansdown noted the "vicious circle" set off by bank closures and accelerated by the pandemic:

> The closure of bank branches is a vicious circle. The more that close, the more people move online, so there are fewer people relying on high street branches, so more of them close.
>
> The pandemic picked up the pace around this ever-decreasing circle, closing more branches temporarily and causing online banking to spike.[8]

1.3 Who relies on cash?

In 2019, the Access to Cash Review (see section 4.1) highlighted the following groups as particularly dependent on cash:

- People on a lower income – who are less likely to have digital access and more likely to rely on cash for budgeting
- Older people – who are more likely to be digitally excluded

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3 UK Finance, UK payments market summary 2023, September 2023, p8 (accessed 25 September 2023)
4 Cheque and Credit Clearing Company, Cheque dates through the ages (accessed 25 September 2023)
5 Cheque and Credit Clearing Company, Image clearing system (accessed 17 July 2023)
6 FCA, Strategic Review of Retail Banking Business Models (pdf), December 2018, p52 (accessed 17 July 2023)
7 See for instance, House of Commons Library, Protecting access to cash (CBP-9054)
8 Credit-Connect, "Banking industry commits to supporting access to cash", 14 May 2021 (accessed 17 July 2023)

- People with certain physical or mental health problems – may for instance find it hard to remember a PIN, to use digital systems, or to control compulsive spending
- People who worry that they will overspend if not using 'physical' cash
- People who rely on others to buy things for them
- People who are financially excluded
- People in areas with poor digital connectivity.[9]

The FCA's 2022 Financial Lives survey identified broadly similar groups of people as being most dependent on cash. It found that in the year from May 2021, 6% of adults said that they had paid for "everything or most things" in cash. This rose to 9% among the more vulnerable.[10]

A study undertaken for the Payment Services Regulator in 2019 had highlighted the idea of a preference (as opposed to an absolute need) for cash. This was "primarily for budgeting and control purposes, but also to avoid the discomfort and security risks they associate with cards and contactless."[11]

Wider questions about going cashless

Beyond its effect on individual consumers, there are wider general concerns about reliance on digital payments, including:

- System failures: In 2018, for instance, an IT failing in the VISA network caused 10 hours of problems for customers across Europe. A switch failure in the UK affected 1.7 million cardholder accounts (10% of all accounts) in the UK and led to 2.4 million transactions (9% of all) failing to process.[12] (That said, such failures can also affect ATMs.)
- Security breakdowns: In 2022, the Bank of England reported that senior bank risk management executives considered cyberattacks to be the biggest risk to UK financial security.[13]

9 Access to Cash Review, Access to Cash Review: final report, March 2019, p45-52 (accessed 17 July 2023)

10 FCA, Financial Lives 2022: Key findings from the FCA's Financial Lives May 2022 survey, 26 July 2023 (accessed 15 August 2023), p26

11 Payment Systems Regulator, "PSR publishes detailed research into how people and business access cash", 24 July 2019 (accessed 17 July 2023)

12 Treasury Committee, Letter from Visa regarding service disruption (pdf), 15 June 2018

13 Bank of England, Systemic Risk Survey Results – 2022 H2, 12 October 2022 (accessed 17 July 2023)

- Digital payments can usually be easily traced, raising concerns about privacy. But the HMRC notes that cash can facilitate criminal activity and black markets[14], while 'darknet markets' can facilitate illicit trading.[15]

1.4 Who is most affected by bank branch closures?

Reports and analysis have highlighted the effects of branch closures on various customer groups (with a strong correlation with people who rely on cash, as discussed in section 1.3):

- Older people: In 2019, FCA research found that branch closures presented particular challenges for older people who would have to travel further to reach a branch. It said that older people were also less likely to turn to mobile banking, which increased their risk of financial exclusion.[16]
- Disabled people: Which? reported in June 2023 that 52% of disabled people surveyed said that branch closures had had a "negative impact" on their access to bank services. Many respondents highlighted difficulties with speaking to staff on the phone, using equipment like card readers or remembering passwords.[17]
- Micro-businesses: In 2016, the Federation of Small Businesses highlighted the importance of access to branches for micro-businesses. It found that they tended to rely on physical access to branches, particularly to deposit and withdraw cash. Many were put off using card machines for payments, notably because of high charges for small transactions.[18]
- All customers: IT breakdowns and cyberattacks may make access to physical branches important for everyone. For instance, the Treasury Committee noted that when the TSB's IT systems failed in April 2018, customers could only use phoned banking or the branch network, with some problems persisting a year later.[19]
- People in rural areas: Many of these factors come together in rural areas, where the loss of branches may easily result in much longer journeys and where digital alternatives are hampered by poor internet

14 HMRC, "Cash, tax evasion and the hidden economy: call for evidence", 24 March 2016
15 Martin Dittus, "Darknet markets: global platforms used for local retail trade", Oxford Internet Institute, 16 April 2018 (accessed 17 July 2023)
16 FCA, "When bank closures bite: the picture across the UK", 13 March 2019 (accessed 27 July 2023). The report did not however distinguish between telephone and digital banking.
17 Which?, "Some disabled bank customers slam 'abysmal' services, as more than half negatively affected by branch closures, Which? finds" (press release), 15 June 2023 (accessed 27 July 2023)
18 Federation of Small Businesses, Locked out: the impact of bank branch closures on small businesses, 17 October 2016, p4-5 (accessed 27 July 2023)
19 Treasury Committee, Consumer access to financial services, HC1642, 13 May 2019, para 85

connectivity. And closure is likely to have more serious effects when **the** last branch of any bank in a community disappears. In 2019, the Scottish Affairs Committee highlighted that by the first weekend after the last branch closed in Lossiemouth, the community ran out of cash. Local traders relied heavily on cash because of poor internet connectivity.[20]

[20] Scottish Affairs Committee, Access to cash in Scotland, 29 August 2019, HC 294, para 36

2 The cash system in the UK

The Royal Mint and Bank of England are responsible for producing coins and banknotes respectively, while the Payment Systems Regulator (PSR) and Financial Conduct Authority (FCA) both have responsibilities for protecting consumers. But neither is formally responsible for protecting the future of cash, although the PSR and the Bank of England regulate LINK – the organisation that in turn oversees the UK's automated teller machine (ATM) network. [21]

2.1 How do people get hold of cash?

The FCA publishes data about access to cash coverage. The Commons Library briefing Statistics on access to cash, bank branches and ATMs provides more data.

Cash is available to consumers via a range of commercial entities, but most commonly through the ATM network: in 2022, LINK reported that around 90 per cent of all cash withdrawn was from ATMs.[22]

Consumers can also get cash at branches of their banking provider, at a Post Office branch or by requesting cashback in shops.

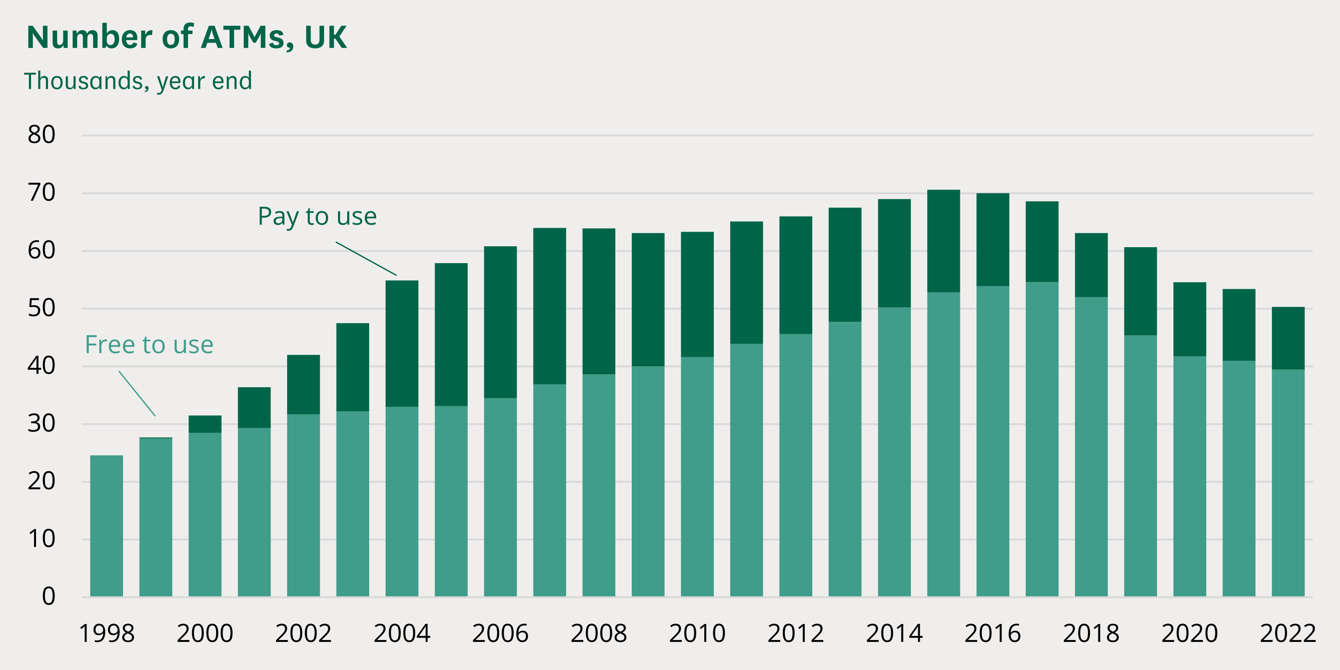
A 2019 survey for the PSR found that 95% of consumers considered it easy to withdraw cash. Older people and those with long-term health condition, as well as people in rural areas and those on lower incomes, said that they would rather pay a small fee (of around 20 pence) for each withdrawal if doing so would keep their nearest ATM operating.[23]

ATMs

LINK operates the vast majority of cash machines in the UK. According to their website, their network includes "connect[s] virtually all the UK's ATMs ".[24]

As presented in the chart below, the number of ATMs in the UK rose quickly from 1998 until 2007, driven mainly by the growth of pay-to-use cash machines. Between 2007 and 2018, the number of those machines fell each year, but the number of free-to-use cash machines rose up to 2017. Since 2018 the number of free-to-use cash machines has fallen each year.

21 National Audit Office, "The production and distribution of cash", 18 September 2020
22 LINK, "Consumers withdraw £83bn from ATMs in 2022", 17 January 2023 (accessed 27 July 2023)
23 Payment Systems Regulator, "PSR publishes detailed research into how people and business access cash", 24 July 2019
24 LINK, An introduction to LINK (accessed 27 July 2023)



Source: LINK, Statistics and Trends

Access to free ATMs

There have been concerns that more ATMs have closed or converted to pay-to-use in more deprived communities. [25]

The National Audit Office (NAO) reported that while the average number of ATMs fell more in the most deprived areas in the two years to January 2020, those areas still had more free ATMs overall. The NAO concluded that "the [Payment Services Regulator] has focused on geographical access to free-to-use ATMs but has paid less attention to analysing the impact in more deprived areas".[26]

The decline in free ATMs has partly resulted from a reduction in the interchange fee – that is, the amount banks pay to ATM deployers when customers withdraw money from a machine that the bank doesn't own. LINK announced various reductions in the fee from July 2018[27] in order to encourage deployment of ATMs in "rural and less-affluent communities" and to maintain LINK's membership. [28][29] But independent ATM deployers such as

25 See, for instance, Daniel Tischer et al, University of Bristol, "Where to withdraw? Mapping access to cash across the UK (pdf), 2020
26 Nqtional Audit Office, "The production and distribution of cash", 18 September 2020
27 See House of Commons Library briefing paper Protecting access to cash (CBP-9054), 13 October 2021, for further details of changes in the fee.
28 LINK, "LINK moves to secure future of free ATMs", 31 January 2018 (accessed 15 August 2023)
29 Card issuers that pay the interchange fee are voluntary members of LINK, so could leave to join other lower-cost schemes, such as those offered by VISA or Mastercard.

NoteMachine has said that the changes have reduced its machines' economic viability, 'forcing' them to convert some machines to pay-to-use.[30]

Post Office branches

As discussed in section 6.1, commercial agreements mean that customers of many banks and building societies can withdraw cash from branches of the Post Office.

See the Commons Library research briefing Post Office numbers for further information.

The Government requires the Post Office to meet six geographic "access criteria" as follows:

- 99% of the UK population to be within three miles of their nearest post office outlet
- 90% of the UK population to be within one mile of their nearest post office outlet
- 99% of the total population in deprived urban areas across the UK to be within one mile of their nearest post office outlet
- 95% of the total urban population across the UK to be within one mile of their nearest post office outlet
- 95% of the total rural population across the UK to be within three miles of their nearest post office outlet
- 95% of the population of every postcode district to be within six miles of their nearest post office outlet[31]

In October 2020, the Post Office announced significant changes to its ATM estate. While its ATMs were owned and operated by the Bank of Ireland, they were due to be migrated to direct Post Office ownership. As part of this, it would reduce overall ATM numbers (in Post Office branches) by a third. But the Post Office said that it would "retain those ATMs that provide a vital source of cash for communities where nearest alternative free to use ATM is at a significant distance away."[32]

Cashback

Research for the Payment Systems Regulator (PSR) in 2019 found that about 20% of consumers had asked for cashback when making a purchase in the previous month.[33]

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30 "UK's free ATM network under threat as operators levy charges, says Which?", The Guardian, 1 May 2019 (accessed 27 July 2023)

31 Post Office, The Post Office network report 2022, p22-23. The report notes that at the end of March 2022 the Post Office met all but the last criterion, missing the target in nine postcode areas.

32 Post Office, "Post Office to invest in free to use ATMs", 26 October 2020 (accessed 27 July 2023)

33 Payment Systems Regulator, "PSR publishes detailed research into how people and business access cash", 24 July 2019 (accessed 27 July 2023)

A possible barrier to the use of cashback – the need to make a purchase – was overturned by section 44 of the Financial Services Act 2021. This removed a requirement arising from the EU's Second Payment Services Directive (PSD2)[34] for retailers to be authorised by or registered with the FCA to do this.

The change took effect from the end of June 2021. Local businesses may offer this service to consumers if they wish to do so.

2.2 Could the cash system collapse?

The trends discussed earlier in this research briefing have fuelled concerns about the economic viability of cash infrastructure in the UK. Consumer advocates such as Which? and Natalie Ceeney (chair of the Access to Cash Review) urged government action on the issue.[35] The Access to Cash Review highlighted two particular threats:

'Cash deserts': consumers can't get hold of cash

The Review argued that with usage falling, there is a risk that the costs of running an ATM will no longer be met by interchange fees. ATM operators might choose to close ATMs or convert them to pay-to-use.

Although banks and building societies run their own ATMs as part of a range of other services, independent ATM deployers (IADs) run most. If those providers abandoned the market, thousands of ATMs could close rapidly. The Access to Cash Review notes that 57% of all ATMs are run by just four IADs.[36]

Cash infrastructure fails: problems with wholesale and distribution

A few companies run the wholesale cash network in the UK:

- Six wholesale banks buy and sell notes and coins in bulk. They are supported by four members of the wholesale Note Circulation Scheme (NCS).
- Two firms – G4S and Loomis –dominate the market for transporting cash.

The Review found that, as is the case with ATMs, there is a risk that one or more of these firms could exit the market, an event that could severely affect the capacity of the market overall.[37]

34 Incorporated into UK law via the Payment Services Regulations (2017).
35 BBC, "UK's cash system 'will collapse without new laws", 19 February 2020 (accessed 8 August 2023)
36 Access to Cash Review, Access to Cash Review: final report, March 2019, p67 (accessed 8 August 2023)
37 As above, p69

2.3 Acceptance of cash

There is a risk that some consumers will be left behind because they cannot pay with cash.

There is no requirement for traders in the UK to accept cash, or indeed any other form of payment. As the Bank of England noted in 2020, while many people believe that the concept of "legal tender" gives buyers the right to pay in cash, the concept in fact only refers to the right to settle debts with Bank of England notes (in England and Wales) and Royal Mint coins (across the UK).[38]

In 2019, the Access to Cash review highlighted the potential decline in acceptance by traders as "the real death knell for cash". It noted that the cost and effort involved in counting, managing and banking cash, as well as the risk of theft, gave businesses real incentives to avoid it.[39]

In a Westminster Hall debate on cash acceptance in March 2023, the Economic Secretary, Andrew Griffith, said that the Government had no desire to impose legal requirements on businesses or public services to accept cash. He pointed to proposals in the then Financial Services and Markets Bill (see section X) to guarantee access to cash deposit and withdrawal facilities as a practical response to the issue.[40]

As noted in section 1.1, the Covid-19 pandemic led to a particularly notable decline in the use of cash, but in October 2022, the Bank of England reported "a sustained, if partial, recovery in cash use". It suggested that this might have happened in response to the relaxation of practical limitations relating to lockdown and hygiene – but also because retailers seemed less likely to be "actively encouraging" contactless payment.[41]

A 2021 survey for the FCA found that 98% of very small businesses would never turn a customer away for wanting to pay in cash, with a majority emphasising the importance of sales over payment methods and recognising that many customers simply did not have other options.[42]

That said, LINK reported research in December 2022 that over the previous eight weeks, 45% of people had been somewhere where cash payment was refused or discouraged. They said that this was most likely to happen in cafés and restaurants, in car parks or on public transport.[43]

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38 Bank of England, "What is legal tender?", 30 January 2020 (accessed 27 July 2023)

39 Access to Cash Review, Access to Cash Review: final report, March 2019, p70 (accessed 27 July 2023)

40 HC Deb, 20 March 2023, c21WH-26WH

41 Bank of England, Knocked down during lockdown: the return of cash, Quarterly bulletin 2022 Q3, 14 October 2022 (accessed 27 July 2023)

42 FCA, "UK's cash infrastructure and consumer research", 23 July 2021 (accessed 7 August 2023)

43 LINK, "LINK research shows growing concern on cash acceptance", 16 December 2022 (accessed 7 August 2023)

3 Action to maintain local bank branches

3.1 How will local provision change?

While banks have been closing branches in response to changes in the market, many have been investing in improving those that remain. They have tended "to focus on retaining branches in key locations with higher future business potential [such as] city centres and other main centres of population and commercial activity."[44]

Banks are also experimenting with different ways to deliver physical services. In 2018, the FCA has given the following examples:

- **Service only branches**: focused on processing simple transactions quickly, with several self-service machines and limited or no counter services. Such branches may need fewer staff than traditional ones.
- **Advisory branches**: focused on meeting customers' more complex financial needs and building relationships with them.
- **Community branches**: focused on both advisory and daily banking services.[45]

3.2 Consideration by Parliamentary committees

Scottish Affairs Committee, 2019

The Committee reported on some emerging approaches in 2019 in its Access to Cash in Scotland Inquiry. These included mobile branches that visit communities that had lost permanent branches. But customers often found the service limited and inflexible, particularly for business needs.[46]

It also noted the possibility of establishing shared facilities or 'banking hubs', which might be particularly relevant in rural Scotland. At the time of the report, several banks were piloting such a scheme for business customers, but only in urban centres in England, and then only offering a "transactional" service.[47] As discussed in section 6, continuing concern about access to bank

[44] FCA, Strategic Review of Retail Banking Business Models, December 2018 (accessed 25 November 2021)
[45] As above
[46] Scottish Affairs Committee, Access to cash in Scotland (pdf), 23 July 2019, HC 1996, p17
[47] As above

facilities and cash has since led to further progress with such initiatives – and less focus on maintaining traditional bank branches.

Among other recommendations, the Committee's report highlighted:

- seeking a commitment from banks that they would not close "the last branch in town"
- government efforts to overcome competition and regulatory barriers that hindered the development of joint services, such as banking hubs
- statutory regulation of branch closures[48]

In its response the report, the Government set out its reluctance to intervene in what it saw as commercial decisions, although it recognised the effect on communities and the importance of some form of service. It said that it "cannot reverse the changes in the market and in customer behaviour; nor can it determine firms' commercial strategies in response to those changes."[49]

Treasury Committee, 2019

In 2019, the Committee's Inquiry into Consumers' access to financial services also concluded that such factors as IT failures and the needs of vulnerable customers meant that maintaining a physical branch network was vital. It welcomed alternative approaches to provision and did not identify any legal barriers to increased co-operation between providers. It recommended that if

> the financial services market is unwilling to innovate to halt the closure of bank branches, market intervention by Government or the FCA may be necessary to force banks to provide a physical network for consumers.[50]

in its response to the report, the Government reiterated its position that it did not intend to intervene in banks' commercial decisions. It added that it would continue to engage with the industry and its Access to Banking Standard (see section 3.4). It also confirmed there were no overwhelming legal or regulatory limitations on developing shared services.[51]

Further Committee consideration

- In October 2019, the Economy, Infrastructure and Skills Committee of the National Assembly for Wales also recommended that the "UK Government… should review whether the Access to Banking Standard is sufficiently robust to address the impact of bank closures on vulnerable

48 Scottish Affairs Committee, Access to cash in Scotland (pdf), 23 July 2019, HC 1996, p29-31
49 Scottish Affairs Committee, Access to cash in Scotland: Government Response to the Committee's Tenth Report, Session 2017–19, HC1996: Appendix: Government response, 1 November 2019
50 Treasury Committee, Consumer access to financial services, HC1642, 13 May 2019, para 91-96
51 Treasury Committee, Consumers' access to financial services: Government Response to the Committee's Twenty-Ninth Report, 5 July 2019

people, SMEs and local communities, or whether regulatory or other mitigating action is needed."[52] The Welsh Government said that while it supported the principle, this was a matter for the UK Government.[53]

- In 2021, the Lords Liaison Committee recommended that the Government should "formally review the powers available to the FCA, to mitigate the negative effects of bank branch and free ATM closures." Martin Lewis of Money Saving Expert had told the Committee that "it was unrealistic to expect banks to prioritise social responsibility over commercial interests, stating that the ultimate responsibility lay with the Government and the FCA".[54] In its response, the Government reiterated its position that it did not consider it appropriate to intervene in commercial decisions and highlighted its engagement with wider initiatives.[55]

3.3 The FCA's expectations on branch and ATM closures and conversions

In September 2020, the FCA published initial guidance on its expectations of financial businesses in relation to branch and ATM closures or conversions ("conversions" referring to changing free-to-use ATMs to charging for use).[56]

This built on the voluntary Access to Banking Standard overseen by the industry (as discussed in section 3.4). The FCA's wider remit allowed it to include both ATMs and credit union branches in the arrangements.[57] This approach also reflects the move in wider policy consideration from branch closures to access to cash, as discussed in section 4.

In October 2022, though, the FCA updated its guidance, saying that some firms had "fallen short of expectations". It noted that in some cases, firms had reduced the range of services or opening hours rather than completely closing a branch. The updated guidance would apply where any such changes "would have a significant impact on customers."[58]

This approach is not legally binding. Firms regulated by the FCA are expected to comply with its Principles. This situation contrasts, for instance, with the

52 National Assembly for Wales, Economy Infrastructure and Skills Committee: Access to Banking, (pdf), October 2019, p27

53 Senedd Wales, Welsh Government's response to the National Assembly for Wales' Economy, Infrastructure and Skills Committee Report on Access to Banking (pdf), p6

54 Lords Liaison Committee, Tackling Financial Exclusion: A country that works for everyone? Follow-up report, HL Paper 267, 24 April 2021, para 39-40

55 Lords Liaison Committee, Government Response: "Tackling Financial Exclusion: A country that works for everyone? Follow-up report", 15 June 2021, p7

56 FCA, "FG20/3: Branch and ATM closures or conversions", 14 September 2020 (accessed 8 August 2023)

57 As above

58 FCA, "FG22/6: Branch and ATM closures or conversions", 11 October 2022 (accessed 7 August 2023)

FCA's new legal powers to oversee and mandate reasonable access to deposit and withdrawal facilities, as discussed in section 5.2.

What the FCA expects providers to do

In summary, the FCA expects firms planning to close or reduce branches or services to:

- tell the FCA about its plans as soon as possible. This will allow the regulator to ensure that customers are being treated fairly and in line with the Consumer Duty.
- analyse the likely effect of the closure or conversion on customers, and consider any reasonable alternatives that might be put in place to meet their needs.
- analyse usage trends and volumes, and identify and engage with wider stakeholders who might have an interest in the proposed change.
- provide the FCA with a clear summary of this analysis. The FCA may ask for more if it is not satisfied.
- ensure that any proposed alternative is in place and accessible to customers before a branch closes. In implementing the change, they should consider how long it will take customers to take up alternative services (such as transferring accounts).
- review and keep the FCA informed of any changes throughout the process.
- inform customers at least 12 weeks before any closure or conversion is due to happen, and tell them about alternative services available to them.
- publish a "high-level" and summary of the analysis that is "easy for customers to find and accessible (taking into account their likely communication needs)."
- ensure that this information is published early enough for consumers to take action.[59]

Which banking services are covered?

As well as arrangements for ATMs, the FCA's guidance sets out a "non-exhaustive" list of the types of in-person services that it might cover:

- cash withdrawals and deposits, including those made using a passbook

[59] FCA, Finalised Guidance: Branch and ATM closures or conversions (FG22/6), October 2022, p4-5 (accessed 7 August 2023)

- cheque deposits
- making payments in-branch by cash or cheque, such as to pay down a regulated mortgage or regulated credit agreement and making payments by CHAPS or foreign currency
- opening or closing an account
- proving identity
- dealing with issues related to Power of Attorney or bereavement
- dealing with incidents of fraud and scams
- providing support to customers in financial difficulty, or customers seeking guidance on money management[60]

3.4 Earlier industry oversight of branch closures

The Financial Conduct Authority's guidance on expectations discussed in section 3.3 has over time replaced earlier industry oversight of managing branch closures.

The FCA's guidance nevertheless built on a series of industry-led voluntary arrangements. The last of these, the Access to Banking Standard, came into force in July 2017 and formally ended in March 2023.[61] It set out the following general approaches:

- Banks would inform customers and stakeholders about plans to close at least 12 weeks before the planned closure date. They would explain why the branch was closing, set out the bank's assessment of the impact of closure, and highlight alternative arrangements for customers.
- They would communicate clearly with other parties, providing further information on issues raised, as well as further guidance and avenues of support. They would make specific efforts to contact and support more vulnerable customers, and continue to support customers and other stakeholders after closure.[62]

UK Finance announced that 12 banks and building societies had signed up to the Standard. The Lending Standards Board (LSB) would oversee, monitor and report on its operation.[63]

60 FCA, Finalised Guidance: Branch and ATM closures or conversions (FG22/6), October 2022, p3 (accessed 7 August 2023)
61 LSB, Access to Banking Standard (accessed 27 July 2023)
62 Lending Standards Board, The Access to Banking Standard, July 2017 (accessed 8 August 2023)
63 UK Finance, "High street banks announce new Access to Banking Standard" (press release), 20 July 2017 (accessed 8 August 2023)

In December 2021, though, the LSB noted new FCA guidelines closely reflected the arrangements set out in the standard. It recommended that the regulator should henceforth oversee policy in this area.[64]

In the same month, UK Finance announced in December 2021 that LINK would independently assess the needs of "any community that faces the closure of a core cash service, such as a bank branch or ATM" and would "commission services to meet the cash needs of the community as a whole – not just the customers or members of one bank or building society.[65] That initiative is discussed in section 6.2.

64 Lending Standards Board, "Access to Banking Standard Review recommendations published by the LSB",10 December 2021 (accessed 8 August 2023)

65 UK Finance, "Pivotal moment as banks, consumer groups, Post Office and LINK join forces to help protect cash services" (press release), 15 December 2021 (accessed 8 August 2023)

4 A new strategic focus on protecting access to cash

By 2020, wider contextual factors had combined to move the primary policy focus away from the issue of bank branch closures in isolation to broader concerns about the future of access to cash.

Although there are arguably differences in the specific issues involved, the wider technological changes and responses to them were changing the way that both providers and policy-makers thought about the issues. In addition, the emergence of the Covid-19 pandemic in early 2020 had led to sudden and dramatic changes in the ways that consumers used physical cash and services, as discussed in section 1.

From late 2018, findings from the Access to Cash Review (section 4.1) highlighted risks to the future of the physical cash system rather than specific services.

Initiatives discussed in this section focus primarily on the idea of "access to cash". The question of access to bank services and branches, which had earlier dominated discussion (see section 3), has been increasingly combined with or subsumed into the new strategic focus, perhaps most evidently in the FCA's publication of its expectations regarding branch and ATM closure and conversions (as discussed in section 3.3).[66]

4.1 The Access to Cash Review

The Access to Cash Review, established in 2018, has informed wide areas of policy development and response. The review was "sponsored by, but independent of LINK" and chaired by Natalie Ceeney, previously head of the Financial Ombudsman Service.[67]

It aimed "to ensure that there remains an effective and inclusive cash access service that meets the needs of all consumers, regardless of their personal circumstances, for as long as necessary".[68]

[66] That said, the distinction is not absolute. Earlier Parliamentary committee reports (discussed in section 3) also raised concerns about access to cash.

[67] Accesstocash.org.uk (accessed 8 August 2023)

[68] As above

In March 2019, Natalie Ceeney introduced the Review's final report by emphasising the importance of appreciating the continuing role of cash and to avoid "sleepwalking into a cashless society":

> We haven't taken a view about the merits of a cashless society. We haven't concluded that it's impossible, or even undesirable. But our research shows that if we fail to plan and prepare for it properly, a cashless society would do significant harm to the millions of people who would be left behind.[69]

The report made five recommendations that would "keep cash viable for the foreseeable future, as well as eventually including everyone in a society where digital payments dominate. These recommendations work together, because cash is a system, and needs to be treated as such":

1. Ensure consumers can get cash "wherever they live or work" – which should be about more than providing access. It might include approaches that would revitalise high streets.

2. Ensure that traders of all sizes continue to accept cash – not through legal requirements, but by providing approaches that make it cost-effective for traders to do so.

3. Call on the Bank of England to convene an initiative to transform the cash infrastructure, moving from a "commercial" to a "utility" model that reflects modern realities.

4. Require joint working by government, regulators and industry to identify and promote systems that make digital payment available to all, not just the majority.

5. Develop a clear government policy on cash. This would require leadership and coordinated working by regulators. Market forces alone would not be sufficient.[70]

4.2 Towards legislation to protect access to cash

The 2020 Budget announced that "the government will bring forward legislation to protect access to cash and ensure that the UK's cash infrastructure is sustainable in the long-term."[71] This was eventually achieved through the Financial Services and Markets Act 2023, discussed in section 5.

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69 Access to Cash Review, Access to Cash Review: final report, March 2019, p4 (accessed 8 August 2023)

70 As above

71 HM Treasury, Budget 2020, 11 March 2020

Development of proposals on access to cash

Introducing a call for evidence on the future of cash in October 2020, John Glen, the then Economic Secretary, reiterated the Government's commitment to "maintain a sustainable infrastructure for cash in the UK". He acknowledged the importance of such access to promote financial inclusion, especially for the most vulnerable who rely on cash in their daily lives." An essential part of the approach would be to ensure that people could find cash withdrawal and deposit facilities "within a reasonable travel distance".[72]

The Treasury considered the FCA "well positioned" to set requirements to ensure that cash distribution met consumer and SME needs. It said that ATMs would be central to the concept of "reasonable access", and that banks, building societies and Post Office branches all had a role to play in helping to meet this.[73]

It also said that the Government did not consider it "appropriate to mandate cash acceptance but wishes to explore options for better incentivising [it]."[74]

In a follow-up consultation in July 2021, the Treasury explained that its proposed approach to "reasonable access" would cover withdrawal and deposit facilities for personal customers, and deposit facilities for SME customers. It would set and amend geographic access requirements to achieve this.[75].

It said that legislation would give the FCA "overarching regulatory oversight of the retail cash system" by monitoring and enforcing powers on designate firms.[76]

Stakeholder feedback

The Access to Cash Review panel broadly welcomed the Treasury's early proposals but recommended that the legislation should focus on the need for cash access, rather than specific sources, such as ATMs. It also proposed that legislation should ensure that banks could collaborate to provide access to cash without breaching competition law, and that the Post Office's banking services should be brought under the FCA's regulatory remit.[77]

Among other respondents, the campaigning group Positive Money argued that the cost of the initiative should be borne by the banks rather than the

72 HM Treasury, Access to cash: Call for evidence, October 2020, p2
73 As above, p10-12
74 As above, p19
75 HM Treasury, Access to Cash Consultation, 1 July 2021
76 As above
77 Access to Cash Review, Response to HMT call for evidence – access to cash (pdf), November 2020 (accessed 7 August 2023)

public, that the FCA should oversee the initiative, and that it was essential to legislate to ensure that people had the right to pay in cash.[78]

In its overview of responses to the consultation, published in May 2022, the Government reported broad support for its proposals.[79] Most notably, respondents highlighted the need for flexibility rather than simplistic geographic access targets. The Government agreed that a degree of flexibility should be permitted, notably between urban and rural areas.[80]

Policy statement on the wholesale cash infrastructure

In April 2022, the Government published a policy statement recognising the potential risks to the sustainability of the wholesale cash infrastructure, as discussed in section 2.2. It announced its intention to give the Bank of England:

1. regulatory oversight over the market activities of cash infrastructure industries

2. powers "to prudentially regulate a systemic entity in the market, should one form in the future" (and so potentially influence wider financial stability)[81]

The Bank launched a consultation on its general proposals for its oversight arrangement in December 2022.[82] It published its response and further proposals in August 2023, as discussed in section 5.3.

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[78] Positive Money, Positive Money submission to Access to Cash Call for Evidence (pdf) (accessed 7 August 2023)

[79] HM Treasury, Access to Cash: Consultation: Summary of Responses, 22 May 2022

[80] As above, p5.6

[81] HM Treasury, Protecting UK wholesale cash infrastructure: Policy statement, April 2022, p9

[82] Bank of England, Consultation on the Bank of England's supervisory approach to wholesale cash distribution, 14 December 2022

5 Financial Services and Markets Act 2023

The Government included its proposals for protecting both consumer access to cash and the wholesale cash infrastructure in the Financial Services and Markets Bill, which had its second reading in the House of Commons on 7 September 2022.[83]

The Financial Services and Markets Act 2023 received Royal Assent on 29 June 2023.[84]

Further to the plans announced in May 2022, Section 54 and Schedule 8 of the Act require the Treasury to produce a cash access policy statement (and keep it under review), to designate legal persons involved in providing cash deposit and withdrawal services, and give the FCA regulatory powers over those designated persons. (See section 5.2 for progress with implementing these plans.)

Section 59 and Schedule 9 of the Act enable the Bank of England to oversee certain persons involved in wholesale cash distribution in order to manage risks to the effectiveness, resilience and sustainability of wholesale cash distribution in the UK. (See section 5.3 for progress with implementing these plans.)

5.1 Parliamentary consideration of the Bill

The Act confirmed the Government's earlier proposals as set out in section 4, with the added requirement that "reasonable access would mean "free-of-charge access".

The general proposals to protect access to cash were broadly welcomed in the Bill's second reading in the Commons on 7 September 2022.[85]

That debate and subsequent consideration did however raise various concerns about the Bill's measures, as summarised below.

Wider banking services

The shadow Economic Secretary, Tulip Siddiq, said that while Labour welcomed the measures to protect access to cash, the Opposition was concerned that they did "nothing to protect essential face-to-face banking services" or to support alternative arrangements like banking hubs.[86]

83 HC Deb, 7 September 2022, c287-344
84 HL Deb, 29 June 2023
85 HC Deb, 7 September 2022, c284-344
86 As above, c287-289

Paul Maynard (Conservative), among others, argued that "access to cash is the wrong way to talk about the issue", because face-to-face services were essential to so many customers.[87]

The then Economic Secretary, Richard Fuller, acknowledged the importance of face-to-face banking services, especially to the more vulnerable. He argued though that

> the FCA could exercise the powers in the Bill to prevent a branch closure where in doing so it is seeking to ensure reasonable provision of cash access services. That may be the case, for example, if a closure would result in a significant adverse impact in relation to accessing cash in that area.[88]

In Commons committee stage, Tulip Siddiq said Labour was not opposed to closing bank branches and that face-to-face services might be offered through banking hubs or other models of community provision.[89] Nevertheless, the new Economic Secretary, Andrew Griffith, argued that it would not be proportionate to intervene in the market.[90]

During report stage, the Opposition proposed an ultimately unsuccessful amendment that would have allowed the FCA to direct designated persons to establish banking hubs.[91] The Economic Secretary noted that the hubs were now being "deployed at pace", and that it was an opportunity for the industry to prove that it could deliver. He argued against "locking [arrangements] in statute for all time."[92]

Similar issues were raised in the Lords, notably during Grand Committee sitting on 7 March. No proposed amendments succeeded.[93]

Free deposit and withdrawal services

Members across both Houses raised concerns that the Bill as presented did not specify that "reasonable access" meant "cost-free access", a concern that the Government ultimately accepted.

The Public Bill Committee considered eight SNP and Labour amendments that would have incorporated free services into the wider plans. Siobhain McDonagh (Labour) said she did not believe that the FCA would require free access to cash unless it was legislated for.[94] The new Economic Secretary, Andrew Griffith, opposed the amendments. Seven were withdrawn and one was defeated on division.[95]

87 HC Deb, 7 September 2022, c321-324
88 As above, c343
89 PBC, 3 November 2022, c260
90 As above, c266-267
91 HC Deb, 7 Dec 2022, c387
92 As above, c393-394
93 HL Deb, c116GC-143GC
94 PBC, 1 November 2022, c202-208
95 As above, c215-216

Government amendments to include free access to cash

In Lords Report stage, though, recognising "the strength of feeling on this matter in both Houses", Baroness Penn presented a series of government amendments that included consideration of "free cash access services" into the Bill. The Lords agreed to them all.[96] This meant that consideration of "reasonable access" would be based on free-of-charge services.

Baroness Chapman (Labour) "strongly" welcomed the Government's decision, but said "there is obviously a lot more to be done."[97]

Acceptance of cash

During Commons committee stage, Tulip Siddiq argued that there was "little point in the most vulnerable having access to cash if they have nowhere to spend it." [98] But the Economic Secretary replied that while the Government was "sympathetic" to the concern, requiring traders and services to accept cash "could risk placing a disproportionate regulatory burden on many businesses".[99]

In the Lords, the Government rejected an amendment sponsored by Lord Holmes of Richmond (Conservative), which sought to "to draw together the need for access to cash and acceptance of cash".[100] Speaking on behalf of the Government, Baroness Penn repeated the Government's view that it did not wish to mandate forms of payment. She added that "in supporting businesses' access to deposit services, that will support people's ability to use their cash as a form of payment."[101]

5.2 Implementing the new arrangements for cash access services

Cash Access Policy Statement

On 18 August 2023, the Treasury published its Cash Access Policy Statement, (as required by section 54 of the Financial Services and Markets Act 2023). This said:

- FCA analysis has found that at least 95% of people in "predominantly urban areas" of the UK live within one mile of cash deposit and

96 HL Deb, 8 June 2023, c1646-1653
97 As above, c1650
98 PBC, 1 November 2022, c203
99 As above, c214
100 HL Deb, 7 March 2023, c120GC-121GC
101 As above, c137GC-139GC

withdrawal services. At least 95% of people in "predominantly rural areas" live within three miles of such services.

- The new arrangements would aim to maintain that situation, but would also take account of such factors as hours of availability of cash services, travel and geographic factors, and demographic information relating to vulnerability.
- The FCA would have the power to designate specific banking providers whose provision would be taken account of to monitor and maintain reasonable access.
- The arrangements will identify services deemed necessary for reasonable access. Any proposed closure of or significant reduction in such services should not happen until alternative arrangements are put in place.
- The Government welcomes "positive action by industry" to assess and respond to local cash needs (as discussed in sections 6.2 and 6.3) and encourages designated firms to engage with then. It notes the "potential benefits" that such initiatives "can provide for ensuring efficient and proportionate solutions".[102]

FCA plans

In anticipation of the Treasury's policy statement the FCA said in July 2023 that it will conduct a full consultation on and cost-benefit analysis of its eventual proposals. Depending on the outcome, it expects new rules to be in place by summer 2024. In the meantime, the FCA expect providers to engage with its expectations regarding proposals to close or reduce services (as discussed in section 3.3).[103]

It also welcomed LINK's current role in reviewing community cash needs and said that it would draw on the experience of that initiative in developing the new arrangements.[104]

But it noted again that the new legal powers would not cover wider banking services. It would however "continue to supervise bank branch and ATM closures or conversions to ensure customers receive good outcomes as required under the Consumer Duty."[105]

Reactions to the proposals

Wider stakeholder reactions have largely welcomed the Treasury's announcement but highlighted its limitations.

102 HM Treasury, Cash Access Policy Statement, 18 August 2023

103 FCA, "Financial Services & Markets Act 2023 gives FCA new powers to protect access to cash", 18 August 2023 (accessed 23 August 2023)

104 FCA, Helping people access cash, 13 July 2023 (accessed 15 August 2023)

105 As above

Tulip Siddiq, the shadow enonomic secretary, said it was “vital” to protect in person banking services as well as access to cash.[106]

The Financial Times reported that Derek French, a campaigner for access to cash, said that the plans were “very vague” and might ignore small businesses’ needs for cash deposit services. He noted that the distances specified depended on the current location of Post Office services and wondered how the new obligations could reasonably be imposed on any specific provider.[107]

Kerry Booth, Chief Executive of Rural Services Network (a Special Interest Group of the Local Government Association and “the national champion for rural services”[108]), noted that many people in rural areas already had to travel more than three miles to get cash. She said that she was awaiting the Treasury’s views on how that issue might be addressed.[109]

Jenny Ross, editor of Which? Money, welcomed the guidance but urged the FCA to “take strong action” to maintain services, notably in response to “specific issues which may arise in local communities.”[110]

Natalie Ceeney, who chaired the Access to Cash Review and now chairs Cash Access UK (see section 6.3), said the distance guidelines would “support the specific needs of different communities”. She also highlighted the banking industry’s efforts to provide replacements where branches or services were closing. UK Finance also said that it supported the initiative and looked forward to further detail.[111]

But Charlie Evans, sales director at NoteMachine, an independent ATM deployer, highlighted “significant cost pressures” to the industry arising from reductions in the interchange fee (as discussed in section 2.1).[112]

5.3 Implementing the new arrangements for wholesale cash distribution

On 18 August 2023, the Bank of England published its initial statement of policy on how it intends to operate its new powers and responsibilities

106 Tulip Siddiq, X (Twitter), 21 August 2023 (accessed 29 August 2023)
107 “Give public and business cash services within 3 miles or be fined, UK banks told”, Financial Times [£], 17 August 2023 (accessed 29 August 2023)
108 Rural Services Network, What is the Rural Services Network? (accessed 29 August 2023)
109 Rural Services Network, “Government promises free access to cash to be protected “particularly” for those living in rural areas”, 21 August 2023 (accessed 29 August 2023)
110 Which?, “Banks could face fines if people can't access cash within 3 miles”, 18 August 2023 (accessed 29 August 2023)
111 “UK banks will have to ensure access to cash within three miles, ministers say”, The Guardian, 17 August 2023 (accessed 29 August 2023)
112 “Banks face fines if they breach rules on access to cash”, BBC, 18 August 2023 (accessed 29 August 2023)

regarding wholesale cash distribution.[113] It also published an overview of points raised by the ten respondents to its earlier consultation on the matter, noting broad agreement with its proposals.[114]

The statement of policy highlighted three principles for firms regarded as having "market significance" under the new arrangements:

- Effectiveness – Firms should maximise "efficiencies" for relevant activities and pay particular attention to the costs involved. This is to help ensure that "cash remains an accessible payment method as long as it is needed."
- Resilience – Firms should maximise operational resilience by having suitable contingency arrangements in place to deal with potential disruptions. This will require thorough scenario planning, among other factors.
- Sustainability – Firms should establish long-term strategic plans and review them regularly.[115]

The Bank said that it would in due course develop codes of practice to support its oversight, notably in information-gathering, third-party arrangements and in cash centre closure and market exit.[116]

In its overview of responses, the Bank highlighted concerns about potential limitations to the flexibility of decisions about cash centre closure, as well as risks associated with potential market exit by participants in the cash-in-transit sector. It said it would consider these matter in its draft codes of practice and consult on these and further arrangements later in 2023.[117]

113 Bank of England, Statement of policy on the Bank's supervisory approach to market oversight for wholesale cash distribution, 18 August 2023
114 Bank of England, Responses to the consultation on the Bank of England's supervisory approach to wholesale cash distribution, 18 August 2023
115 Bank of England, Statement of policy on the Bank's supervisory approach to market oversight for wholesale cash distribution, 18 August 2023
116 As above
117 Bank of England, Responses to the consultation on the Bank of England's supervisory approach to wholesale cash distribution, 18 August 2023

6 Alternative approaches to banking and cash provision

6.1 Post Offices

The Post Office's Everyday banking service offers free service for customers of over 30 providers. Although the specific offer varies by provider, the Post Office offers deposit and withdrawal services, bill-paying and balance-checking services for personal and business customers in all of its 11,500 branches.[118] In 2022, the Post Office said that over £3 billion in cash was deposited and withdrawn each month.[119]

As discussed in section 2.1, the Post Office network is subject to government targets of geographic accessibility, thereby already possibly meeting some of the forthcoming access to cash requirements discussed in section 5.

Citizens Advice reported that 29% of people had used Post Office banking services in 2021, with higher usage rates in rural and remote areas. Older people and those on lower incomes were also more likely to have used the service.[120] But in 2020 it reported that while "overall service standards are largely good", staff didn't always provide customers with the right information and 70% of postmasters surveyed said the pay rates they received did not cover the cost of providing the service.[121]

The contract

The service is underpinned by an agreement between the providers and the Post Office. The third such agreement, Banking Framework 3, came into operation in on 1 January 2023 and will run until 31 December 2025.[122]

The Post Office's own "campaign hub", Save our Cash, has nevertheless highlighted that the framework system "is fragile because it depends entirely on a commercial agreement between the banks and Post Office to support

118 Post Office, Everyday banking (accessed 7 August 2023)

119 Post Office, "Post Office announces continued 'lifeline' for businesses and communities that rely on cash with new banking agreement", 31 January 2022 (accessed 7 August 2023)

120 Citizens Advice, Post: The state of the sector in 2022 , March 2022 (accessed 7 August 2023)

121 Citizens Advice, "Banking on it: How well are post offices delivering cash and banking services?", 30 July 2020 (accessed 7 August 2023)

122 Post Office, "Post Office announces continued 'lifeline' for businesses and communities that rely on cash with new banking agreement", 31 January 2022 (accessed 7 August 2023)

it."[123] Although it welcomed the new agreement, Which? argued that only legislation would guarantee the future of access to cash.[124]

The fragility of the arrangement had become apparent in 2019. Although all the major banks agreed to pay the Post Office more (see below), Barclays initially chose to exclude cash withdrawals from its part of the agreement, leading to strong criticism from a range of stakeholders.[125] It reversed its decision within weeks, saying that its involvement was "crucial at this point to the viability of the Post Office network."[126]

Treasury Committee review

The Treasury Committee had scrutinised the first formalised arrangement between the banks and the Post Office in 2019 as part of its inquiry into consumer access to financial services.[127] While the Committee commended "the positive role that the Post Office plays in providing basic banking services to customers, especially in more rural communities", it raised some serious concerns about relying on the network, in particular for vulnerable consumers. For instance, it noted that staff were not trained in more complex approaches; nor could they offer adequate privacy. It also noted that public awareness of the services available was low.[128]

More fundamentally, the Committee argued that the existing arrangements meant that the State was subsidising "the big six banks' lack of a branch network." It recommended that the Post Office, along with the Department for Business, Energy and Industrial Strategy and the Treasury, should renegotiate the contract.[129]

The Committee also viewed the Post Office's offering as more akin to an ATM than to a replacement for a bank branch. It recommended a new hub model for the service, particularly in areas where the last bank had closed, with proper training and compensation for postmasters to make the approach viable.[130]

In its response, the Government noted that the 2017 agreement had led to the largest expansion of face-to-face banking in a generation". While it accepted that the services offered were more limited than in traditional bank branches, the agreement preserved "essential banking facilities…in as many communities as possible." And it noted that a new framework, due to come

123 Saveourcash.co.uk, "Access to cash is worth a great deal" (accessed 7 August 2023)
124 Which?, "Post Office to continue to offer banking services for 30 banks and building societies", 4 February 2022 (accessed 7 August 2023)
125 BBC, "Barclays blow to Post Office banking", 8 October 2019 (accessed 7 August 2023)
126 BBC, "Barclays U-turn on cash access in post offices", 24 October 2019
127 Treasury Committee, Consumers' access to financial services, HC1642 , 13 May 2019
128 As above, p31-32
129 Treasury Committee, Consumers' access to financial services, HC1642, 13 May 2019, p32
130 As above, p31-32

into force in 2020, would increase individual fees, while increased transaction volumes overall would boost the Post Office's income.[131]

While the Government believed that there were opportunities to develop Post Offices "as a channel for cash access" it said that it would be "inappropriate" for it to intervene in what it considered to be commercial decisions regarding the development of banking hubs.[132]

6.2 Community Access to Cash Reviews

There's more information about how LINK assesses need in the Commons Library briefing Banking, investments and credit FAQs.

As part of its preparation to transfer oversight of bank branch closures from the industry to the FCA, UK Finance announced in December 2021 that LINK would independently assess the needs of "any community that faces the closure of a core cash service, such as a bank branch or ATM" and would "commission services to meet the cash needs of the community as a whole – not just the customers or members of one bank or building society."[133]

This system is the Community Access to Cash Review. As set out on LINK's website, such a review can be launched when:

- Bank or building society branches intend to close. LINK's analysis allows providers to meet the assessment requirements set by the FCA (as discussed in section 3.3).
- Communities ask LINK to review cash service provision. LINK invites "members of the public, elected officials, and community groups" to request an access to cash review online if they believe their needs are not being met.
- Participating members of LINK ask for such a review.[134]

What might the review recommend?

If LINK finds that the community needs new cash facilities, it might recommend new ATMs (which it funds), new cash deposit services, or a banking hub (see below).[135]

131 Treasury Committee, Consumers' access to financial services: Government Response to the Committee's Twenty-Ninth Report, 5 July 2019

132 As above

133 UK Finance, "Pivotal moment as banks, consumer groups, Post Office and LINK join forces to help protect cash services" (press release), 15 December 2021 (accessed 27 July 2023)

134 LINK, Request Access to Cash Review (accessed 7 August 2023)

135 LINK, How we assess access to cash in communities (accessed 7 August 2023)

Other LINK initiatives

Protected ATMs and financial inclusion programme

As discussed in section 2.1, LINK sets the rate that banks pay when customers use another provider's ATM. LINK pays more for use of "protected" ATMs – that is, when it is 1km or more away from another free ATM—and for the use of publicly accessible ATMs that are used fewer than 4,500 times a month. The payment is up to £2.75 per transaction.[136]

LINK monitors the network each month. If any of these ATMs close, LINK will replace them with a free alternative. It had replaced 49 ATMs by the end of 2022.[137]

High street commitment

LINK will guarantee access to cash for every UK high street that has five or more cash-dependent retailers. It monitors every high street in the country, and regularly assesses whether there is free cash access within 1km. In 2022, 99.9% of high streets had free access to cash through either a Post Office or ATM within 1km. If a high street does not have that access, LINK can directly fund a new free ATM to serve it.[138]

6.3 Banking hubs

Banking hubs give customers the opportunity to deal with more complex banking issue. Staff of participating providers attend on different days as "community bankers".

A banking hub is a site that offers people physical access to banking services from a range of providers. They are a joint venture funded by Cash Access UK, which is in turn a not-for-profit company established by ten major banks and building societies to provide shared services.[139]

The Post Office currently operates hubs. They provide the deposit, withdrawal and bill-paying services for customers of the 30 or so providers involved in its Everyday banking service (as discussed in section 6.1).[140] But in addition, in banking hubs, a "community banker" allows customers of individual members of Cash Access UK to meet members of staff to discuss more complex banking matters. Those staff typically attend on a rotating basis, and the service is usually staffed by the providers with most customers in the area.[141]

Banking hubs emerged as a stand-out success from the Community Access to Cash pilots run from late 2020. The final report from that initiative highlighted that the hubs had received remarkably high satisfaction rates from both personal and business customers. Part of this was because they operated in

136 LINK, Interchange (accessed 14 August 2023)
137 LINK, Monthly ATM Footprint Report (accessed 17 August 2023)
138 LINK Consumer Council Annual Report 2022 (pdf), p4 (accessed 23 August 2023)
139 Cash Access UK, What we do (accessed 14 August 2023)
140 Post Office, Banking hubs (accessed 14 August 2023)
141 Cash Access UK, What we do (accessed 14 August 2023)

dedicated premises and offered customers privacy and space.[142] In doing so they overcame some of the concerns previously raised by the Treasury Committee about the Post Office's provision of banking services (see section 6.1).

LINK maintains a list of open banking hubs and recommendation for new ones via its Bank Branch Closures webpage.

By 6 September 2023, seven banking hubs had opened and LINK had recommended that 83 more should be set up.[143]

Are hubs taking too long to open?

There has been some frustration with the time taken to set up new hubs. In November 2022, Nikhil Rathi, the Chief Executive of the FCA, said he wanted the provision of banking hubs and other new services to be "accelerated".[144] Age UK said it was concerned about delays between branches closing and hubs opening.[145]

In response, Natalie Ceeney, who chaired the Cash Action Group that had promoted the idea of the hubs, noted the "complexities" of bringing the providers involved together".[146] Cash Access UK (whose very establishment would seem to respond to that difficulty) has set out what it says can be a "challenging" process to find and prepare a building for the new hub. It estimates that on average it takes 12 months to open one.[147]

Relationship to wider regulatory requirements

As discussed in section 5, the provisions in the Financial Services and Markets Act 2023 for access to cash do not extend to wider banking services.

Nevertheless, in rejecting the Opposition's proposal to give the FCA powers to require banking hubs to be established, the Economic Secretary suggested that it was an opportunity for the industry to prove that it could deliver.[148]

As discussed in section 3.3, the FCA's expectations relating to the closure of services reflect some of the concerns that LINK's Community Access to Cash Reviews and the establishment of banking hubs set out to address.

142 Community Access to Cash Pilots, Community Access to Cash Pilots: Final report, December 2021, p62-72 (accessed 14 August 2023)
143 LINK, Bank Branch Closures (accessed 26 September 2023)
144 FCA, Rolling regulation forwards, 16 November 2022 (accessed 14 August 2023)
145 Age UK,"As bank branches continue to close, a new Age UK report reveals that 4 in 10 over 65s with a bank account do not manage their money online", 3 May 2023 (accessed 14 August 2023)
146 "UK bank hubs offer lifeline to those struggling in a cashless society", Financial Times (£), 8 December 2022 (accessed 14 August 2023)
147 Cash Access UK, What we do (accessed 14 August 2023)
148 HC Deb, 7 Dec 2022, c393-394

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