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Ymateb gan Money & Pensions Service

National Assembly for Wales  
Economy, Infrastructure and Skills  
Committee

Access to Banking

Evidence from Money & Pensions  
Service

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## About Us

The Money and Pensions Service exists to help people make the most of their money and pensions. We were created under the Financial Guidance and Claims Act 2018, bringing together the Money Advice Service, The Pensions Advisory Service, and Pension Wise, under one body.

The Money and Pensions Service is an Arms Length Body, sponsored by the Department for Work and Pensions, with a vision of “Everyone making the most of their money and pensions” by ensuring that people throughout the UK have guidance and access to the information they need to make effective financial decisions over their lifetime. We deliver this across;

- Pensions guidance - to provide information to the public on matters relating to workplace and personal pensions.
- Money guidance - to provide information designed to enhance people's understanding and knowledge of financial matters and day-to-day money management skills.
- Debt advice - to provide people in England with information and advice on debt.
- Consumer protection - enabling us to work with Government and the Financial Conduct Authority (FCA) in protecting consumers.
- Strategy - work with the financial services industry, devolved authorities and the public and voluntary sectors to develop and coordinate a national strategy to improve people's financial capability, help them manage debt and provide financial education for children and young people.

We are funded by levies on both the financial services industry and pension schemes.

## 1. Executive Summary

1.1 We welcome the Economy, Infrastructure and Skills Committee inquiry into access to banking in Wales. As the statutory body for financial capability, we continue to lead the work with financial services firms, the third sector, government and regulators to deliver the Financial Capability Strategy for the UK. In Wales we have been working with Welsh Government as a member of the Ministerial Financial Inclusion Steering Group and a member of the National Advice Network. Welsh Government are a member of our Wales Forum and Financial Capability Steering Group, which meets quarterly.

- 1.2 We have a Financial Capability Strategy for Wales linked to the UK which has been embedded into the Welsh Government's Financial Inclusion Strategy. The Financial Capability Strategy for Wales sets out the interventions identified by and delivered in partnership with stakeholders and practitioners from across Wales to improve the financial capability of the Welsh population.<sup>1</sup>
- 1.3 We believe that being able to access appropriate banking and financial services is key to financial capability. This is particularly important in rural areas, including parts of Wales, where reducing access to the physical infrastructure of banking services can be particularly challenging when access to neighboring branches may be difficult and costly in both time and money, and where digital banking services can be impeded by poor broadband coverage. The Money and Pensions Service 2018 UK Financial Capability Survey shows that levels of financial capability across the UK remain stubbornly low, with many measures being markedly lower in Wales, so that all efforts must be to reduce this gap, and any potential negative impact on financial capability should be understood and avoided.
- 1.4 The Money and Pensions Service has been focused on working to support levels of financial capability in Wales, through our Wales Forum<sup>2</sup> through a range of interventions to pilot alternative ways for consumers to build savings and money management, developed in partnership with local organisations. This includes engagement with the New Curriculum for Wales, as well as projects to develop financial capability in children and young people.
- 1.5 We have focused our response on areas in which we can contribute our knowledge and expertise.

## **2 The current position regarding access to banking services in Wales, to include issues relating to financial inclusion and digital inclusion**

- 2.1 The Financial Conduct Authority's 2017 report on the Financial Lives of Consumers Across the UK<sup>3</sup> includes useful insights into the current access to banking services across the UK, reporting that the vast majority (97% across the UK but 96% in Wales) of the population hold an account they can use for day-to-day payments and transactions and that 1.3 million UK adults are unbanked. They report that 6%, 70,000, of adults in Wales are unbanked, more than the nation's 5% share of the UK population.

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<sup>1</sup> <https://www.fincap.org.uk/en/articles/wales-strategy-detail>

<sup>2</sup> <https://www.fincap.org.uk/en/articles/wales-forum>

<sup>3</sup> <https://www.fca.org.uk/publication/research/financial-lives-consumers-across-uk.pdf>

2.2 The Payment Accounts regulations 2015 set out to improve access to bank accounts and support financial inclusion by:

- Improving the transparency and comparability of fees related to payment accounts
- Facilitating switching of payment accounts by requiring banks to offer customers a switching service between payment accounts.
- Requiring the nine largest providers of current accounts in the UK (known as the CMA9) to offer basic bank accounts. Her Majesty's Treasury report annually on how this has been implemented with the last report published up to June 2018<sup>4</sup> demonstrating how the CMA 9 are complying with this.

2.3 The Money and Pensions Service has had a significant role to support the implementation of these regulations, with bilingual information on our website about basic bank accounts and a separate bank account (known as payment accounts) [comparison tool](#)<sup>5</sup> to encourage consumers to compare accounts and secure the account that is most suitable for them.

2.4 Recognising the importance of access to bank accounts for consumers to manage their money effectively, the issue of bank branch closures is also important. Wales has been particularly affected by bank branch closures as whilst over 600 bank branches closed in Britain between April 2015 and April 2016, five of the top ten areas losing branches nationally were in Wales: Powys, Denbighshire, Gwynedd, Conwy, and Carmarthenshire.<sup>6</sup> A BBC investigation found that large banks were three times more likely to shut a branch in Wales than in the South East of England or London, when closures were averaged out for the size of their populations<sup>7</sup>.

2.5 The issue of bank branch closures has often been highlighted in relation to its impact on rural areas. A Welsh Conservatives debate on 'Rural Communities' in the Senedd in October 2015 highlighted cross-party support for keeping banking services in rural areas and concern about the effects of bank closures on rural communities<sup>8</sup>. Several debates, in both the Senedd and

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/767115/basic\\_bank\\_accounts\\_july\\_2017\\_to\\_june\\_2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767115/basic_bank_accounts_july_2017_to_june_2018.pdf)

<sup>5</sup> <https://www.moneyadvice.service.gov.uk/cy/tools/cymharu-ffioedd-a-chostau-cyfrifon-banc>

<sup>6</sup> BBC News, 'Banks close more than 600 branches over the past year', (13th May 2016), available at: <http://www.bbc.co.uk/news/business-36268324>

<sup>7</sup> Reuters, 'Britain's poorer communities, hit hardest by bank closures, may face shutout', (20th June 2016), available at: <http://uk.reuters.com/article/uk-britain-banksbranches-idUKKCNOZ60BP>

<sup>8</sup> Welsh Assembly, 'Rural Communities', (14th October 2015), available at: <http://www.assembly.wales/en/bus-home/pages/rop.aspx?meetingid=3461&language=en&assembly=4&c=Record%20of%20Proceedings&startDt=14/10/2015&endDt=14/10/2015#244561>

Westminster<sup>9</sup> express concern that closures are particularly targeted on poorer areas where the economic value of transactions is low, and partly set off by the opening of revamped branches in popular locations to attract and keep young, comfortably-off customers<sup>10</sup>.

- 2.6 We are particularly concerned about the impact of more limited access to bank branches on people's financial capability- both in terms of restricting their access to banking and financial services, and subsequent restrictions on access to cash.
- 2.7 The recent report of the Independent Access to Cash Review<sup>11</sup> highlights the risk to rural communities when bank branches close and people no longer have easy access to cash. The impact is exacerbated by the barriers to alternatives such as online banking as the review found that rural communities are among the slowest to move to online banking, often due to limited access to broadband, and whilst broadband reach is increasing, many consumers still receive a poor fixed broadband experience, with significant differences between urban and rural areas. Ofcom define a decent download speed as 10 Mbps and while 99% of urban premises benefit from this performance, only 85% of rural premises can<sup>12</sup>.
- 2.8 Rural areas also have a larger proportion of lower income, older and more vulnerable users, who still prefer or need to use cash. As cash usage falls, the facilities which support it – Post Offices, bank branches and ATMs – are also increasingly diminishing as they become commercially unviable. We have seen the greatest prevalence of closures of ATMs and branches in remote and rural areas because activity levels and volumes tend to be lower than in busy urban areas and this can undermine their viability for the bank concerned. This makes it harder for locals to access cash and can increase the costs for local retailers using cash – a further driver for them to focus on other payment methods.
- 2.9 This concern about access to cash, particularly on rural communities is echoed throughout the UK. HM Treasury published its response to the cash and digital payments call for evidence<sup>13</sup>, with findings that while the use of cash has declined in recent years, with a rise in digital payment methods, it remains a dominant form of payment for many people across the country. It is estimated that around 2.2 million people in the UK are still reliant on cash, with the elderly, vulnerable and those in rural communities likely to be hardest hit by a decline.

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<sup>9</sup> Bank Branch Closures ; Briefing paper for House of Commons, Oct 2018  
<https://researchbriefings.files.parliament.uk/documents/SN00385/SN00385.pdf>

<sup>10</sup> Move your Money; Abandoned Communities: the crisis of UK bank branch closures and their impact on local communities; July 2016

<sup>11</sup> <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

<sup>12</sup> Ibid.

<sup>13</sup> <https://www.gov.uk/government/consultations/cash-and-digital-payments-in-the-new-economy>

2.10 Access to cash is also being undermined by changes to the regulatory framework surrounding ATM fees so that ATM operators are imposing charges on cashpoint transactions at an alarming rate. Guardian Money reported on the 1<sup>st</sup> of May<sup>14</sup> a Which? Report that 1700 ATMs had started charging for transactions in the first three months of the year alone. The fixed fees penalise lower income households who are far more likely to withdraw smaller sums more frequently and therefore pay disproportionately higher fees. However, LINK the UK's largest cash machine network, has committed to replace closed ATMs in rural or remote areas when there is no free ATM within 1 kilometre or Post Office branch available. LINK has also recently implemented new 'super premiums' to further safeguard free-to-use ATMs in remote and deprived areas.

2.11 Our 2016 report into 'The financial capability of children, young people and their parents in Wales'<sup>15</sup> found that children and young people's financial capability is enhanced by seeing their parents using cash and that many young people were either unbanked or lacked confidence about using their bank account, particularly so if this had not been modelled by parents.

2.12 The measures announced by HMT build on work to ensure cash remains accessible for those who need it. This includes investing over £2 billion since 2010 in the Post Office network to support customers in accessing banking services. Currently, 99 per cent of personal customers and 95 per cent of small business customers can carry out their everyday banking locally at one of the Post Office's 11,500 branches. However, even this remains a concern as Wales has also seen the largest percentage falls in the number of post offices<sup>16</sup> alongside Yorkshire and the Humber regions of England.

2.13 Underpinning financial inclusion is the need for digital inclusion, which can provide access to a wider range of financial services and products, including some not available in local bank or building society branches. Digital capability is becoming increasingly important for people to access financial services and money management tools. However, as the Access to Cash review<sup>17</sup> highlights, digital infrastructure can be a significant barrier, particularly for those living in remote or rural areas. They can find digital access difficult through a lack of broadband or reliable 4G mobile data coverage. The review goes onto to report that of the 5.3m adults who

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<sup>14</sup> <https://www.theguardian.com/money/2019/may/01/uk-free-atms-charges-which-cash-machine-fees>

<sup>15</sup> <https://www.moneyadvice.service.gov.uk/en/corporate/financial-capability-of-children--young-people-and-their-parents-in-wales>

<sup>16</sup> <https://researchbriefings.files.parliament.uk/documents/SN02585/SN02585.pdf>

<sup>17</sup> <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

never use the internet, 3.7m (70%) live in rural areas<sup>18</sup>. The National Survey for Wales (2016-17) showed that 15% of adults do not regularly use the internet in Wales with older and disabled people, those with limited qualifications and those on lower incomes still the least likely to use digital technologies.

2.14 The Committee will be aware that this issue has attracted concern from across the political spectrum, with Assembly Members and MPs highlighting the specific problems in relation to Wales-based small firms and challenging the idea that internet banking can fill the gap when mobile reception and internet access are often particularly poor in areas affected by bank branch closures<sup>19</sup>.

### **3 Impact on financial capability**

3.1 Financial capability is defined as a person's ability to manage money well, both day to day and through significant life events, and to handle periods of financial difficulty. It is driven by personal skills, knowledge, attitudes and motivations, and helps people achieve the best possible financial well-being.<sup>20</sup>

3.2 The Money and Pension Service's Financial Capability Survey is a nationally representative survey of adults living in the UK. The questionnaire covers the building blocks of financial capability:

- current and longer-term financial wellbeing.
- day-to-day behaviours like managing credit, active saving and keeping track of spending.
- planning behaviours like pension saving and building resilience against expected and unexpected life events.
- enablers and inhibitors like confidence, sense of control, financial numeracy and engagement with money information, advice and guidance.

3.3 We ran the survey in 2015 and again in 2018 and found that whilst financial capability remains stubbornly low across the UK, measures of poor financial capability are even more marked for Wales:

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<sup>18</sup> <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

<sup>19</sup> Hansard, 'Bank branch closures', (30th June 2016), available at: <http://hansard.parliament.uk/commons/2016-06-30/debates/16063040000002/BankBranchClosures>

<sup>20</sup> MAS (2015) Financial Capability Strategy for the UK



- There are more people who report having less than a £100 in savings and investments (27% Wales average vs. 22% UK average) – a key determinant of financial resilience to financial shocks or events.
- There are more people who feel they cannot determine what happens to their lives when it comes to money (67% Wales vs. 63% UK average).
- There are fewer people who report having financial goals for the next five years (48% Wales average vs. 53% UK average).

3.4 Putting money aside regularly and building an emergency savings buffer is an important financially capable behaviour. Our research has found that nearly three-quarters of households receive an unexpected bill each year, with a typical cost of £200-400<sup>21</sup>. Without a savings buffer, households have lower resilience to withstand such an unexpected bill or an income shock and may have to access high cost credit to meet this obligation.

3.5 Access to affordable credit and people’s ability to make informed financial decisions is key to day-to-day money management – an important aspect of financial capability. Alongside savings, the responsible use of credit is a vital way for UK consumers to make bulky purchases and smooth income and expenditure. Our evidence shows that of the financially capable behaviours that people exhibit, it is managing credit that can have the greatest impact on their financial wellbeing.

3.6 Analysis of our UK Financial Capability Survey 2018 shows that 7% of UK consumers use credit, an overdraft or borrow money to buy food or pay bills, and a further 10% do so fairly often. Among the over-indebted population, 44% use credit to pay for food or bills at least fairly often, and 21% do so very often.

3.7 Banks, in their role as providers of savings and credit products, play a vital role in the development of financial capability and more vulnerable consumers are more likely to engage with their bank over such matters face to face. We are concerned that a reduction in banking services could undermine this access to savings and credit, and further undermine financial capability.

3.8 Another key part of our work to build the financial capability of the UK population lies in educating children and young people to be more able and confident from an early age to manage money. One of our key interventions piloted in Wales, which has direct links to the Well-being of Future Generations (Wales) Act 2015 and delivered through Flying Start and Families First relies on parents handling money with their children. A scarcity of cash, or where access to cash is costly and deters people from acquiring it, will mean that interventions such as these are limited.

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<sup>21</sup> Money Advice Service (2016) Closing the Savings Gap

3.9 Furthermore, greater barrier to accessing bank account for less digitally engaged consumers could result in greater likelihood of being affected by the loyalty penalty. A loyalty penalty is the cost of being a long-standing customer compared to a new customer receiving the same product or service, and was the subject of a Citizen’s Advice super complaint<sup>22</sup> to the Competition and Markets Authority in September 2018. Our Financial Capability Survey found that people who report low confidence making decisions about financial products and services are less likely to have taken any other actions to check they were getting the best deal in the past 12 months.

3.10 Citizens Advice research identified that:

- 47% of UK consumers of home insurance are paying a loyalty penalty.
- The cost of the loyalty penalty in the home insurance market alone is £708,500,000 per year<sup>23</sup>.
- 32% of UK consumers still renewed their policy without checking for better deals first and that vulnerable consumers are particularly likely to be penalised by the loyalty penalty.

3.11 We also believe that access to banking can have an influence on the poverty premium. The poverty premium describes the situation where households or individuals in financial difficulty with low levels of financial capability and therefore vulnerable or in vulnerable circumstances, pay more for everyday goods and services. For example, the highest charges for gas and electricity are paid by those families who have a prepayment meter or who pay by standard credit. Prepayment meters are often installed for families on a low income who want to budget weekly or have been in debt<sup>24</sup>.

3.12 The Personal Finance Research Centre identified that the biggest contributors to the poverty premium are:

- Utility payments
- Insurance
- Higher-cost credit
- Grocery shopping (difficulty accessing good value shops).
- Access to money (use of fee-charging ATMs, cheque-cashing and pre-paid cards)<sup>25</sup>.

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<sup>22</sup> [https://www.citizensadvice.org.uk/Global/CitizensAdvice/Consumer%20publications/Super-complaint%20-%20Excessive%20prices%20for%20disengaged%20consumers%20\(1\).pdf](https://www.citizensadvice.org.uk/Global/CitizensAdvice/Consumer%20publications/Super-complaint%20-%20Excessive%20prices%20for%20disengaged%20consumers%20(1).pdf)

<sup>23</sup> Citizens Advice, The insurance loyalty penalty: unfair pricing in the home insurance market, November 2017

<sup>24</sup> <https://www.money.co.uk/article/1004058-how-do-i-reclaim-prepay-energy-meter-overpayments.html>

<sup>25</sup> [http://www.bris.ac.uk/media-library/sites/geography/pfrc/pfrc1710\\_making-the-poverty-premium-history.pdf](http://www.bris.ac.uk/media-library/sites/geography/pfrc/pfrc1710_making-the-poverty-premium-history.pdf)



3.13 The Welsh Index of Multiple Deprivation (WIMD)<sup>26</sup> is the official measure of deprivation for areas of Wales. The WIMD is made up of eight separate domains of deprivation: income; employment; health; education; housing; access to services; environment; and community safety. Access to banking and financial services links into the indicator of access to services, that captures deprivation arising from a household's inability to access a range of services considered necessary for day-to-day living. This covers both material deprivation (for example not being able to get to the post office) and social aspects of deprivation (for example not being able to attend afterschool activities).

#### **4 Addressing financial capability in Wales**

4.1 The Money and Pensions Service is developing a number of projects to support the capability of working age people, and as part of our 2019/20 Business Plan, we are exploring the potential of a local area 'financial capability' pathfinder with a rural Welsh Local authority. We believe bringing together a range of local delivery partners in a consortium, led by a 'backbone' organisation can help embed money-management support for harder-to-reach people. This will build on the existing services that form local support systems and we are looking to pilot this local concept over the coming year.

4.2 The pathfinder's objectives will to support financial resilience for lower income people through regular savings, and reduced levels of people using credit for everyday spending. This could deliver an alternative for local people which does not rely so heavily on incumbent banks for access to financial services.

#### **5 Credit unions as alternative routes to accessing financial products and services**

5.1 The concept of a community bank in Wales is an interesting one to explore, with the potential to work alongside the existing infrastructure of banks and banking services delivered through post offices. This would need to also work alongside the existing support for the thriving credit union sector in Wales that offers opportunities for member to save and borrow, building financial resilience and capability.

5.2 There are 83,000 members of Credit Unions across Wales and £422,334 of Welsh Government funding per annum has been allocated to credit unions to support financial inclusion activities,

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<sup>26</sup> <https://statswales.gov.wales/Catalogue/Community-Safety-and-Social-Inclusion/Welsh-Index-of-Multiple-Deprivation/WIMD-Indicator-Analysis>



including supporting marketing activities such as a national PR, Digital Marketing and Social Media Programme. This marketing campaign will be funded until March 2020.

- 5.3 A further £1 million (£500k per annum) over two years of financial transactions capital funding has also been agreed by Welsh Government to support the sustainability of credit unions. This will help boost the capital of credit unions and ensure that they meet the mandatory capital to asset ratios set by the regulator.