

Scottish Affairs Committee

Oral evidence: [Access to Financial Services](#), HC 1996

Wednesday 1 May 2019

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[Watch the meeting](#)

Members present: Pete Wishart (Chair); Deidre Brock; David Duguid; Hugh Gaffney; John Lamont; Tommy Sheppard; Ross Thomson.

Questions 224 - 286

Witnesses

[I:](#) Dave Pickering, Chief Executive, Lending Standards Board; Liz Thompson, Head of Compliance, Lending Standards Board; Chris Hemsley, Co-Managing Director, Payment System Regulator; and Matthew Cherry, Chief Economist, Payment System Regulator.

Written evidence from witnesses:

- [Payment Systems Regulator](#)

Examination of Witnesses

Witnesses: Dave Pickering, Liz Thompson, Chris Hemsley and Matthew Cherry.

Q224 **Chair:** Thank you very much for helping us out today with our short inquiry into access to financial services in Scotland. For the record, please tell us who you are, who you represent and anything by way of a short—with the emphasis being on short—introductory statement. We will start with you, Mr Pickering.

Dave Pickering: Thank you, Mr Chairman. I am Dave Pickering. I am the Chief Executive of the Lending Standards Board. The Lending Standards Board, as I think many of you will know, is a self-regulatory body. Its specific remit in relation to this inquiry is the oversight of the Access to Banking Standard, which we explained to you about 12 months ago. Since then we have undertaken a reasonable amount of work, which we can outline to the Committee today.

Liz Thompson: I am Liz Thompson, Head of Compliance at the Lending Standards Board. My remit involves completion of the oversight plan for the organisation, which, as Dave has already alluded to, includes the Access to Banking Standard. I have been heavily involved in ensuring that that piece of work is rolled out. We go out to see the various firms involved in closing a number of branches.

Chris Hemsley: Chris Hemsley. I am the interim Co-MD of the Payments Systems Regulator.

Matthew Cherry: I am Matthew Cherry. I am the Chief Economist of Payment Systems Regulator.

Chair: We are grateful.

Chris Hemsley: May I?

Chair: Yes, that was your opportunity there.

Chris Hemsley: I missed it. The Payment Systems Regulator, as you know, is the independent regulator that oversees the UK's payment systems. In the context of this inquiry, that particularly includes our regulation of the LINK network, which is responsible for the vast majority of ATMs across the UK. It is worth stressing that our role here, in the context of this current inquiry, is that we are committed to ensuring that people have good access—free access—to cash through that network. Our role is limited particularly to the ATMs in that respect.

Q225 **Chair:** Thank you. First, I have an observation. Maybe this is a matter for Mr Pickering and Ms Thompson. There does seem to be a variety of different regulators when it comes to the particular issue of availability of cash and who is responsible for things like bank closures. Why can't we have a single regulator with clear and distinct responsibilities for access



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to cash—somewhere people could go if there are going to be bank closures, which is something we have all experienced within our constituencies? Why is it all diffuse, separate and complicated?

Dave Pickering: Of course, we have read the recent Access to Cash Review that Natalie Ceeney oversaw. Our view of that is very much that the regulatory regime has evolved over time. Clearly our specific remit in it is quite tight; it is just around the branch closure programme, and only then once the closure has been announced. It is very much around the communication to the customer and the standards that the banks need to apply.

Q226 **Chair:** That is one of the most frustrating aspects that we have heard about in this inquiry. There is no consultation before a branch is to be closed, so communities do not get their say about what they feel and how much they value the local branch. That seems to be at the end of the process. What sort of value does that bring, when it is all done and concluded?

Dave Pickering: When we come on to discuss the work that we have undertaken in the past 12 months or so since we undertook the oversight on the standard, the standard may be quite helpful in outlining some of the advantages and some of the good practice that we have identified and which we have been able to share with the banks as we have gone through that process. What the standard does is to give a level of consistency of treatment. In many cases, banks have gone beyond what is in the standard. In reality, the standard has helped.

What we are very much aware of in relation to the work that we have done is that the banks do undertake a lot of analysis and do often visit the community, albeit with their local business area leads, to understand the impact that closure might have on the community. That feeds into their impact assessments. I do believe that quite a lot does go on, albeit that there is no form of consultation with the wider stakeholder community and consumers before the closure, which could present some difficulties, such as alerting branch staff and so on.

Q227 **Chair:** What is the relationship between both of you, as regulators? Do you work together? Is there a sense that you are working in the same direction when it comes to these sorts of issues?

Dave Pickering: I will go first. From our perspective, we have a very specific remit with regard to branch closures. The PSR's remit is much broader. I will let Chris talk to that.

Q228 **Chair:** We are getting a sense of how this works together, but it is still bewildering. Mr Hemsley will clarify things for us.

Chris Hemsley: The Payment Systems Regulator oversees the LINK cash machine network, and that is our particular focus, given the current issues. In doing that, we need to keep a close eye on the issue of wider access to financial services and bank branches. When a bank branch



closes, that can be a trigger for the ATM to close as well, and that is the particular interface where we are focused. There also are other regulators in this space, and as you would expect, we work very closely with the Lending Standards Board but also the Financial Conduct Authority and the Bank of England.

Q229 **Chair:** Would you support the idea that for access to cash there should be one clear regulator with statutory powers?

Chris Hemsley: We have very clear powers over the ATM network and we work very effectively with our fellow regulators. Looking forward, if some change is needed to the way that Parliament has set up the regulators, ultimately that is a matter for Government. Sitting here today, however, we have the powers we need to oversee the ATM network.

Q230 **Chair:** We will explore that and go a bit further with you in the course of this session.

Mr Hemsley, I do not know if you have seen the news that emerged this morning from Which? that shows, I think, that we have lost more than 1,000 free-to-use ATMs in the course of the past year and fees of at least 95 pence per withdrawal have been imposed on nearly 1,700 ATMs. What on earth is going on?

Chris Hemsley: I completely understand the concern here. Cash machines are the main way people access cash, so it is right and proper that we look at the estate of ATMs and what is happening. It is worth saying that there is a bit of context here. There has been a growth in the number of ATMs in Scotland and across the UK.

Q231 **Chair:** No, there has not, according to Which?.

Chris Hemsley: No, sorry; we have seen a period over the last decade where there has been a quite significant increase in the number of ATMs and the number of free-to-use ATMs. Over that period, cash use has started to decline. What we are seeing is that there is pressure on some ATMs now as cash use declines. The important thing for us is to make sure that as that situation develops, LINK is taking the steps it needs to take, on the back of our direction, to protect the geographic spread of free-to-use ATMs. That is our particular focus.

Q232 **Chair:** We perhaps get the case for withdrawing ATMs and making fewer available, because of what you say, but why are they now putting fees of 95 pence per transaction—according to Which?—on 1,700 ATMs? Some of us around this table represent really disadvantaged communities where cash is still an absolute prerequisite and requirement, and they are now being charged for this, where they were not being charged a year or so earlier.

Chris Hemsley: I completely understand the concern. The thing that we are looking for LINK to maintain is that broad geographic spread of free-



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to-use ATMs. There will be times when individual ATMs open and close or switch to pay-to-use, but the thing we are looking at—

Q233 **Chair:** What can you do? You are the regulator. I do not know if you are happy about this—I am not getting an expression of that, I am suspecting that you are not particularly happy about what you are hearing just now—but what can you do to try to reverse or address this?

Chris Hemsley: Talking about what we have done, in the last year we used our powers to issue what is called a specific direction against LINK. This placed a number of requirements on LINK to protect the geographic spread of free-to-use ATMs. The direction had a number of parts, which I can briefly touch on. It required LINK to be clear about its commitment. LINK gave evidence to this Committee and talked about the so-called one kilometre rule. Our direction required LINK to be clear about the nature of that commitment but, importantly, also to take action. The direction we placed on LINK required them to take action and to keep the situation under review. The direction also introduced an obligation on LINK to publish what was happening, to improve transparency and also to ensure that they were working closely with us to make sure, if that situation changes as the market for ATMs changes over time, that they take further steps if that is what is necessary.

Chair: I know Mr Lamont has to leave us for a short time so we will bring him in just now, although Mr Sheppard does want to return to some of these issues later. Mr Lamont.

Q234 **John Lamont:** The number of ATM closures since the fee reduction was introduced is much higher than what LINK had initially projected. Are you satisfied with the modelling that LINK used to project the number of closures? Have you had any discussions with them about how they might be able to improve that modelling in future?

Chris Hemsley: It is right that when LINK was taking these decisions and when we asked them to be clear about the impact of these fee reductions, they reached a view on what they were trying to achieve and what they thought would happen. We have to be fair to LINK; it is difficult to forecast in this area. The provision of cash machines ultimately depends on a quite wide range of factors, including how people are making use of cash machines and the commercial decisions of providers. While we are working with LINK and talking to them about how they do their forecasts and how they take their decisions, we are particularly focused on that subset of areas and ATMs that are protected—those ATMs that are particularly important to maintain. It is worth making the distinction between the general picture across the UK and across Scotland and the ATMs that we are particularly focused on, where that free-to-use ATM is particularly important to the local community.

Q235 **John Lamont:** So the answer to my question is that you think LINK has a tough job, but you are satisfied that the projections were accurate?



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Chris Hemsley: We are satisfied that the projections were reasonable in the context of the decision they took, and of course we would expect them to learn from what they see from the market today. I have been involved in forecasting and it can sometimes be a bit of fool's errand. It is important that when you do those forecasts, you review them, improve your methodology, learn from what you have seen in the market and react accordingly. That is what we want LINK to do.

Q236 **John Lamont:** Are you confident LINK will be doing that in future when any further changes come in?

Chris Hemsley: We expect LINK to use the best approaches they can use, yes.

Q237 **Tommy Sheppard:** I am trying to clarify the extent of your powers. Do you just set the policy, review it and tell LINK that they are not meeting their policy objectives, or in extremis can you say, "Stop charging for that machine"?

Chris Hemsley: Parliament has given us a set of objectives, set out in statute. We apply those objectives to what are referred to as designated payment systems. LINK is one of those payment systems. When a payment system is designated—for example, LINK—we have the ability to issue directions, basically to place requirements on people to do things.

Q238 **Tommy Sheppard:** Are these requirements just in the abstract or can you say, "We need a machine in this area to fulfil the requirement"?

Chris Hemsley: The requirements can be general or they can be quite specific. We could require LINK, as we have done, to take a quite broad range of actions to address an issue, or we could be very specific, in principle. What we are focused on now is making sure that LINK are taking the necessary steps in all of those local areas. Ultimately, we have the ability to ensure that LINK are complying with the directions that we have already given, but we could vary those directions or issue new directions if we thought it was appropriate to meet the objectives that we have been given.

Q239 **Chair:** What LINK have done, as you will know, is to respond to a closure rate that is higher than they projected by cancelling the third of the planned interchange fee reductions and reviewing the fourth. Are you satisfied with that? Do you think that is enough to try to stem the tide of these closures?

Chris Hemsley: I think it is right that they took the steps to review the programme of cuts. You heard from Hannah Nixon about a year ago that she wanted to make sure that LINK took the time to consider the impact of cuts and to defer some of them. That situation remains. We now have LINK taking a number of steps to protect the broad geographic spread of ATMs. As they move forward and think about what further changes to those fees are needed, they need to be careful.



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Q240 **Chair:** With all due respect, I am not hearing a stated position when it comes to all of this. You are just reflecting back to us what LINK is doing, which we know already. You say you are responsible for LINK's activities. Would you be able to give us your position on what you think about the fourth reduction?

Chris Hemsley: The fourth reduction is scheduled for around 18 months' time. Quite a lot will probably happen in the interim. What I expect LINK to do is to continue to review what is happening on the ground, how many ATMs are switching from pay-to-use to free-to-use and where those changes are happening. That will allow LINK's board to take the decision about whether that further cut is appropriate and, if they choose to go ahead with it, what other steps are needed to protect people's access to cash. It is a decision for LINK, but we need to make sure that LINK do that job properly.

Chair: I am not hearing a particular position there, but I am grateful anyway. We will now come to Deidre Brock.

Q241 **Deidre Brock:** Carrying on from that, and from what the Chair was asking before, Which? is saying that ATMs are disappearing at an "alarming rate"; I think that is the quote from them. Could you tell us how this works? In terms of you monitoring the geographical coverage of ATMs and whether or not they are free-to-use or pay-to-use, how regularly does LINK provide you with that information and how do you keep on top of it and keep monitoring it?

Chris Hemsley: I will make a start on that. There is a regular flow of the information that they are required to provide to us. Every month we have a report, some explanation and some spreadsheets that set out all the facts we need in terms of free-to-use and pay-to-use in quite a lot detail. That is not the only source of information that we have. Where we have questions and where concerns have been raised with us, we pick up the phone to LINK, ask them questions and follow up in the interim, but we do have a regular flow of information.

Q242 **Deidre Brock:** Just about that Specific Direction 8, which I think you issued on LINK in October last year, in your evidence you say, "LINK has developed and introduced policies to protect free-to-use ATMs that are more than one kilometre from the nearest neighbouring free-to-use ATM" but weren't policies about that one kilometre limit in place before that direction was issued? Can you tell me how SD8 changed that situation?

Chris Hemsley: LINK were talking in terms of a commitment around a year ago, or a bit longer than a year ago. When the PSR gave evidence to this Committee about a year ago, we highlighted that we were concerned at that point that it was not sufficiently clear what that commitment was and what action LINK would take to act on it. That is what the direction was about. It was to make sure that we understood what that commitment meant in detail, how it would work, whether LINK had delivered against it and that LINK was taking action in response. Broadly, that action was that LINK raised an additional £4 million from the banks



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to fund the concept of protected ATMs. They have this direct commissioning approach and more recently—

Q243 **Deidre Brock:** So you are enforcing a requirement that already existed; is that right?

Chris Hemsley: They had set an objective that they wanted to achieve and we were holding them to account for it: "What does that mean in practice and what are you going to do about it?"

Q244 **Deidre Brock:** I have mentioned this before. My parents-in-law live way up in Sutherland and they have a very long drive to 24-hour access to cash. That one kilometre limit is not to 24-hour access, is it? It is just that there be something, even if it is closed on Saturday afternoon and all day Sunday. That is considered sufficient in rural areas, is it?

Chris Hemsley: The concept of protected ATMs is about the current estate of free-to-use ATMs. It does look at whether, when a free-to-use ATM closes, there is a reasonable alternative way to access cash. LINK currently considers some Post Offices as providing that reasonable access, if they have five days a week opening hours and certain hours. This is a tricky area. It is legitimate to consider whether the rule that they have in place today—the way that they view Post Offices—is right, and whether they have taken that judgment in the right place. We are all aware that there are different times of day when you want to have access to cash—it is not always between 9.00 am and 5.00 pm—and it is important for local economies to ensure that people can get access to cash in the evenings.

Q245 **Deidre Brock:** No, indeed. I am wondering whether there is any room for requiring banks to leave ATMs in place in some of these rural areas. That would mean a round trip of 20 miles for my mother-in-law, for example, as opposed to her current trip of around 56 miles. She is 77. I hope she does not object to me mentioning her age again. The local bank in Lairg has closed. There is a mobile van that turns up there for, I think, two hours a week, and there is no requirement to maintain the ATM. It is boarded up, and that is it. There is no access to that ATM any more. It occurs to me that that would seem to be a solution.

Chris Hemsley: Our role, as you alluded to there, is particularly about the ATM network rather than the banks themselves. We are working closely with the Bank of England, the Government and the FCA on this. I do think this is a legitimate area for debate, and we will be supporting that debate. Ultimately, however, it does fall outside our area of responsibility.

Chair: We will come to you, Mr Pickering, but we have a few more questions for Mr Hemsley and Mr Cherry. Ross Thomson has another one.

Q246 **Ross Thomson:** Yes, I do. Mr Hemsley, could you talk to the Committee about what your role will be in assessing the effectiveness of LINK's financial inclusion programme, and how you will go about judging if that



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programme has been effective or not?

Chris Hemsley: The first thing to say is that this is very important. We want to see that broad access to cash so people can use it. There are areas of the country where the provision of ATMs is not yet where we would like it to be. Our chair has mentioned that previously, possibly to this Committee or perhaps another one. LINK's financial inclusion programme is very important to us. It is one of the things that LINK do that we will keep under review.

This is where we need to continue to get out and understand the problems that we see in communities around the country because it is only by having the conversations with individual communities that we get a better understanding of whether the programme is working or not. I do not think there is a simple answer to the question of whether it is good enough in its current form or needs to be changed. Our role is to make sure that we understand what the challenges are that allow us to hold LINK to account.

Matthew Cherry: With regard to the sorts of visits the PSR has been making, we visited the Western Isles last October to discuss precisely these types of issues and the challenges that communities there have around accessing cash. I went up to the area north of Inverness and to Orkney last December and we were having very similar conversations there. There are very localised issues at play here. Individual areas have very specific local concerns. Going forward, there is definitely a place to ensure that there is a voice for local communities in those discussions. That is something that the Access to Cash Review picked up on and it is something that we are definitely including in our thinking.

Q247 **Ross Thomson:** With regard to the work you are doing to understand those challenges, have you done any analysis looking at whether £2.75 is the correct level to be set for the super premium for those vulnerable ATMs?

Matthew Cherry: The first point to make is that the £2.75 is something that we asked LINK to keep under review, and LINK explicitly say in their policy that they will keep its effectiveness under review. Our analysis shows that a charge at that level provides a sufficient interchange fee to cover the costs of all but a very small handful of machines across the country as a whole. It is definitely something that should not be set in stone, though, and its effectiveness needs to be reviewed. It is a relatively new premium that has been introduced on top of the standard interchange fee. We are keeping a very close eye on how effective it will be.

Q248 **Chair:** When LINK were here, they told us that the main aim of this new super premium promotion was to prevent further closures in rural and other vulnerable areas, rather than to encourage new ATMs to open. Are you content that this is main objective of that scheme?



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Chris Hemsley: I do think that is what it achieves. It is particularly focused on the current estate of ATMs. There are two areas in our work. One aspect of what we are doing is holding LINK to account for protecting the current estate of free-to-use ATMs. The other aspect is thinking about whether there is more that needs to be done.

The initiatives that LINK has put in place are about the current estate. There will be places where that is not the issue—where people want an ATM and do not currently have one. We are looking at how ATMs are rewarded more generally, and looking at some of the other ways that people could access cash and whether there are options there that could improve the situation for people.

There are definitely those two things: protect what we have now in the near term, and think about what other changes and options there are to improve the situation for everybody.

Q249 Hugh Gaffney: LINK have said that their business model would be likely to become unviable, with members leaving the scheme, unless they reduced their interchange fee. Has any analysis been done to test that assumption?

Chris Hemsley: First, I think that is a reasonable description of the challenge. We have had a situation where, over decades and longer, we have had an increase in the number of ATMs, and free-to-use ATMs as well. I believe they are right that in a situation where cash use is starting to decline, if nothing is done, at some point we are going to come to a situation where we have an increasing cost there and people are not going to use it. I agree with LINK that that is the challenge.

It is difficult to analyse these issues in lots of detail because the provision of ATMs is ultimately a commercial matter for banks and independent providers of ATMs. We have asked LINK to ensure they do what analysis is possible. This is an area where we need to do further work to make sure that we understand from what we are seeing whether the expectations that LINK has, and our expectations, are out of line with what we are seeing in the market so that we can act quickly. Inevitably it is a difficult area in which to predict what commercial firms will do.

Q250 Hugh Gaffney: There has been no testing; it has not been tested. You have not looked into it. We still need to hold an inquiry.

Chris Hemsley: We do expect the changes to be tested, but the way that they are tested is typically through consultation, through debate and through calling for evidence from people. It is difficult to reduce it to a simple financial model.

Q251 David Duguid: On the back of Mr Gaffney's question, which was about any analysis that you have done to test the assumption, obviously, yes, you will test the outcome of what that assumption delivers. It does not sound as if you tested the assumptions. My follow-up question is going to be about whether you have analysed the assumption with respect to a



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third and possibly even a fourth reduction in the fee.

Chris Hemsley: Not yet; I think that is the simple answer. We said that LINK need to move carefully here, that any cut to the interchange fee needs to be incremental and that they need to protect free-to-use access. We are some 18 months away from that fourth cut. LINK need to do the analysis and proceed carefully, and we will make sure that they do so.

Q252 **Chair:** This is the last question to you, Mr Hemsley, and then we will move on to you, Mr Pickering and Ms Thompson. LINK told us when they were here that other payment systems were able to operate at a much lower interchange fee. Are you therefore content that there is a level playing field between different payment systems?

Chris Hemsley: LINK account for the vast majority of ATMs—more than 95%—so I do not believe the issue here is principally about unfair competition between LINK and others. The principal driver here, in my view, is the reduction in cash use and the fact that we have quite a large estate, which is a good thing. If ATMs in well-served areas might close but we want to protect and improve the situation in less well-served areas, we are going to move towards an unsustainable situation. In my mind, the issue is more to meet that challenge rather than to be too concerned about networks that compete with LINK.

Q253 **Chair:** LINK highlighted the challenge from things such as Visa and Mastercard, but why is there a variation in interchange fees and why can certain operators seem to manage a lower or higher rate than others?

Chris Hemsley: We do benefit in Scotland and across the UK from quite a lot of diversity in how people make payments—that is a good thing and it does support choice—both in cash and in electronic payments.

Q254 **Chair:** We are getting a sense that it is not working with such closures and with the application of payment fees. We are hearing lots of things and observing what LINK are doing—we understand what they are trying to do—but we are not seeing much leadership here in terms of trying to address some of the fundamental issues that are impacting on our constituents when they are exposed to fees for accessing their cash. Do you understand how this sounds to the Committee?

Chris Hemsley: Completely, yes. I use cash regularly. We need to make sure, as a country as a whole and in Scotland as well, that we meet that challenge of what happens as cash use declines. To my mind, the important thing is that we make sure that the steps that LINK are taking now and those longer-term options are progressed, and that is what we are doing. We want to see cash machines in the right places. We benefit from having quite a lot of cash machines now, but we need to make sure they are in the right places; that is critical. That is how I access cash as well. It is important.

Chair: We will maybe come back to this in the course of this inquiry if we have time.



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Q255 **Tommy Sheppard:** Turning to you, Mr Pickering, part of your role is to review the closure programmes that various banks have undertaken and to determine whether or not they have been compliant with the Access to Banking Standard. Can you tell us how many closure programmes you have reviewed in that way, and in how many instances you have found that they were not compliant?

Dave Pickering: I am going to pass this to Liz Thompson, who has the details, because she conducted a lot of the oversight work that we have done.

Liz Thompson: Since the Access to Banking Standard came under our oversight, we initially completed retrospective reviews of firms—I think it was seven firms—where they had already closed the branches. We went back to look at what they had done. Since we appeared in front of the Committee last year, we have been overseeing the closure programmes of a further five firms, and looking at how they have been meeting the standards. Each of those firms has received its own report. Where we have found that there were any failings, they have been reported back to the individual firms, with specific actions to be taken forward.

Some of the reviews this year, however, were off the back of those retrospective reviews where we felt that the initial information the banks were giving to customers needed to be updated, and so on. There was an element of a follow-up on previous actions as well as showing, if they were continuing with closure programmes, that they were maintaining the requirements of the standard.

Q256 **Tommy Sheppard:** These reports to the individual banks are obviously private.

Liz Thompson: Yes.

Q257 **Tommy Sheppard:** We have previously suggested that the reports ought to be in the public domain. Presumably you are not going to put them into the public domain this morning, but let me just ask you this: you have reviewed 12 programmes?

Dave Pickering: Yes.

Q258 **Tommy Sheppard:** Did you find any of them to be not compliant with the standard?

Liz Thompson: We asked some of those firms to put some actions into place—

Q259 **Tommy Sheppard:** How many of the 12?

Liz Thompson: —to meet specifics within the standard around the level of information that was in the impact assessments. There were some enhancements, as I would rather call them, for firms to put in place, where they maybe needed to improve the staff training and so on. The summary report that we issued in September last year gave an industry



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overview of the sorts of areas we identified where there were areas for improvement.

Q260 **Tommy Sheppard:** Did any of that advice include reviewing a specific branch closure?

Liz Thompson: Yes.

Q261 **Tommy Sheppard:** As a result of your oversight, do we now have a branch that is open that would not otherwise have been open?

Liz Thompson: No, because our oversight comes in once that decision to close has been made. It is not within our remit to say whether or not a bank should close a branch. We would only review them once that decision has been made and in line with what the standard requires.

Q262 **Tommy Sheppard:** So in order to comply with the standard, in effect it is about making sure that alternative provision has been made or information has been provided; it is not about changing the decision to close a given branch?

Liz Thompson: No. That said, however, what we will do as part of the process is look at the decision-making and make sure that there is some consistency—making sure that that is a formalised process, that it has the correct governance and controls in place and so on to make sure that the banks are following the same process across the piece. The review is around the information that is provided to the customers once the decision to close has been made.

Q263 **Tommy Sheppard:** The problem, not just in Scotland, but throughout the UK, is that we have had a lot of branch closures. You are telling me that the oversight of that process has not resulted in a single one of those branch closures being prevented or the branches being reopened. The public might be led to conclude that either the standard itself is woefully inadequate or the ability to use it to compel banks to change their actions in these matters falls somewhat short of what the public might expect.

Dave Pickering: The Access to Banking Standard was set up and at the point it passed across to us for the oversight, the commercial decisions had been made by the bank. The idea behind it was to bring in a common set of standards that helped to ensure that the process ran as smoothly as possible and communications to customers were as clear as possible. It was never intended to get involved in the decision-making process to close or stay open in the first place.

Q264 **Tommy Sheppard:** This is my final question. I know that the sanctions available to you are not great, but in any of this process, have you had need to take action to ensure compliance or have things been done as soon as you have asked?

Dave Pickering: Liz Thompson will correct me if I am wrong here, but I think it is fair to say that in the work that we have done—in the 12



reports that we have issued—there have been findings in every one. As an organisation, the relationship that we have built over the years through the oversight of other codes of practice is that those issues are treated very seriously by the banks. We get a clear action plan off the back of it and those actions are addressed.

The follow-up work we have done has confirmed, if anything, that the issues that we have raised previously, which were in the summary report back in May or June last year, have been addressed by the banks. We have had some very good improvements around areas such as impact assessments. It has not stopped branches closing, but it has improved the communication process and treatment of the customer in those situations.

Q265 Tommy Sheppard: I cannot help but observe that a lot of people will think that given the scale of the withdrawal of service that communities are facing, this appears to be a rather amicable relationship between the providers and the body charged with overseeing what they are doing.

Dave Pickering: It is not an amicable relationship at all. The LSB itself has an independent board and the self-regulatory regime is very much regarded on a very high footing by the firms that we in effect oversee or supervise. We have a pretty good track record of flagging issues and having action taken. Thinking about the impact assessments, one of the issues that we flagged last time was around the definition of an impacted customer. We have now managed to have some minimum standards defined as to what would count as an impacted customer; that was not there before. We have worked individually with all the banks to improve where they have fallen short, where the impact assessments have fallen short, the information provision has fallen short. We have identified those issues and we have made sure that those issues have been addressed. I do not agree that it has been an amicable relationship at all. It has been a constructive relationship of challenge and support.

Q266 Hugh Gaffney: In our last report, we called on you to routinely publish your reports on banks' compliance with the standard to help to build trust in the system of self-regulation. Have you responded to this recommendation?

Dave Pickering: If I am being completely honest with the Committee, our stance is the same as it was when we were here 12 months ago. We produced the summary report, a copy of which I provided to the Committee. That summary report in essence summarises the findings across the network and it called out any of the major issues and thoughts that we had from the work that we had undertaken. We believe that it would fundamentally compromise the whole process of the regime of voluntary self-regulation as it stands if we were to publish individual reports. At the moment, they are very much around the thematic. We will be producing another report soon on the second tranche of activity. There will be another thematic report, which I will very happily share with the



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Committee when it has been written. That should be available in the summer, which will be two years on.

Q267 **Hugh Gaffney:** Obviously, we would like that information. The question I asked earlier was about why we can't make this public domain. Why is something that impacts on bank closures not allowed to be public domain? How can we make it public domain?

Dave Pickering: I suppose it is what the purpose behind publishing the individual reports would be, and what value that would potentially add to the process. The thematic report draws the findings together. For example, the five programmes that we have been in to see this year will be summarised in the report, which picks up on all the areas of the standard and will provide commentary, including on any issues that have been raised, the key findings and any good practice. The beauty of that is that the good practice we identify gets shared across all the firms that are dealing with branch closures, so it does have an impact on raising standards. We would not be comfortable about putting individual bank reports out in the public domain. If the banks choose to consider sharing that information, that is their prerogative, but from our perspective, I believe it would compromise our role if we did that.

Q268 **Chair:** On that very point, we had the banks in yesterday and we had a quite fascinating exchange on this very issue. What they suggested to us is that they are now more than willing to be much more transparent when it comes to publishing these types of details. Will you possibly work with them to see how far you can get? There does seem to be a demand for it. There is an expectation among our constituents. They want to know the reasons why, what these reports concluded and what recommendations were made. How can the public have any faith and confidence in a process that is effectively closed and out of their sight?

Dave Pickering: Both Ms Thompson and I watched the exchange with the banks on that particular point yesterday. I am more than happy to pick up with those individual banks.

Q269 **Chair:** Shouldn't you be the guys that are pushing for this instead of it coming from the banks, if they are now saying, "Hold on a minute; we are not all that averse to having more details published"? You are the regulator that is in there for the public interest, yet it seems that you are almost like a block to publishing.

Dave Pickering: No, we are not blocking it all. We need to have the conversation around that specific point offline and privately with the banks.

Q270 **Chair:** At least that is a movement towards it. This is what our constituents want to see. They have no say at the start of the process when a branch is closing. They cannot see the decisions that are being made and why the branches in their locality will no longer be a feature of the community. There has to be much more transparency. As the regulator, surely you must agree with that.



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Dave Pickering: We believe we are being transparent. The thematic reports are published; they are on our website. The thematic reports do, in effect, give a pretty decent summary of the findings.

Q271 **Chair:** It is a summary.

Dave Pickering: If there are serious issues, they will be called out in the summary report. What you saw in that summary report is a true reflection of what we found as part of that programme of work. If we found fundamental and serious issues, we would call them out and they would get into the public domain, but we would not call out the individual banks and institutions.

Q272 **David Duguid:** In response to Mr Sheppard's question about your remit, I want to clarify that your remit does not include reversing the commercial decisions of banks that decide to close.

Dave Pickering: Correct.

Q273 **David Duguid:** That would be equally true, I assume, of banks that have decided not to close but to cut back their hours.

Dave Pickering: Correct.

Q274 **David Duguid:** My next question is about whether your remit in ensuring banks comply with the standards after they have made that decision applies equally to those banks, such as the TSB, that have decided to cut back their hours.

Dave Pickering: Yes, it does.

Q275 **David Duguid:** That is good to know. Still on the subject of the TSB, we had TSB, Santander, Bank of Scotland and RBS in yesterday and this is one of the questions I tried to probe. Obviously, for commercial reasons, no bank wants their customers to go to a different bank, necessarily. However, if a customer goes into a bank and says, "I want to switch my account from TSB to Santander", for example, the bank is obliged to do that. Does that obligation come within the standards that you overlook?

Liz Thompson: The actual switching?

David Duguid: Yes.

Liz Thompson: No.

Q276 **David Duguid:** I pushed TSB, in particular, on this. To be fair, TSB did say that if a customer—this idea of an impacted customer that you mentioned—was found to be better off moving to a different bank, if there was no way they would ever go online, they had to deal with a face-to-face option and there was still another bank open in that community, then they would perhaps suggest that as an option. What would be your view on a proposal to make it an obligation, if a bank was closing down or reducing its hours, to offer that as an option, if there are other banks available within a certain distance?



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Liz Thompson: It would probably be something that we would need to talk to the industry about to gain some agreement on how that would work, and what those standards would be. Where I suppose we would want to be careful about the risk—because the branch closure programmes are commercial decisions for the bank—is that we would not want to be putting customers in a position where we said that the banks had to say, “We are going, but as far as we know, Santander is staying and we suggest that you start moving your accounts to Santander”, for example, and then within a short period of time Santander closed that branch down as well, but you would have made that customer go through that process.

We have seen and heard anecdotally where this has had impacts. We have seen complaints from customers where a bank has gone down that route and it has been that thing of trying to be helpful, to say, “We are going, but we know this bank is staying” and customers switch their accounts, then that bank has announced that they are closing and exiting the area as well and it has caused double concerns for the customer.

Q277 **David Duguid:** Do you think customers are generally aware enough about the account switching obligation? Is it within seven days that it all has to be done by?

Liz Thompson: Yes. There has been quite a bit of work done on this. I know there was a public campaign around account switching. There was even a lot of media attention on it. For whatever reason, however, and I do not have the stats, I am not sure that it is taken up as much as was expected.

Dave Pickering: We can pick that up in discussions with the banks. We can maybe dig into that in a bit more detail. It is a fair point.

Q278 **David Duguid:** Going back to previous evidence you gave in our report on RBS closures last year, we asked you to consult your members on requiring banks to consult communities before closure decisions were being made, rather than after. Have you done such a consultation?

Dave Pickering: We have not done a formal consultation. The reason for that is that the view expressed around the Access to Banking Standard, when we have dug into this, was that there was a feeling that the standard needed to bed in, and there was no appetite to change the standard itself, as it stood. I refer to my earlier answer on that. Before the decision to close is made, the banks do go out to their local areas to understand what the impact would be on that local community. I accept the fact that they do not talk to the wider stakeholders.

Q279 **David Duguid:** Based on the evidence we received yesterday, some of the members of the panel said, “We visited this bank and that bank—”

Dave Pickering: They will do that.

David Duguid: They go to the bank and see what is happening, but they



do not necessarily consult with the wider stakeholder community.

Dave Pickering: They will do that. They do process a heck of a lot of data and a heck of a lot of analysis goes into it, which we do see in the reviews we do. As my colleague here said, while we do not comment on the commercial decision, we do look at the basis of the decision through the data and the information that is available beforehand.

Q280 **David Duguid:** My final question on this topic is this. Although you cannot directly affect the commercial decision of banks to close or reduce their opening hours, have you found any evidence—even anecdotal, even after they have made that decision—that the fact that you are obliging them to comply with a set of standards has had an effect on decisions to close banks, because they think, “Oh, it is not going to be as easy as we thought it was going to be”?

Liz Thompson: Probably since the Access to Banking Standard has come in, it is not a straightforward decision within the organisation. A lot of work goes on in the background. What we have found is that it goes through numerous committees and people within the organisation before the final decision is made about what is going to happen with regard to the branch closures. The banks are taking us very seriously.

Q281 **Chair:** Another area from our previous report, which was in respect of the standard, was the information and impact assessments that banks would be required to publish before any closures were made. We looked at things like broadband coverage, for example, the practicality of reaching other branches by public transport and the availability of alternatives, such as mobile banking. We heard a little bit about that yesterday from the banks. Are you now requiring the branches and the banks to take a broader view before they pursue these closures?

Liz Thompson: The banks do take a broad view of everything as part of that data sweep. As well as looking at transaction information and the footfall within that specific branch, they will look at the wider situation. As part of reviewing the impact assessment that is issued to customers, a lot of the work we have done has been focused on what information banks are giving out to customers and whether it is clear, and we have seen some improvements across the piece.

Q282 **Chair:** Are they doing it, though? I shared with the witnesses yesterday a map showing that there are now “not-spots”—areas of Scotland that have no access to a local branch for miles. Some of them are in areas where there is poor broadband connectivity. The impression we are getting is that the banks are not taking a broad view. What are you doing to ensure that they take a wider range of factors into account and meet some of the concerns that have been raised by communities?

Dave Pickering: Our assessment of impact is broad. We do look widely. It is not just about the distance to the nearest branch; we look across a broad set of measures. The clarity and depth of the impact assessments was the main issue that we identified in our thematic work last year and I



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believe I am right in saying that has been pretty much taken on board by the banks.

One thing I would share is something that was quite heartening. When we did the thematic review and we were going through the report, we both sat with all the banks over a series of about three meetings and most of the debate was about how, for the areas we had identified, they could bring about improvements, in particular around impact assessments.

Q283 Chair: The impression is going to be created, for those of our constituents who are watching this, that you are not doing anything. The banks do the closures. You do an assessment of all that. We have found from Mr Sheppard's questions that no banks have been saved as a result of this process and they have all been closed, much to the detriment of the local communities. Our constituents will all be thinking, "The regulators are here to exercise the public interest when it comes to all this, yet we are unable to save any of our branches, real issues are not taken into account and there are now areas of Scotland where there are no branches". Surely they will be saying, "We want firm regulation. We want to ensure, if there are going to be branch closures, that there is a set of criteria that will be looked at and followed rigorously before any branches close." What are you positively doing to try to work with communities that want to save their branches and put obligations on these banks?

Dave Pickering: The only answer I can give—and this is true of any code of practice that we are responsible for—is that we are in constant dialogue and debate with the stakeholder community, consumer groups and the likes of the trade bodies, such as UK Finance. Where our work is of the most value is that we are the organisation that is out there seeing what is happening so we can feed that back into the discussions. It is then very much a wider policy issue that we would have to go through if you were to make substantial changes to the standard. In essence, the key for us is to make sure the standard itself is working effectively.

Q284 Chair: We have not forgotten you, Mr Hemsley. I want ask about innovation in payment systems and how that will be achieved. Is there any particular innovation that has struck you recently or anything that you may be able to share with the Committee about where we might be going with some of these things?

Chris Hemsley: The first thing to say is that as society changes, innovation is a particular area that we would like to see progress in to support solving some of the problems people are facing. It is one of our top-line objectives. We certainly focus on promoting innovation in payment systems.

Coming directly to your question, in terms of that challenge of making sure people have good access to how they pay for things and access to cash, we would be particularly interested in looking at things like



cashback. Could cashback play a larger role? What is the role of the Post Office? Could we make better use of that estate? We are working closely with the Financial Conduct Authority, which has a particular initiative—what is the name of it?—a regulatory sandbox, whereby the authority supports particular innovations, and small businesses and people with ideas can try new things out. Some of those ideas have been on payment systems. Working with the FCA, but also on our own account, innovation is part of the solution here.

Q285 **Chair:** I am grateful for that. Lastly, I want to go back to the Access to Cash Review; we skirted around this earlier. One of the main recommendations was that we have a single regulatory approach covering all issues to do with access to cash. I do not know if I got a response from you to say that you support this idea. I will give you the opportunity to say if you do support this. If so, why, and if not, why would you not want to see a single regulator, given what we have heard about all the issues around this today? What is your view on this?

Chris Hemsley: The scope of the regulators is a matter for Parliament. Ultimately that is the case.

Chair: We know that. What is your view?

Chris Hemsley: My view now is that we have the powers we need to regulate the cash machine network. That also means that we can show leadership in the area and move the work forward. We may come to a point where we identify options and changes that we need to see in the market where we do not have powers, or the other regulators we work with do not have powers. In such a case, that is why we work with Government, to make sure that Government understands the case for further reform. It is ultimately a matter for Parliament.

Chair: We are interested in the view of those who are doing the job.

Chris Hemsley: As I sit here today, we have the powers we need.

Q286 **Chair:** Perhaps I will ask the others. Voluntary regulation is not working, is it? We are seeing all these issues coming out in the conversation we are having here today, and we are seeing bank closures on a quite extraordinary scale and communities being upset. Surely now it is time for a proper regulatory approach and statute.

Dave Pickering: Voluntary self-regulation as a concept is working quite well.

Chair: You think so?

Dave Pickering: Yes, I do. I do think it is working quite well. I would say that, anyway. You would probably expect me to say that. For us, part of it is because of our relationship with the organisations that we supervise. As you have rightly outlined, it is on a confidential basis and quite a lot of the successes we have are not necessarily out there in the public domain.



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With regard to my personal view about a single regulator, I do think the Access to Cash Review is very helpful in terms of setting out the landscape. My only cautionary note is that a lot of work needs to happen to work out whether that is the right solution going forward. With any regulation, it is important to make sure that you do not end up putting something in place that has adverse and unintended consequences that you cannot foresee. That is why a lot of work needs to happen. I could not give you a very informed view at the moment as to whether it is a good idea or not.

Chair: That was possibly a yes and a no at the same time, but we will maybe just leave it there. We are very grateful to you for coming and answering those questions. There are a couple of bits of information that we have to solicit from our guests, which our clerks will make sure that we secure. We managed to get done within an hour; we are very grateful for that, with our busy day. Thank you for your attendance today.