HOUSE OF COMMONS

Scottish Affairs Committee

Oral evidence: Access to Financial Services, HC 1996

Wednesday 12 June 2019

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Watch the meeting

Members present: Pete Wishart (Chair); Deidre Brock; David Duguid; Hugh Gaffney; Christine Jardine; Ged Killen; John Lamont; Paul Masterton; Tommy Sheppard.

Questions 287 – 356

Witnesses

I: Martin Kearsley, Banking Director, Post Office, and Tracy Marshall, Network Development Director, Post Office.

II: John Glen, Economic Secretary to the Treasury, and David Raw, Deputy Director Banking and Credit, HM Treasury.

Written evidence from witnesses:

– [Add names of witnesses and hyperlink to submissions]

Examination of witnesses

Witnesses: Martin Kearsley and Tracy Marshall.

Q287 **Chair:** We are very grateful to the Post Office for coming along and joining us in our session on financial services in Scotland. This is the last of our evidence-securing sessions, so we are grateful to you for coming along. For the record, could you say who you are and anything by way of a short introductory statement? We will have you first, Ms Marshall.

Tracy Marshall: I am Tracy Marshall. I have worked for the Post Office for just over 20 years, predominantly in roles related to our network. At the moment, I am Network Development Director for the Post Office, which means that I am responsible for changes to our network, introducing new formats, for example, like new network locations, making it better for postmasters and customers.

Martin Kearsley: Good morning, Chair and Committee members. My name is Martin Kearsley. I am the Banking Director at the Post Office. I cover three main areas for our business. I look after all of our partner bank relationships, whereby we serve customers of every one of the banks in our branches for cash and daily banking requirements. I look after our ATM network. As I am sure Committee members are aware, there is a lot of pressure on the ATM infrastructure at present. I look after the Post Office version of that. My final responsibility is the Post Office card account, which is how we pay out benefit payments to the most vulnerable, including those on benefits, pensioners and those for whom cash is the only option.

Q288 **Chair:** I am grateful. Just to get us kicked off, and this may be for you, Mr Kearsley, could you explain in detail what banking services are now offered by the Post Office? In describing what they are, can you say how they replicate what was traditionally offered through bank branches?

Martin Kearsley: Indeed, I would be happy to. I think that it is important to note possibly first off that we do not seek to replicate a bank in all its functions. There are complex products that banks and only banks can sell. That is to do with the regulatory requirements of being IFA trained and able to offer independent financial advice. We do not set out to replicate that. We set out to support the communities that are left behind as banks close, and also to support those communities for their everyday cash needs.

Specifically, Chair, the services we offer are cash withdrawals over the counter and through branches that support an ATM. That is exactly the same as an ATM at the counter, if you like. It is a cash-out service based on chip and PIN in the same way that you would use an ATM. We also support cash deposits, which is when small businesses and personal customers can deposit any sum of cash into the Post Office. There are some different levels of deposits in different types of branch, but typically any customer who wants to deliver any amount of cash into a Post Office, we can accommodate that in conjunction with the customer, the postmaster and the bank. We can really take any value of cash.

We also have a cheque deposit service. Increasingly, as I am sure Members are aware, there is an imaging service that is emerging to replace paper cheques. We remain probably the only place in the country that can take any paper cheque over the counter and forward that, through our processing centre, to the banks.

The final thing we do is we offer change facilities. Again, small businesses in every high street and every community require cash for float as they open up their branch or business each morning. We can provide change for that facility. One of the largest increases we have seen in the last couple of years has been in cash deposits, indicating really the change on the high street—we have very challenging conditions right now—whereby most small businesses need somewhere to bring their cash, and we fulfil that service for them.

Q289 **Chair:** I am grateful. I am just looking here; 128 million banking transactions now take place at the Post Office. Is that a figure that you are familiar with?

Martin Kearsley: It is. We actually did 135 million in the last year.

Q290 **Chair:** This is also something that you are probably familiar with. Citizens Advice Scotland said that research found that the provision and quality of banking services at post offices can be variable. I do not know if you have a view about that and if there is anything that you are doing to try to ensure that there is a consistency of service across the network.

Martin Kearsley: Absolutely. There are a number of situations that do develop. Obviously, we have something like 50,000 staff working in post offices around the country. That is a mixture of postmasters who run the post office and their colleagues who work with them. We have gone through a process with the banks over the past three or four years of essentially removing what you might call complicated transactions. Typically, that is whereby a customer would come along with a paper paying-in slip or some sort of older credential, if you like. We have worked very closely with the banks over the past three or four years to remove all of that complexity and move towards a debit card basis for both cash deposits and cash withdrawals. We have simplified how we offer those services for bank customers.

We would welcome organisations checking again and continuing to check the service that we offer. We believe we are improving every day by simplifying the service, which means that all of our colleagues across the network can handle all of those transactions.

Q291 **Chair:** Lastly from me—I know lots of colleagues want to come in—when we have had banks in front of us and those responsible for cash distribution, they always seem to use the Post Office as a convenient way out of all of this, like, "Don't bother about this, the Post Office can take up all the slack and provide the service that was previously done by bank branches." Do you ever feel that you are being pushed into doing more and more when it comes to these types of services, and that this is a get-out clause for a number of banks who are evading their obligations and responsibilities for providing the service?

Martin Kearsley: On the contrary, we would certainly say that we are not there as a back-up service to the banks. We, as I mentioned, are there to support the communities for their everyday banking. We are in 11,500 communities around the country. We are the only organisation that takes cash from the Royal Mint out to the safe at the back of the branch in 11,500 communities countrywide. In Scotland, that is nearly 1,400 branches, including some of the most remote communities that we can reach.

We value that service immensely. We absolutely value our community service to those customers. The fact that banks are going through a once in a generation change and, therefore, removing some of their branch services does not let them off the hook of serving those complex transactions, but we continue to serve the cash transactions that we always have done. In prior years, we have had more Government services. You will all remember TV licences, road tax discs and so forth. We are used to handling very large amounts of cash for communities. We view our bank services as simply a replacement for that.

Chair: We will come on to Government services later on in the session, but I am grateful for that. I have three people who want to come in, first John, then Hugh, and then Christine.

Q292 **John Lamont:** Good morning. When Royal Bank of Scotland was shutting branches in my constituency, I held meetings with local residents, and the Post Office was very good at sending representatives to those meetings to explain to residents the types of services that it could offer as an alternative. What struck me was how little awareness there was among the general population about the types of banking services that you offered. I just wondered how you thought you might go about addressing that to increase public awareness.

Do you accept that, despite what you do offer, you do not offer something that is comparable entirely with a bank? I am thinking of the post office in my own town in Coldstream, where it is in the middle of a busy convenience store, compared to what previously was offered by the Bank of Scotland before it shut. It was a very different model. You are not getting the same type of service. On both of those issues, how are you increasing awareness and the acceptance that it is not a like for like swap?

Martin Kearsley: Thank you for the question. On that first one about awareness, I think that you are absolutely right. I understand that John Glen, Economic Secretary to the Treasury, is visiting shortly. He wrote to us through UK Finance around about a year ago. That was to us and the banking industry to say essentially between us we have fixed the problem. We can make cash available for as long as cash is needed to almost every community in the country, either by fixed sites, by mobile, by outreach—all the various different models that we put our efforts into supporting.

In fixing that problem, his question was valid: why don't more people know about it? He encouraged UK Finance and they took up the challenge to present a five-point plan back, or to present a plan back that turned into a five-point plan. You kindly mentioned one of the outcomes from that, which is to have more local events whereby the postmasters, ourselves from the head office, as well as representatives can encourage the local community to understand more about what a post office can offer—get out of the branch, talk to the local community and encourage them to come and use the services that we have made available. That was one of the five points. Another one was to encourage the banks to broadcast the services that we offer far more broadly. That is to put all of our information on their mobile apps, to put it on their online sites, to put it in their collateral, to talk about us in branches, in a way that they have not previously done. That was one of the second areas.

I think that there was a third one, which was around catering for more vulnerable customers, making sure, as we always do—we work very closely with the banks—that when they are choosing to close a branch, if there are a number of vulnerable customers who are served by that bank we will literally hand escort them into the post office, introduce those customers to the staff that will be looking after their everyday cash requirements from there on and, in some cases, making some very particular personal arrangements for them to be able to access their bank accounts. We will always make sure that those vulnerable customers are hand served through a post office. That was one of the other five points.

Then there was a large campaign that was requested, which we ran in the north-west of England and the south-east of Scotland, in Dumfries and Galloway, with similar messages to all customers but delivered in different ways, through posters and radio adverts in the north-west and through newspapers and house drops in Dumfries and Galloway, just to check what the starting percentage awareness was and what we managed to raise it to by at the end.

That campaign ran through towards Christmas and we managed to shift the dial, we think, quite significantly, from the low forty per cents to the early 50 per cents. It indicated that there is value in local events. There is value in banks telling their customers more about what we do. There is value in having broader campaigns in different regions, different types of campaigns, and we would very much welcome carrying that on. It is not live at present. We are carrying on some of those tasks, but we would definitely wish to raise awareness further. The sky is the limit. We would like every customer in the UK to know that they can bank at a post office.

Q293 **John Lamont:** My last point was that it is not a like for like.

Martin Kearsley: Indeed.

John Lamont: You are offering some of the services, but the environments are different.

Martin Kearsley: I think that I mentioned earlier that we do not seek to replicate a bank. I do not think we can. We are not a regulated entity. We work under SGEI, which is services of general economic interest. We have an obligation to Government and our communities to support access to cash, which we do very willingly, but that is different from being a regulated entity.

We cannot provide banking services through what is essentially a transactional counter. There are a number of reasons, the main one being that obviously we serve a very large number of products through every counter and it is very transactional. You will all know that you go into a Post Office and you buy stamps, post parcels and so on. If we were to slow that journey down by having long conversations with customers about mortgages, insurance products and so on at the counter, we would essentially clog up most of our post offices. We are looking to replace the transactional element at the counter, which is cash in and cash out, quick transactions, while still being able to offer broader financial services outside of that.

Q294 **John Lamont:** Lastly, how familiar do you think your staff who work in post offices are with all the basic banking services that you offer? I am thinking of my own case where I had a cheque to cash. It does not happen very often and ordinarily I would go into my bank, which has now shut. I went into a post office. It was not a post office in my constituency; it was none of my constituents who are responsible for this. I went in to pay in this cheque because I thought the post office could take receipt of Bank of Scotland cheques. There was a bemused expression on the postmaster's face. He did not quite know what I was asking, rummaged around, eventually found an envelope that said, "Deposit a Bank of Scotland cheque," and filled it in slightly chaotically. I thought, "If I see that money in my account I will be very surprised," but it did appear. It did strike me that there was a degree of confusion on the part of your staff, despite what we had been told at the public meetings previously about the types of services that you could offer, as to what exactly they could do. That struck me as a very basic type of transaction, which should have been easily completed.

Martin Kearsley: Yes. As I mentioned to the Chair at the beginning, we handled about 135 million transactions in the last year. I would say 99.9% of those work seamlessly and the vast majority, around about 85 million, are cash withdrawals. As I mentioned, they are chip and PIN, straightforward transactions.

There is no doubt that there is work to be done. Training is ongoing and happens all the time with all of our colleagues. There is no doubt that, especially when it comes to what you might think to be slightly more complicated about how you deal with a cheque—we cannot accept a cheque using a debit card. There has to be a paying-in slip. That is quite a challenge because most of us do not remember where we last put our paying-in slips. Coming along to a post office for that service in particular, cheque deposits, is variable, I would say. I am delighted, though, that the service did work and your cheque did arrive in your account.

John Lamont: It was not a post office in the Scottish Borders, just to be clear there was nobody there responsible for that, but it did work.

Chair: We are all delighted.

Q295 **Hugh Gaffney:** Earlier on, you mentioned small businesses. The Post Office currently partners with Bank of Ireland for PO Money services?

Martin Kearsley: Yes.

Q296 **Hugh Gaffney:** However, this means you are unable to provide business banking because of the terms of the public bailout of the Bank of Ireland. The Post Office has also just told its current account holders that their current accounts will be closed. Is there any truth in that? Do you agree that the partnership with the Bank of Ireland is holding the Post Office back?

Martin Kearsley: To be open with the Committee, I do not look after our Bank of Ireland banking relationship with PO Money, so my comments are on behalf of some of my colleagues.

It is true that the current account has recently been closed. We have written to the customers of that account and explained it to them. I don't have a view on whether or not it is holding us back, to be honest. I think that we have some very successful products with Bank of Ireland. We have a very strong partnership with them. The area of Bank of Ireland that I do look at is our ATMs and we have a very strong relationship with them there, which will continue for the next two or three years as we work through what to do with ATMs.

I think that the Bank of Ireland partnership with the Post Office has been very successful in various different areas. I am not aware of the business side of it, so I will come back to the Committee with a written response on that.

Q297 **Hugh Gaffney:** Yes, that would be helpful. I was also a bit surprised that the current account is closing down. Are you offering another service to replace it or what?

Martin Kearsley: There is a lot of work going on right now to look at what to replace it with, absolutely. Our intent is to replace it with a replacement current account. We have obviously seen the emergence of all sorts of FinTech organisations whereby registration is a very rapid affair, online mostly. We need to come up with an account offering that is reflective of how that modern financial world works.

Q298 **Christine Jardine:** You said something about subpostmasters and providing your own facilities, and there being no limit on the amount that local businesses, for example, could deposit. I remember that back in 2014 or 2015, there was a big move where a lot of sub-post offices became businesses that had a sub-post office on the premises. I can think of several that became things like coffee shops. Have there been any problems with providing the level of security that customers would expect if they were going in to deposit a large amount of money? How have you enabled these smaller businesses to gear up for becoming, basically, a bank?

Martin Kearsley: Basically, a bank counter, possibly, if I could add to the question. How have we geared up? To explain the background, in any post office, any customer can walk in and deposit up to £2,000 as an ad hoc, walk-in deposit. That has traditionally catered for in excess of 85% of all deposits, business or personal. We are obviously experiencing some creep with that as the value of cash goes up and we are looking at raising that level so that we can increase, but it has covered the vast majority.

Where there have been instances where a small business or even a large business has a more significant amount than that and it is a regular deposit, we run through a thing called a location exercise whereby the bank, the head office and the postmaster work together with that customer to say, "If you are coming in with £15,000 on a Thursday, we will introduce you to the postmaster. You can establish that relationship," and from then on they can work on the best time during the day where the customer can get served and equally, if it is a significant sum, we can arrange with our supply chain to visit that branch and take away the excess.

To your question around whether in the mixed retail model we have exposed any further security challenges, there has been no evidence of that at all. We have in the past nine months or so suffered from some security issues with our ATMs, as the whole industry has. We have struggled with gas attacks during the night on externally facing ATMs, but there is absolutely no evidence of increased risk or increased challenge in our mixed retail model because of the amounts of cash that we are taking over the counter.

Q299 **Chair:** We have heard concern from subpostmasters about the remuneration for subpostmasters and the handling of banking services. I think that a figure of £2 per hour has been quoted, and I think that was given to us in the evidence that we secured. Are you confident that subpostmasters are being properly rewarded and remunerated for the work that they do when they do provide banking services?

Martin Kearsley: All of these things evolve. When I met with you last year, we talked about remuneration. I have, since then, been in personal negotiation with all 28 banks as part of the banking framework, as we look to move into the next phase of that, starting in January 2020. I am delighted that through a very collaborative and co-operative series of conversations with the banks, we have significantly altered the commercial arrangements that the banks pay to the Post Office for the services we offer. That has enabled me to almost triple—between double and triple—the amount of money that we can pay to our postmasters. We have announced that to the NFSP, the National Federation of SubPostmasters, and even though the revenue to the Post Office is going to change from January 2020, we have decided to pay the new remuneration rate from October, so on all transactions from October.

Q300 **Chair:** Just to clarify what the new remuneration rates are, you said something like double or treble. What would you expect, therefore, a subpostmaster to receive in terms of remuneration?

Martin Kearsley: To give you a specific example, if a postmaster was to take a £1,000 deposit now, as in a card deposit—a debit card triggered deposit—for that £1,000 they would be paid 37 pence. What we are moving that to from October is £1 per £1,000. All postmasters, irrespective of the model, whether it is a local or a main and so forth—there are various different internal nominations for a post office—the minimum a postmaster should earn is £1 per £1,000. In some cases, it is about £1.20. It is variable because there is a fixed part of the transaction fee.

Q301 **Chair:** How does that work out in an hourly payment, then? That is what the issue was with the NFSP.

Martin Kearsley: It is very difficult to say. Certainly, I am more than happy to go away and work through some models that would try to equate that to an hour. It is very, very unlikely that any post staff spend an entire hour counting deposits. It just does not happen. What we are very aware of is the time taken to handle £1,000, when it was physically counting the cash and being paid 37 pence for it, took too long and paid too little. We absolutely acknowledge that. What we have done is to equip them, where required and where wanted, with technology to count the cash more quickly. We have coin counters and note counters in post offices so that the time taken to count the £1,000 comes crashing down, as well as then paying the £1 instead of 37 pence, so, increasing the remuneration and reducing the time taken.

Q302 **Chair:** That sounds all very positive. If you can help us by providing some figures on it, that would be really helpful, too.

Martin Kearsley: We will do that.

Q303 **Chair:** I think that the last time you were here we also discussed the issue of subpostmasters being liable for any fraudulent notes that they accept. Has any progress been made with this, and what are you doing to assist subpostmasters?

Martin Kearsley: Since my last visit, we have looked at that very closely. What I find is that again using note counters, which have a fraud detection capability in them—there is a seven-point fraud analysis piece—as the notes run through the note counter we can identify and pull out any frauds. Typically, in the polymer note area, we have seen very, very few fraudulent attempts. They are too good. With the linen ones, the £20, which is being replaced next year, I think, there are still some very, very good quality frauds coming through. When those turn up at the cash centre, it is very unusual for us to charge that back to the postmaster. It is not a policy, it is not a statement that is black and white, but it is very seldom leveraged. If a very obvious fraud comes through that really should have been picked up, then it is possible that we will go back to the postmaster and say, "It is a pink note, for goodness' sake, it cannot possibly have got through." The high quality frauds that come through the Post Office, we take on the chin. We keep that at the cash centre and we do not cross charge back to the postmaster.

Q304 **Chair:** I have noticed recently that in my post office, almost every note is examined now. I do not know if it is a message that has come from you to ensure that there is a double check when it comes to any possible fraud. Is that something that you would tell subpostmasters that they should be doing?

Martin Kearsley: We constantly communicate with postmasters. We have a live online system that works through Horizon, whereby messages can be delivered every day. There is certainly an element of information overload because 20 messages cannot possibly all make it into every colleague every day, but over time the same messages work their way through that say we have to check certainly high denomination notes; always check 50s, mostly always check 20s, polymer less so. If you have a high-value deposit, run it through the available technology and let the machine do some of the checking for you.

Q305 **Chair:** Thank you. Let's go on to the network and the coverage in Scotland just now. Maybe to get things started you could tell us a little bit about where we are in the Post Office network in Scotland now. How many offices do we have? What do we have in terms of closures? What should we be expecting as we go forward in the next couple of years? Is that for you, Ms Marshall?

Tracy Marshall: Yes, it is for me, thank you. The situation first of all across the UK, and I think that is replicated in Scotland, is that we are at a fairly stable position. At the moment, Scotland has around about 1,400 branches, just short of that. There has been a very slight decline in the number of branches overall, but certainly compared to previous decades and previous years we are quite stable.

The majority of the network in Scotland is what I would call bricks and mortar branches. John raised a really good point. A lot of our branches now are post office mains or post office locals that we converted as part of network transformation, but they are full-time branches providing longer opening hours where possible. We delivered some 200,000 extra opening hours altogether across the UK and, of course, that is replicated in Scotland.

Scotland is quite unique in terms of its geography. It is fair to say that there are more remote branches, more rural branches. You have the Highlands and Islands, etc. It is quite unique and that does make it challenging for us. We do have postmasters who decide to retire, for example, or to resign, and that means that there can be service issues in some communities. Our job, though, in Scotland particularly more than anywhere else in the UK, is to make sure that we can as much as possible replace that service.

In replacing a service, we will always try to find a convenience store, a news agent, a retailer who can provide good opening hours in that community and the full suite of services. In some locations where we cannot do that—there is just no interested retailer or, indeed, there is nowhere physically to put a post office branch—we may look at one of our outreach models, which I am sure you will all be familiar with, as they are quite popular in Scotland. The mobile van, for example, is something that is deployed in Scotland quite a bit. We have 12 mobile vans in Scotland currently operating and between them they will provide services to over 80 individual communities. That is a backstop position. That is our last resort. Ideally, we would want to provide full-time services in these communities. We want to be where customers want us to be, but where that is not possible, in the spirit of trying our very best to get some service into that community, we will look to implement that outreach.

We also have hosted outreaches as well, where we might find them in a pub, for example. I think that we have a number in Scotland that are in pubs, in libraries, in community halls. Those are reliant on a core postmaster agreeing to offer that service and heading out there into that community with a portable piece of kit and providing that service.

Overall, yes, it is challenging in Scotland. It is a stable network right now and we are absolutely committed as much as possible to maintaining services in every community where we can.

Q306 **Chair:** I am looking around at my colleagues and a few of us do represent rural areas. I have to say that is not my experience just now with the Post Office network across my constituency. We are struggling to keep them in place. I think that we all want to make efforts to ensure that we do get a provision and we encourage people to take up, as you say, in other locations.

I have an issue just now in Scone, for example, where the post office is in the process of being closed. All of us are engaged in trying to find alternative premises in order to ensure that there is some sort of provision, but we are finding it really difficult. What we are hearing is that people who maybe offer themselves to become subpostmasters or offer their business as a premises are not being incentivised by the Post Office—that more can be done to encourage the local pub, the butcher or whoever to come forward and do this. What are you doing to try to ensure that we can incentivise people to take the post office in their business?

Martin Kearsley: You are absolutely right, there is undoubtedly a challenge in making it worth someone's while to run a post office, especially in some quite challenging physical environments. What we are looking at from the banking side is that it is probably the most significant area of growth that we have in the Post Office over the last year or two, and certainly for the next two or three years until, eventually, inevitably, cash will start to decline. It is projected to. In that intervening period, we have focused every bit of increase in the remuneration on the growing part, which is the cash deposits, business or personal. That is the fastest growing element that we have. The more we can encourage that business to grow, the better it is going to be for those postmasters. We have recognised fully that there are challenges and there have been challenges on that front. With the banks' help and, therefore, with how it flows through to postmasters, we have been able to do something about that.

Our chief executive officer, Alisdair Cameron, has just launched a wide-ranging review of all remuneration for postmasters with specifically this in mind, Chair, because it is difficult, especially in the rural areas where we pride ourselves on being the last counter in town, the last place at the heart of what we all know to be some very challenged high streets right now. We pride ourselves on being that sort of central hub of the community. Alisdair has triggered this review. It is due to release its findings in the next month or two and we will be taking action on it. I am delighted that the banking element is a fundamental part of that restructuring of how we remunerate.

Q307 **Chair:** You must appreciate that—and I give you the example of Scone again—whatever banking provision has been lost, that was taken by the post office. The post office now gets closed, leaving the people of Scone, which has a reasonably large population, having to go into Perth for their banking services and post office services. Is there a real effort? I think that we all want to be convinced that you are making a real effort to ensure that there is an alternative provision provided when we do encounter these difficulties.

Martin Kearsley: There are two or three very specific ones, and I am going to pass to Tracy to answer on the more generic level. We are very aware that there are all sorts of issues. We have had issues in Scotland. There are very local ones to do with a lack of broadband availability, so we have actually used the postmaster's own personal broadband to then help drive up a service. In Scone in particular, we are struggling to find a place that will give us the right parking permits even to bring the mobile service in to park for a three-hour service a week.

We have issues where post offices have closed for some very strange, very local reasons. One was the lack of payment by the landlord, not the postmaster—the landlord of the building had not paid the electricity bill. We have some very strange particular situations exacerbated by the rural nature. We have to work through the local community and resolve some of these issues, but those might give you an insight into some of the more challenging things that don't happen in what you might call the south-east. In London, there are many, many post offices, many buildings, many premises. It is much easier to run that service than it is out in the more remote areas.

Tracy Marshall: I would just add that we do completely recognise that to not have a post office service of any description in a community is not great for our customers and our stakeholders. We will always strive to do whatever we can to make sure that there is some service there. We do engage with retailers. Any existing retailers that there might be in a local community we will have conversations with. We will see what we can do to support them, whether they are interested in operating a branch. To be honest, there are some cases when an operator just simply does not want a post office. It does not fit their lifestyle choices. They may live in the premises, which is quite common, and therefore just do not want the added complexity of that in their premises.

Outreach is the backstop option. Going back to Scone, I know that we are having problems there launching a full-time service in that community, but we are working really hard there to get a mobile service in. Just because we get the mobile service in does not mean that we will stop there. Once that is in, we will continue to have conversations with any retailers around a more full-time service. If any new shops open, for example, we will be straight in there with our field team to try to get them on board. Mobile is very much, as with any other outreach, just the last resort while we look to get that full-time service up and running.

Chair: I think that we are just satisfied that you have the pronunciation of Scone right, so thank you for that.

Tracy Marshall: Thank you. I think that you pronounced it first.

Q308 **Paul Masterton:** I do not have a rural constituency; I have very much an urban constituency in East Renfrewshire and we have, I think, six post offices that have gone in the past couple of years. It is all to do with the postmasters retiring and it not being financially viable, so then replacements cannot be found. Do you not find it slightly embarrassing that part of the model for finding a replacement is to ask the local MP to go and visit every local business on the high street to ask them if they would take it on? I know it is very difficult to find other people, but when you are at the stage where you are having to ask the MP to go and ask local business owners to take it on, that clearly suggests that it is not a sustainable current model. You should not be having such difficulty finding people to take on the service.

Part of the reason they will not take it on is because while you are right that post offices are not replacements for bank branches, banks when they close branches pitch them as being replacements for branches, yet a lot of the services that are being carried out—the easy transactions that are being carried out by postmasters—are for very little money or at a loss. It is really not very much surprise that if you have a very elderly postmaster who does not want to do a lot of these new transactions, they retire and you then cannot find another business to go into it.

Eaglesham is a classic case where the bank shut, now the post office has gone, so there are no banking services. It has been two years. The Post Office says it is desperate to get somebody else to replace it, but it cannot because nobody is interested. Then you just go round and round in circles and ultimately it does seem that, as an organisation, you are completely toothless to be capable of getting a replacement service into a community. I do not particularly want elderly people in my constituency having to go to a pub to do a banking transaction. I do not think that that is positive. I do not think that that is something to say that this is great. You should have a standalone premise and I think that there are real questions that have to be asked within the Post Office as to why it is near impossible for you in so many cases to find a replacement when a postmaster retires or resigns.

Martin Kearsley: You mentioned going round and round in circles. In an attempt to break that vicious circle, that is exactly why we have made the changes we have to remuneration. You made the point very eloquently that it is not worth the postmaster's while in some instances. We have absolutely recognised that in many cases. I mentioned earlier our chief executive launching this full review of remuneration. We will address that. That is an absolute commitment that we have to look at every piece of remuneration and make it worthwhile running a post office.

We strongly feel that not only are we in the community but we are for the community. As to your comments about asking every MP to trawl the high street, I think that it is a partnership, without a doubt. It is our duty to make it worthwhile to run a post office and that is under way. I think that it is incumbent on us at the head office, our postmasters who take up the mantle for us and notable local residents to do the very best they can to make sure the post office stays in every high street.

I mentioned that we have an extremely challenging high street environment at the moment. A report from the British Retail Consortium this morning indicated a 6% reduction year on year in Scottish retail on non-foodstuff. The economy is very challenging. The high street needs support. The Post Office is not immune to that. We need support, too. We look to make sure that we can properly remunerate our postmasters and we are taking that very seriously, but we also look for notable local residents to help us make people aware and drive up the local awareness because that is what alters the dial. To the Member's question before about awareness, local awareness is a key element of this.

Q309 **Paul Masterton:** Obviously, as I understand it, there are certain requirements about opening hours in branches and targets for things being open. That is another big off-putting requirement, particularly for a small local business that does not want or cannot afford to pay the additional staff they need to be able to extend those opening hours. What flexibility is there in terms of some of these targets for branches being open every day and opening long hours? Do you have flexibility in that where you could potentially find a replacement but they are simply not able to afford very long seven-day branch openings?

Tracy Marshall: That is a really good question, thank you. If I can just go back a few years, when we started the network transformation programme when we opened more local branches and main branches predominantly in retail stores, our aspiration at that point was that for greater customer convenience and customer access, we would really like to get as many opening hours as possible. Our policy at that point in time was we would like those retailers to offer Post Office services via the retail counter for the hours that the host retail store was open. In some cases, that would still be the traditional 9.00 am to 5.30 pm. We have a couple of 24-hour convenience stores offering Post Office services. That is how our network of opening hours grew by some 200,000 over that period of time.

That said, we do recognise that those opening hours do not work for everybody. Some retailers are really happy to offer longer opening hours. Some want greater flexibility. I am really pleased to say that we do have those levels of flexibility. If any postmaster is not happy or is constrained in operating those longer opening hours—they do not have the staff, for example, to be able to operate or they are concerned about having perhaps younger staff on that counter out of hours—then we have conversations with them. Our field team will go out there, understand the concerns and quite often now we are able to reduce those opening hours to meet the demands of the customers.

You are absolutely right that if we have an option in a community with no Post Office service at the moment, we should not be demanding that that convenience store, who might be opening 8.00 am to 8.00 pm, provides a Post Office service from 8.00 am to 8.00 pm. We are going to have that flexibility to enable some level of service there.

Q310 **Paul Masterton:** I just have a last question, Chair. One of the frustrations that I have is that I do feel like the banks pass the buck to you as a network a lot and effectively try to get you to do their jobs for them. Certainly, from the evidence when we have had the bank executives in here, I do not think they do enough to ensure the sustainability and the viability of the Post Office network. They often use you as an excuse to leave a community but then I personally do not feel they back that up with any action. Do you think that you are, as an organisation, tough enough on the banks in terms of saying, "If you are going to expect us to pick up this load, we are going to expect more from you in terms of how you support our network"? It does seem that there is an opportunity here if you want it. As the Post Office, you could try to dig your heels in and be a bit tougher with the banks in saying, "If we are going to pick up your slack, you need to give something."

Martin Kearsley: If you had asked me that question last year, I would have absolutely had to agree with you. In the intervening year, as I mentioned earlier, we have just concluded some very successful negotiations with the banks whereby there has been a significant realignment and recognition by them all that we are picking up the load. Before we had the first banking framework three years ago, there was a series of bilateral arrangements—by that I mean we had an individual agreement with each of the banks—which was heavily subsidised at the time. In our first banking framework we brought all those banks together and said, "We cannot do that anymore. We have to have a single standard service model across you all." We moved the commercial model from that prior state to something better.

I am delighted to say that in this last year, we have moved on from that to one that reflects the value that the Post Office brings. If you were to ask the banks whether we have dug our heels in enough, it has been an interesting set of discussions with them. There has been resistance and challenge, quite rightly, for us to justify what we now wish to charge them, but we have got to that point of agreement. We have, I think, a hugely valuable contribution to the Post Office now for many years to come. This is a multi-year arrangement that we have with them where all of our services, with the remuneration that I mentioned, are sustainable for the Post Office. It gives us money to invest in our services, which we are looking to do through the supply chain to make sure we can continue to deliver robust volumes and values of cash to the entire network, coast to coast, north to south. From that, we absolutely have a better, sustainable and commercially viable relationship now with the banks.

Chair: There are a couple of other supplementaries: Hugh Gaffney and then Christine Jardine.

Q311 **Hugh Gaffney:** The Post Office has a target: 95% of the population within a six-mile radius will get access to a post office. You made that quote, "last bank in town". It is a dangerous quote because every time it is said, we start to close down. My question is: 80% of pensioners living on pensions use cash frequently. People still rely on cash. What I am getting worried about is that more and more frequently, we are seeing that ATMs are starting to charge now, especially in poorer areas, rural areas and all that. Is the Post Office charging for ATMs? Can we give free access? The ATM industry has found that Scotland and London risk losing free access. It is happening more and more often. Can you explain why that is happening?

Martin Kearsley: I can. In terms of the industry in general, the banks pay each other to use each other's ATMs. It is called interchange. There has been some significant pressure from the main bank that pays into that scheme two or three years ago to say, "We are not going to pay that much anymore. We need to pay less." LINK responded by altering the interchange and gradually reducing it over a number of years, and that has put a number of ATMs under severe pressure, not just Post Office ones but across the industry. Where we have risen from something like 50,000 ATMs to 70,000 ATMs over the past 20 years, most of those being free to use, a very large number of them will start to either get removed from service or become chargeable. That is just an industry response to less money moving around the system on interchange.

I can absolutely say, though, that we have two models in the Post Office. There are 2,500 ATMs that we support as head office. We will never charge for access to those. They will be free to access. There are other ATMs in some post offices whereby the postmaster has arranged with what is called an IAD, an independent ATM deployer, for their own deployment of an ATM. Some of those may be chargeable, but with something that is controlled by the Post Office we will not charge to access cash at that ATM. We will not charge to access cash at any of our counters ever. It is a free access service to any UK bank account.

The point of that, and you made it very well, Mr Gaffney, is about pensioners. The third part of the service I mentioned earlier that I look after for the Post Office is our Post Office card account. We still have just over a million customers, about 1.1 million, who use us every week to withdraw pensions, to obtain their benefits, and some of those customers are the most vulnerable in society. Without access to cash through a Post Office—and they know us well, our postmasters know those customers—some of those customers may really struggle. We take that community service and that social service very, very seriously. It is a service that is due to be terminated in November 2021 by the Department for Work and Pensions and we are working very closely with them at the moment to ensure that Post Office remains the channel whereby every one of those customers can still access whatever account they wish to use. They will access them free over the counter, free through the ATM, and that is our commitment. We need to be the channel for those customers.

Q312 **Christine Jardine:** I just wanted to ask a wee bit more about the network. The network report in 2018 said that there were three areas of Scotland that were falling short of the accessibility criteria that 95% of people had to be within six miles. Since then, has that situation changed? Are there any more who have fallen out of the criteria?

Tracy Marshall: Yes, it is a good question. At the end of March, which is the last information we have, there were three postcode districts in Scotland where there was no Post Office service. Our commitment to Government is that we will maintain a service in every postcode district. I think that it is important to point out that overall—and our access criteria are national, by the way, not Scotland specific—we are doing really well generally. We have 99.7% of the population with access within three miles and around 93% in one mile.

I have notes here on those three specific postcode areas. One, for example, in Howmore, HS8 postcode district, which is a deep rural location in the Outer Hebrides. That is one of the prime examples of where it is incredibly challenging for us to maintain a service. In that particular example, I believe it was actually operated out of someone's house, out of their front room. Of course, when that postmaster decides not to offer that service anymore, with nowhere else nearby it is very difficult for us to do that. We will continue to work on that.

With one of them we have had some success. In the PA21 postcode district, it did not have any post office in that area.

Christine Jardine: Where is PA21?

Tracy Marshall: My pronunciation might be quite poor here. Kames and Tighnabruaich.

Christine Jardine: Tighnabruaich?

Tracy Marshall: Yes, PA21. In that area, a new post office local service has now opened, so we are now meeting the access criteria in that particular location. These things will change all the time. Every few months we may have a new postcode location that fails the access criteria and we will take every step possible to introduce new services. Some will get resolved and then another one will open, so it is a very fluid network that we have. It is a really good question.

Q313 **Christine Jardine:** Yes, but are there any more was my question. Are there still three or has it increased?

Tracy Marshall: There are still three.

Q314 **Christine Jardine:** Where is the third one?

Tracy Marshall: We have PA21, PH38, Acharacle post office, an outreach service to Glenfinnan, and Lochailort. The issue here was that both of the services were provided within a hotel—a prime example again of where we have tried to find some location in that community and the hotel is a seasonal hotel. In one of those cases we have services restored now given the time of the year, but in the other again we are looking to introduce some outreach services.

Q315 **Christine Jardine:** Thank you very much for highlighting that. I personally am a bit concerned about the population being within six miles of a post office and whether or not six miles is actually—I appreciate that in a rural area people will be used to travelling to a lot of services. That is one difficulty and it is very difficult for those communities. In the cities, are you finding the urban areas still have the same level of coverage? We have talked a lot about the rural, but I am thinking now about constituencies like my own that have large urban areas. Shops are closing. Are you finding any difficulty there?

Tracy Marshall: Again, if I can go back to the access criteria, we do distinguish in our access criteria between urban and rural. In our urban population, our target set by Government is 95% of the population within one mile and we are exceeding that; we are at 98.2%. That is really great news. If you go even deeper into our urban deprived population, where we know there can be challenges and some quite vulnerable customers, again we are exceeding that access criteria. That is set as 99% of the population within one mile for urban deprived areas, and we are at 99.4%. Overall, we are not seeing any trends in a worsening service in urban areas.

To also cite information on the rural population—this is nationwide but I think that it fits in quite nicely and more so with the Scottish geography—we have a target of 95% of our population within three miles and again we are exceeding that at 98.7%. It is really good news. That is not to say that there are not some communities where there are challenges. We completely understand that and we will continue to do as much as we can to reopen services in those areas.

Q316 **Deidre Brock:** Going back to rural areas, it is a little unclear the criteria you use. I am just thinking of my parents-in-law, who I always reference when we are talking about these access to financial services issues. They are covered by the Lairg postcode, for example, but they live 10 miles away from Lairg and 10 miles away from Bonar Bridge. How does that compute in terms of how you are establishing your criteria for who is living within a few miles of a post office and who is not, and who fits into the percentages that you are talking about there who have access? Does the fact that they are living in the Lairg postcode mean that they are considered to be within a reasonable distance of a post office?

Tracy Marshall: I am not close to the details of how the access criteria are calculated in terms of where the population is, so perhaps that is something that we can take away and respond to the Committee on.

Deidre Brock: That would be helpful, I think, yes. Thank you.

Tracy Marshall: Absolutely.

Q317 **Chair:** The mystery of postcodes and how they apply across local authority areas—I think that we all have a few of them in our constituencies.

Can I come on to Government services? You touched on the television licence, Mr Kearsley, and I have been here long enough to remember when it was the pension book. That was one of the first of the Government services that were taken away from the Post Office, and that had a very dramatic impact and effect at the time and really put a number of post offices underserviced. The NFSP has raised concerns about the withdrawal of income provided by the services. What is your plan to replace that, and how are you designing a business model that will accommodate the loss of these Government services?

Martin Kearsley: Without going into a history lesson, the Post Office has been in existence for 370 years. Our job is to caretaker the service so that it is good and fit for purpose for the next 370 years. Throughout that time I am sure all sorts of services have ebbed and flowed in importance and value at the time, but the consistency of delivering a service is the key thing that runs throughout.

You are absolutely right, Chair, that Government services have reduced significantly, with something like a 40% reduction over the past few years. As we have discussed this morning and this time last year, our plan to protect the Post Office into the future is through banking. It is the significant area of growth right now. I think it will stay that way for probably in my mind the next three or four years at least, at the sort of levels that we have and growing. That is a reflection of the number of customers. We talked about awareness before. If we can drive up awareness, there will be additional business coming into post offices. We are investing in it in order to be able to support that growth.

Inevitably, as all those banks do change their structure, we are getting the compressed volume of their customers coming to us. That will see us grow in financial services and banking services for the next three, four or five years. I also mentioned earlier that inevitably, as we all see in the forecasts, cash itself will start to decline over the next few years. I think that it will see all of us out and still be here as a mechanism to make payments; therefore, the Post Office is preparing to be here for as long as cash is available or wanted in the economy.

Q318 **Chair:** Just to clarify what you said there, your view and the model that you are adapting and building and bringing forward is for banking services to replace what you traditionally did with Government services? Is that roughly where you will be going in terms of developing the network?

Martin Kearsley: Our key role in all this is to make sure that we stay open in every high street in every community. That is our prime role. As one service decreases over time, others have to build up to support that. Banking fulfils that bill right now. Inevitably, there will be new ones.

One area that we are looking at very closely is identity and developing that. Most citizens in an online world will have value and will get value from having an electronic identity that they can use. That needs to be backed up over time with documentary evidence and documentary support, so mixing again our branch infrastructure with online and electronic-type identity is going to be a growing service over the next few years. We are not putting all of our eggs in one basket. It is a constant evaluation of what services are growing, what ones are starting to diminish, and how we replace them as we go.

Q319 **Chair:** I am looking at the direct Government support that the Post Office secures. It is £370 million worth of funding that you get from the Government and £210 million of that will be for continued modernisation.

How does this actually work out? How does this add value to the network? Is there more that the Government can do in terms of giving a resource in order to try to ensure that you are able to progress the network?

Martin Kearsley: In terms of the network payment, it is my understanding that that number you mentioned, Chair, was a multi-year settlement.

Chair: Yes, it was.

Martin Kearsley: Okay, which would see us through to something like 2021-22, after which there is no further Government subsidy or Government payment.

Chair: So no subsidy on that.

Martin Kearsley: You mentioned an element of that is to carry on with network modernisation. We have run through a very successful programme over the last few years, this being the tail end of it, whereby we have refurbished in excess of 7,000 or 8,000 branches around the network, making every one of our branches a welcoming, secure and warm location where people can come in and feel confident about whatever transaction they wish to undertake. There are clearly some post offices that we still have not managed to get to. We look to get to those in the coming couple of years. What we intend to have and what we have in a very large majority is a new, fresh-looking, welcoming post office that is fit for the next 20 years.

Chair: I know that we have the Minister in at quarter past, but Mr Gaffney has a quick question.

Q320 **Hugh Gaffney:** Just on that point about doing the post office up, I am an ex-postman, as is well known. You are right that 2021-22 is the target for the closure; everything has all been done. Obviously, I know a lot of postmasters from my previous job working with Parcelforce and calling into these postmasters. A lot of them are saying that in 2021-22 they will be handing the keys back. Is that what you are hearing? We were talking about premises earlier on. The biggest problem is getting a subpostmaster to cover an area. I think that is the real reason why we cannot get premises, because we cannot get people to do the job because they are not getting enough money from the job now. The job is lost because of digital services. Is that the feeling you are getting?

Martin Kearsley: It is not. As we have talked about a couple of times in this session and prior ones, we have absolutely recognised the challenge of remuneration. We know full well that there are certainly some postmasters around the country who are extremely angry about the change in their livelihood over the past few years. We have absolutely heard that and recognised it. We have put in place now some significant changes. I won’t say we will be able to change everyone’s minds, but certainly some of our colleagues will say, “I can now make a good business out of this. I can make a livelihood work. I am going to stay in my community. I am not going to give the keys back."

Hugh Gaffney: That will be welcome news for most of them. I am glad to hear that.

Q321 **Chair:** On welcome news, we will maybe leave it at that. Thank you ever so much for coming along. I think that there are a couple of things that you are going to clarify for us and get back to us with information on.

Martin Kearsley: Yes, we will.

Chair: We are very grateful for your time once again, Mr Kearsley. You are always welcome at this Committee, and you, too, Ms Marshall.

Tracy Marshall: Thank you.

Martin Kearsley: Thank you very much.

Examination of witnesses

Witnesses: John Glen and David Raw.

Q322 **Chair:** Minister, we are very grateful for your attendance this morning to help us with our financial services in Scotland inquiry. For the record, could you say who you are and anything by way of a short introductory statement? In that process, you may be able to introduce your colleague.

John Glen: Sure. I am John Glen. I am the Member of Parliament for Salisbury. I have been the Economic Secretary to the Treasury since January 2018. I work very much on financial inclusion. I am the Minister responsible for banks, insurance and financial services generally. I bring with me David Raw, who is a Deputy Director in the Treasury. I will leave him to introduce himself in terms of his responsibilities, but I hope in the context of the questions today I will be able to be fully accountable, and David is here to correct me if I make a massive error. We work very closely on the issues of bank closures and ATM networks. I do not want to do a long preamble. I am very happy to answer in the context of the questions.

Q323 **Chair:** I am grateful. I just want to check with colleagues. I know we have Prime Minister's questions at 12 o'clock. Is everybody able to stay beyond the start of the session? We will see how we get on. I am grateful. Mr Raw?

David Raw: I am the Deputy Director for the banking and credit team in the Treasury. As the Minister says, all these questions around access to banking services fall squarely in my patch.

Q324 **Chair:** In the course of this inquiry we have heard repeatedly just how important cash is and how dominant a feature it still is in terms of communities and transactions that people need. What are the Government doing to ensure that the constituents we serve and represent will have the access to cash that they tell us they require?

John Glen: Before I answer that directly, there is a short preamble that I think is necessary to set this within the context of changing behaviours. We are seeing that in 2008, 60% of transactions were by cash; in 2018, it was 28% and it is projected to go down to 9%. That puts a whole stress on the way that banks respond to that and the way that we have an ATM network.

We did a call for evidence in March last year on access to cash and we have responded to that by saying that we need to ensure that the infrastructure supporting the availability of cash is improved. We have set up the Joint Authorities Cash Strategy Group, JACS, which David chairs. That brings together the PSR—the payments regulator that we set up in 2015 that oversees and holds LINK to account—with the Bank of England and the FSA to essentially look at the efficiency of the cash distribution network. As we use cash less and less, we need to make that better, but there are then also two domains that we need to look at.

One is the context of bank branch closures, on which I have many debates. I am answering another one in Westminster Hall at 2.30 pm if you want to come today. That is one area where we have a set of interventions. The other area is with the ATM network. While the number of ATMs increased up to 2017, we have seen a reduction. I have seen in my own constituency a reduction of nine in the last two years, and I think that you have seen a 12% reduction in your constituency as well.

Q325 **Chair:** Indeed, but what are the Government doing about this? Every time it is put to you—and I am quite certain you are going to tell the Select Committee this and you will probably say the same in the debate this afternoon—you say that they are commercial decisions for the banks. When it comes to RBS, no Minister would come in front of this Committee to answer questions about the Government's role in all of this. I think that there is a sense from all our communities and constituencies that the Government are still the majority shareholder when it comes to RBS. What are you doing about it? What are you doing to address these closures?

John Glen: If I answer with respect to the banks and then with respect to ATMs, with respect to banks I think that there is a difference of opinion between your party and mine as to what 62.4% ownership means in terms of an operational, day to day role. We do not get involved, with respect to RBS, on the day to day decisions.

What we can influence is the way that it consults. I am very aware of the concerns that exist around the access to banking standard, which is overseen by the Lending Standards Board. I will be meeting with the Lending Standards Board following conversations with colleagues across the House, from all parties, around the consultation obligation at the point of deciding to close a branch, how that works and whether best practice is universally observed. I would observe that across different banks, different decision-making processes exist, different levels of transparency exist, and I think that is unhelpful. It would be much better if there was a universal higher standard observed. In many cases, it would help us as constituency MPs to better understand and justify the decision based on the massive drop-off of people using those bank branches.

Secondly, what we have done is we have invested a lot in invigorating the role of post offices to provide banking services. I accept that there is a challenge to get full migration of confidence in post offices: 52% of adults are aware that you can do banking in post offices, but of those that do use them for banking services, 77% say they would use them again. We have 11,500 post offices. We have 91 more than we had in March last year. Again, there is an issue there around people saying, "I don't have the same level of privacy, the same confidence in the actual environment I do my banking in at the post office." I am in consultation with the BEIS Minister, Kelly Tolhurst, to make sure that everything can be done to improve the quality of the expectations of the Post Office in terms of delivering banking services. That is on the banking side.

I do not want to keep talking unless you license me to. Do you want me to go on to ATMs?

Q326 **Chair:** Can we stick to bank branches just now? I know that we have lots of questions on ATMs and I am sure members of the Committee will want to ask you specifically about that.

On the bank closures, did the Government even just pick up the phone to RBS and say, "Listen, there is a huge issue about all of this. This is having dramatic impacts on communities," and ask them to review or look at it? Or do you just stand right back and let them get on with it? What do you do? Members of Parliament are coming to you and staying to you that there is a huge issue in their constituency and they are concerned about what is happening. How do you take that forward with the banks?

John Glen: I speak to the chief executives of all the banks regularly. I have routine bilateral, one to one contact with them. I also work through UK Finance as the trade body for banks, and I see them in different fora like TheCityUK and other groups in the City. I have always said that this is the principal concern that exists around that, as well as historic disputes with business banking. Those are the two hot topics that I have seen during my time.

That is why I am pleased—just yesterday—that UK Finance is taking forward a piece of work, building on the Access to Cash review, where they are looking at all the options that exist. People bring to me the options of mobile banking, which does work well in some instances. Then there is the use of technology and how FinTech can provide solutions as well—and there are institutions like Square that are doing that—and how we can get other piloted things. People talk about hubs. We see six or seven business hubs for business banks in urban areas.

In terms of your question, my engagement with them is to say, "This is a hot topic. We need to be looking at better solutions, particularly in sparsely populated areas," which obviously in Scotland is at a premium.

Q327 **Chair:** That is comforting and thank you for that. What we have heard in this Committee is real issues and real pressures being put on communities. I am seeing figures like 8 million adults said they would struggle in a cashless society and that cash for so many people, particularly those we represent, is not a choice, it is a necessity. We have seen the response to some of these closures.

I always give the example that I represent Aberfeldy in the Perthshire Highlands in Scotland. There was actually a demonstration about the closure of a bank. There is a sense of powerlessness. There was something that you said that you could maybe elaborate on, Minister—that you would like to see that changed, about consultation before a bank is closed. We have had all the regulators in and they have all told us that there is consultation, but it seems to be after the bank has been earmarked for closure. Would something like having a proper consultation before a bank is closed be something that you would support and think should happen?

John Glen: I think that the maximum level of transparency possible is desirable in all circumstances. What happens is that there are different protocols observed. They are obliged to consult once a decision has been made, and that disempowers Members of Parliament. You think, "What can I actually do?" You will get 30 letters or e-mails within a day and you feel you cannot do anything about it. Then you go and see them and the decision has been made and there is no transparency around the numbers so that you cannot justify it or understand what is happening. That makes it difficult to communicate the rationale.

As I say, I am meeting with the Lending Standards Board and taking with me the range of experiences across different banks. Some do it very well. Some take the vulnerable customers when it is the last bank in a town or a village or a community and hand-hold them very carefully through the process of transitioning to the post office. But that does not always happen effectively, so I am very sympathetic to improvements in this area and that is what I expect to happen.

Q328 **Chair:** This is the last one because I know that lots of colleagues want to come in. We had RBS here. We had Ross McEwan come and give us evidence. What struck us was that very little was actually saved by closing these branches, but they were having a disproportionate impact on communities that valued the service and wanted them to remain as a feature of the community. Is there nothing that the Government could do to give some sort of fund in order to ensure that a banking service could be maintained within particularly remote, isolated, rural communities?

John Glen: Mr Wishart, last year I took the opportunity to visit Scotland. I went to Glasgow and I went out to the Isle of Barra to examine a consultation that was happening. RBS did do an independent consultation on a particular category of their proposed changes then, and there are ways of doing this more effectively.

In terms of the pot of money solution, as I said in those opening statistics, which I won't repeat, the degree of change and the rapidity of change in the way we engage with cash and make payments is such that it would be very difficult to conceive of a single, centrally driven intervention that would do justice to the changing profile of needs. What we have to do is look at the range of options and deploy the best ones appropriately in different communities.

Q329 **Christine Jardine:** I wanted to ask you about the reforms that we have asked for, the standard, including consulting before closures are finalised and publishing reports on individual banks' compliance. You talked about the banks having very different attitudes, so would you support those sorts of reforms?

John Glen: Yes, I do. Sorry, I rather pre-empted your question a little bit in my answer to Mr Wishart; that is exactly what I think needs to be done. We need to look at better practice. I have listened very carefully to lots of colleagues across the House, from all parties, who have said, "I did not know what was going on here. It made it very difficult for me to interrogate it and explain it to my constituents." I think that virtually all MPs are keen to make a constructive intervention to help, not just to campaign against something that they know in their heart of hearts is bound to happen.

Q330 **Christine Jardine:** We have talked a lot about banking hubs. Are you monitoring what is going on?

John Glen: Hubs exist on the business side and there are, I think, about half a dozen that exist. The issue is about the volume of transactions that would occur in a rural area. They sound an attractive option and they can be an option, but again it is difficult to centrally drive a rollout of something that relies on perhaps multiple things coming together. That is why the UK Finance review would hopefully give us a set of options that would give us as MPs a deployable menu to take to a local authority to perhaps get sympathy on a use of a building or to co-locate something so that these banking services could be maintained.

One of my predecessors, Andrea Leadsom, looked at and raised the issue of doing deposits of cash in banks through machines. Of course, those do exist in some; they are not universally available. What I have to do and what I think UK Finance has to do is get a grip of all the options and make them more accessible to all banks and all communities.

Q331 **Hugh Gaffney:** It is interesting that you mentioned banking hubs there because every bank that wants to shut down will say, "The post office is there," and put the blame on the post office. You get to the post office and there is a whole wall of envelopes with every single different bank on it. It takes four days—John mentioned this earlier on—and it is an absolute joke in this day and age. When we mention banking hubs here, why haven't the Government just stepped in and made a national bank and taken the profit off the banks?

John Glen: I am aware of your deep experience in this professionally and I respect that. The issue comes down to the applicability of a single solution in different areas. Because of the degree of rurality and the number of people across deprived areas and more affluent areas, it would be very difficult to centrally conceive of a policy intervention on the hub that would work. I am very sensitive to your concern and I have listened to you speak on this in the House as well and in Westminster Hall around too many burdens being placed on the Post Office. It is true to say that we have spent £2 billion since 2010 on the Post Office network.

Hugh Gaffney: Refurbishment, yes.

John Glen: You will be aware that we were making a significant loss of £125 million. We are now making a profit. Some of those interventions have meant certain big adjustments. We have recently announced an increase from £3.12 to £8.16, I think it is, in the fee for dealing with £8,000 worth of cash and I am engaging myself with postmasters. One in Devon is coming to see me in the next few weeks, looking at how this can improve footfall and make post offices a more significant hub of economic activity in communities.

We have made that policy decision but it is not static and I accept that the transition from going to your local bank to going to the post office to do banking needs some assistance, but I would just rely on the fact that 99% of consumer banking can be done quite easily through the bank office. It is a realistic solution, even if it is one that people are unfamiliar with and perhaps a little bit apprehensive about at this point.

Q332 **Hugh Gaffney:** It brings me back to my point that we can nationalise it and make it one bank and stop all these different banks. That is one opinion.

John Glen: I recognise your opinion. Obviously there are different views on this and that is not where this Government are at this time.

Q333 **Chair:** Nationalisation of the banks in not the current Government's plan?

John Glen: It is not a proposal I have put forward.

Chair: Just to clarify that for the Committee.

Q334 **Ged Killen:** Minister, you were just talking about ways that we could improve the process of bank branch closures and so on. It seems to me that is rather after the fact because we have had 339 bank branch closures in Scotland since 2015. There are lots of communities that no longer have any banks at all. In my constituency, all the banks are at one end of the constituency on one high street. Is it not a bit late to be talking about that?

What lessons have been learnt by the Government from that process that will be taken into the ATMs, and what is going to be done differently to stop us being here in two years' time saying, "Isn't it a shame how many ATMs were lost, but we are going to try to learn and improve the process?"

John Glen: We have met bilaterally to discuss some of these matters, particularly on ATMs. I will come on to ATMs in a moment. In terms of the access to banking standard and Lending Standards Board in establishing best practice, I have said that I think there is room for changes there, but the reduction in the number of bank branches reflects the fundamental and rapid change in customer behaviours and the move to online banking that is becoming universal at all levels.

I accept that with ATMs, we have seen a reduction in the last couple of years but just to focus in on some facts here, between the year ending 2008 and the year ending 2018, we saw the number of free ATMs in Scotland increase by 85% from 2,800 to 5,200. Now, we have then seen a reduction in the last two years of 6% of ATMs free to use in Scotland, and that is against a national reduction of 9%. There are 700 more free ATMs compared to 2015 in Scotland.

The issue becomes how you ensure that those ATMs are accessible to the poorest communities. Since 2006, LINK—which manages the ATM network but is held to account by the Payment Systems Regulator, which is four years old—has had two mechanisms. They have the ability to flex the interchange fee to create incentives to keep those machines open. Where a machine, if it went, would mean that you could not get cash for more than a kilometre, they increase that fee. They can increase that fee quite significantly—whatever it takes to make that function. Secondly, they have a specific programme around mandating the creation or the establishment of an ATM. There is a mechanism on their website to request that where you are in a deprived community and access to cash is very low. They have a mechanism for evaluating that.

I hope we are not being complacent with respect to ATMs. This is part of the intervention that we made on the Joint Authorities Cash Strategy Group, which is existing and it is designed to make the distribution of cash at wholesale level more efficient. This intervention with respect to ATMs will safeguard a network for consumers to be able to use.

Q335 **Ged Killen:** I would suggest that the increase in ATMs you are talking about are probably in large, out of town shopping centres—

John Glen: The what, sorry?

Ged Killen: The increase. Before we had the decline you said there was an increase in the ATMs in Scotland. I would suggest that is large, out of town shopping centres and supermarkets; it is not the small rural communities that we are mainly talking about here.

There is no doubt that there have been changing behaviours by customers. That has driven bank branch closures and it is driving ATM closures in some cases, but surely we need to make sure that we get this right for the people who still need these services—the elderly people and people who live in remote rural communities. On LINK's financial inclusion programme, Which? has said that 3% of the total LINK network falls within the programme. What happens if it is not working, which it does not seem to be at the moment, if only 3% of ATMs are falling within it?

John Glen: I do not accept that characterisation of the increase. That is a significant increase over a large amount of time. To say that they are all in out of town stores is likely to be a simplification, but I do not have the map in front of me so I cannot prove it to you now.

In terms of the financial inclusion intervention, what I am concerned about is that the PSR is holding LINK to account for what they have said they are going to do with respect to having no reduction in the geographic spread of ATMs and their availability, and I am very happy to take representations on where it is considered that that is failing. They do have this mechanism and they have changed the fee structure. They have reduced the standard fee.

Frankly, in wealthy urban areas we were seeing far too many ATMs and so we have seen a thinning-out there, and then we have seen the fee adjusted so that across the network as a whole, the burden—we have to remember that the ATM network costs the banks £1 billion. We are not going to get the violins out, but we do have to realise that they will find ways of recouping those costs in other ways. It is really important that we make sure that the mechanism for governing the existence of ATMs is as efficient as possible and the mechanism for distributing cash at a wholesale level is as efficient as possible and reflects the reduction in the demand.

Q336 **Ged Killen:** They are going to recoup it 10 years from now over and over again when we are in a cash-free society, so surely it is not too much to ask that they meet that short-term cost in order to protect customers who are not quite there yet.

John Glen: I think it is very important that the financial inclusion programme of the LINK is effective, maintains the geographic spread and maintains the access to cash commitment the Government have given as a response to the call for evidence 15 months ago.

Q337 **John Lamont:** Good morning, Minister. In my constituency in the Borders—

John Glen: Fantastic as it is. I was privileged to visit last year.

John Lamont: You did. I was very pleased to have you there and you were able to meet a number of the local businesses, but there is concern about the number of bank branches that have been closed—six—by the Royal Bank of Scotland. You know my own personal view that I was disappointed that Government were not able to do more to influence the management at the bank.

One of the alternatives the bank puts forward as to why people should move away from the traditional branch model to alternatives like, for example, broadband and mobile is that it is easier to use and whatnot, but in the Borders and in my constituency many people cannot access good broadband services. I am wondering if there is anything more or further the Government could do, recognising the policy decision not to intervene in commercial decisions of the bank, in terms of providing greater support to those communities that do not have good broadband services, where that has been put forward as the alternative to the bank branch model.

John Glen: Yes, in preparing for this Committee I was very aware of our conversations last year, when we met local businesses, and the problem of connectivity. Of course this is not, again, a static position in terms of Government policy. Obviously we have seen 22 million banking apps downloaded, we are seeing a 13% year-on-year increase in terms of log-ins to online banking and it is important we have that infrastructure in place. Set against 45% in 2010, now 96% of the country can access 24 Mbps. Next year we will have the 10 Mbps right to access under the universal service obligation. We have also recently initiated the Rural Gigabit Connectivity investment. There is a lot of work going on.

Within Scotland, 97% can access 10 Mbps or higher and 93% 30 Mbps or higher. Now, if you look at the functionality required, which is typically 2 Mbps and 3G to access banks, it will cover a massive proportion of even rural communities. Where it cannot, the intervention is the Rural Gigabit Connectivity programme, which should enhance that. There is not complacency; there is a challenge with the very last few percent, which you represent and I represent a very small amount of it as well. Those solutions are coming. We see small cell technology as well, which will allow online banking to be used more reliably in those areas.

Q338 **Paul Masterton:** I want to speak about a couple of things that came up when we had the four bank executives in here. One of the things that I have always found frustrating, as a constituency which had its main bank branch closures before 2017 but is now suffering from a spate of post office closures, is the very significant reliance the banks place on the Post Office network often as a justification for leaving a community, in terms of saying, "Our footfall has fallen and you can do most stuff at the post office so we do not need to be here anymore." The banks were not able to answer at this Committee very definitively what fundamental support they give to the Post Office for passing the buck over to them and getting them to do a lot of banking services at a loss. Basically, the banks get the post offices to do their jobs for them without, in my view, properly ensuring the sustainability of that network.

I just wondered if that is something that the Government, given their role in terms of the Post Office if not the banks, is concerned about and if it wants to ensure that if banks want to pass things over to the Post Office, they take more responsibility for ensuring that network is viable.

John Glen: This goes back to the conversation that I am going to have with the Lending Standards Board imminently about the overall responsibilities and standards that the bank needs to observe when they move out and close a branch.

When I became the Minister very early last year, a few months in I got in touch with UK Finance, the banks and the Post Office to refine the protocol and expectations around that, but I think there is sufficient divergence in experienced behaviour that I have seen, from colleagues who have said different things and feedback that you have given me to lead me to say, "Look, there needs to be an improvement there in terms of exactly what can be expected." Then we have something to hold the local application of those protocols to account. That is part of the conversation I will be having with the Lending Standards Board.

We have invested in the Post Office network but there does need to be sensitive handling of that transfer, particularly of vulnerable customers. I am clear that the Post Office can handle 99% of consumers' needs and a very high proportion—something like 95%—of businesses' needs, but the challenge is to make that a smooth process so that consumers are not left in a state of bewilderment. Your point is well made and it is part of the responsibility I have to make sure that is delivered.

Q339 **Paul Masterton:** To give you an example recently, Neilston, which is a village in the more rural part of my constituency, lost its last bank a good few years ago. The only banking service in the town was the post office, which closed six weeks ago. There is now nothing. The bank, when they left, pointed everyone to the post office, but now the post office is gone and the bank is nowhere to be seen. The bankers are obviously no longer interested in that community, having stepped away from it. I think that would be good to get picked up.

John Glen: Just on that, just for the record if I may, 99% of people live within three miles of a post office and 93% live within one mile. Again, it was the right policy intervention but I am sensitive that it will not be universally the solution. I am very happy to look, and this is the UK Finance thing, around finding alternatives. I visited the Derbyshire dales last year—last spring—looking at mobile banking. It can be an option. That needs to be done sufficiently regularly with the right facilities in place for vulnerable consumers. I am sorry to—

Q340 **Paul Masterton:** No, no, just speaking about terms, one of the things we also raised was the shared spacing of banks. I know you touched earlier on the point that some of them have done it on the business banking front, but I felt that there was massive resistance from all four of the banks. Some of them seemed practically offended by even the concept that in terms of customer banking they would have some kind of shared space, or the idea that they could co-operate so that you could have a bank of machines—some of these deposit machines that you go to in a branch to pay into your current account—that were able to pay into any number of banks. They seemed hugely resistant to it.

Do you think that there is something that can be done in there to try to encourage banks to look more seriously at some of these issues rather than get all antsy about sharing space with competitors?

John Glen: I share your instinct that there is room for collaboration. Given how sophisticated these machines are, they need to just undertake to inhabit a common area and consumers can access it through their cards. There needs to be an attempt to de-brand some of these entities. I think again it is the economics of it that would be the issue, but they do happen with business so they are capable of doing it. They are capable of co-operating.

There are those that have said they are going to keep their branch network open for two years. There are those banks that have done that and the market will realise there are those that are trying hard to find better solutions in an area of declining use and appetite for cash.

Q341 **Chair:** Just on the innovations, you did mention the proposal—I think it was Andrea Leadsom who raised it with Link—about allowing cash and cheque deposits across the network. Whatever happened to that proposal? Are there any plans to try to revisit it and try to encourage—

John Glen: Well, some banks have developed machines that do that. They are not universally available everywhere. That would be a decision for the banks to make on a bank-by-bank basis. I do not think it is appropriate for me to mandate a certain type of machine because I do not know what the relative access is to the technology.

Q342 **Chair:** It is just like Mr Masterton's question. There are potential possible solutions to these difficulties and I think we are looking to Government just to give more of a lead to these things to try to address some of these. I was just wondering what you are doing in these conversations you are having with all the banks. Are you saying, "Here is something that we would like you to look at, consider and take forward?"

John Glen: Yes. That is why the UK Finance announcement yesterday to look at these sorts of solutions is very welcome. I am pleased that they are doing so, they need to and that is a good thing.

Q343 **Chair:** You can deposit in your own ATM, obviously. It is the ability to deposit in other banks' ATMs. That is the key to this.

John Glen: These are the sorts of solutions that they are looking at. I am convinced of that. There are challenges with some of these solutions. The cashback option is another one. Currently, the restraint is that you have to buy something to get cashback. If we can solve that, that might be helpful. We also need to think about self-loading machines. Then we have to be cognisant of the risks around anti-money laundering.

I am not trying to present problems, I am just saying that there are a range of potential solutions. I want them to be scrutinised, I want them to be more readily available in different circumstances, and I want that to be done as quickly as possible.

Q344 **Chair:** I am grateful. Can we come to the access to banking standard? We have touched on this briefly in some of the earlier exchanges. We made a number of recommendations in our previous report, which you have obviously seen, about the access to banking standard. It was mainly about regulation. Are you satisfied, when you look at how all of this is working out, that the self-regulatory regime is a proper way to manage bank closures?

John Glen: I think I have answered in several ways. There is the desirability of a review of the provisions of the access to banking standard, overseen by the Lending Standards Board. It is desirable for better practice to be fully articulated and to be made normal for everyone. I understand the inclination to say, "Legislate, intervene, mandate," but we have to think about the practicalities of policing this.

What I want is, through urging, to get them to a level where it is expected that the level of engagement and consultation is higher and the protocols for dealing with local communities in doing the transfer to the post office are most exacting. I think that will happen. It is never perfect. There is always room for refinement.

Q345 **Chair:** My question was: are you satisfied that this is working, that self-regulation should remain a feature? Do you have any views at all—

John Glen: Yes, I do have views.

Chair: Let us hear them then.

John Glen: Well, I have just set them out. I am satisfied that the mechanism exists—

Chair: You are satisfied?

John Glen: Well, no, it is the whole thing together. I am satisfied that the mechanism exists for improvements to be made available on an ongoing basis and that is happening on this particular issue at this time.

Q346 **Chair:** In our report on RBS closures, which I know you have had a look at, we called for several things. We did not get all that much of a clear and satisfactory response from Government that told us exactly what they were doing, but we called for communities to be consulted ahead of final closure—I think we have agreed that that would be a good thing—and for the Lending Standards Board's reports into individual bank closure programmes to be published, to tell communities why individual banks have closed.

John Glen: I think higher standards of transparency are necessary and desirable.

Q347 **Chair:** Have you been keeping an eye on the access to banking standard and the LSB oversight of it? Are you keeping an eye on it?

John Glen: Yes. That is why I am going to see them, because I do think that there are some questions raised by colleagues across the House recently that I want to hold them to account for.

Q348 **Chair:** Excellent. We also called for other reforms too, like publishing reports of the individual banks' compliance and requiring the impact on vulnerable groups to be explicitly considered. Would you support these types of reforms?

John Glen: What I am interested in is effective urgent treatment of vulnerable people to help them transition to ongoing access to banking services in the Post Office.

Q349 **Chair:** Could you tell us how that would work then and happen?

John Glen: In many cases it is happening at the moment. The question is, where it does not happen, why it is not happening, and to make sure that it does. I want to get clarity and a code of practice that is applicable to everyone that they will all sign up to observe, so that we as individual MPs can hold them to account to it.

Q350 **Chair:** If the LSB is reluctant to be making these types of reforms—

John Glen: I am not sure it is. I do not accept the assumption behind that.

Chair: I was just coming to that.

John Glen: Sorry.

Q351 **Chair:** We are not sure that they are, but if they are reluctant to make these reforms and if they point blank refuse to, would you not feel that maybe legislation would be required in order to ensure—

John Glen: All options are always open.

Q352 **Chair:** All options are open, so you would be prepared to look at legislation. Would you be prepared to look at statutory regulation in order that these issues could be progressed?

John Glen: All options are always open.

Q353 **Chair:** Excellent. I think that is the sort of response that we would like to hear. Lastly from you, and I am conscious that we might even make Prime Minister's questions, which would be a bit of an innovation—

John Glen: We might. It is in your gift, Mr Wishart.

Chair: I am sure it would please the Committee. We have heard about these hub pilots and how they are run.

John Glen: For businesses.

Chair: Yes. I know the Government have been keen to support them. Is there anything in relation to being able to make sure that they do happen and they are going to be a future of our communities and constituencies?

John Glen: I want there to be a range of solutions that are sustainable. What I do not want to do is mandate a single solution across a widely different economic picture across the United Kingdom and across different types of community. I think hubs, doing white-label consumer banking hubs, will be an option that should be deliverable in some parts of the United Kingdom.

Where I have a problem is this notion that I can set that out, even in terms of the legislative imperative, because I just do not think it is appropriate given how diverse the United Kingdom is. I cannot say, "Look, if these criteria are met they have to do this," at a time when in nine years, only 9% of payments will be in cash. It is just inappropriate to do that.

Q354 **Chair:** That is qualified support for that particular proposal.

John Glen: Yes. That would be a fair characterisation of my response, Mr Wishart.

Q355 **Chair:** I want to make sure that Members do get to PMQs but we have not had much opportunity to go around the access to cash review, which obviously has been probably the most innovative of all the things that we have considered at this Committee in terms of the way forward. Basically, it has suggested or recommended a number of things. Reducing costs is essential to maintaining access to cash and reducing the number of businesses that get—but what is the Treasury doing on the utility model of cash, the solution which is recommended by the access to cash review?

John Glen: Broadly, the challenge for the Joint Authorities Cash Strategy Group is to say, "Look, at the moment cash use is going down and the wholesale infrastructure for delivering it is too expensive. It needs to be reformed." If we can reform that effectively we can make the cost of delivering physical cash lower. That takes a cost out, which means then we can raise expectations around the LINK network and maintain the access for the consumer, which is the aspiration. That was explicitly what the review and Natalie Ceeney asked for, and we acted on that within weeks of getting it. I want that to be urgently implemented because it is key to buying us more time, effectively, for the network to be effective.

Q356 **Chair:** Just lastly, and you can answer it as briefly or lengthily as you want given the time, are we moving to a cashless society and is it part of a Government objective that we do get there? Is it a vision to go forward that we will eventually see a society where cash is no longer a feature?

John Glen: It is undoubtedly true that the rapidity of change across society at all levels is moving us in that direction, but I believe that access to cash will be something that we need to find a way of maintaining for a very long way into the future because we have across the United Kingdom a disparate set of needs and a disparate set of contexts. It is really important that we deliver that.

Edinburgh Council just three weeks ago reduced the number of points that you can use cash to make payments from seven to two sites across the city. It is happening everywhere. It is happening in Scotland. It is happening across the United Kingdom. We have to be real and honest about that reality.

Chair: Okay. On that note, Minister, thank you ever so much for answering all our questions. We have made it, hopefully, to PMQs. Thank you very much.