

Evidence from the Board of Banc Cambria

Summary

- Bank closures and an increasing use of withdrawal fees for ATMs are having a detrimental impact on access to banking services for individuals, communities and SMEs across Wales.
- There is evidence to suggest that the impact of bank closures is particularly felt by groups at increased risk of financial exclusion. Bank closures may disproportionately harm certain consumer groups such as older people or people in low-income communities. The less affluent, those with basic qualifications and the unemployed are particularly likely to rely on branches to manage their money. As mainstream financial institutions pull out of economically distressed areas they are replaced by more predatory forms of financial institution.
- The closure of ATMs and move to charging withdrawal fees is also having a negative impact on access to banking. One in five businesses report that they are less likely to use local businesses while some small businesses fear they would lose customers if their nearest cash machine was not operating.
- There is also a strong correlation between those at risk of financial exclusion and digital exclusion. As bank branches close and banking services move online these are the people who are most at risk of being left behind.
- Branch closures are also negatively affecting small businesses' access to banking services, particularly face to face advice. They are also negatively impacted by the move to fee-charging ATMs. There are also concerns about their ability to access digital services in areas with poor internet connectivity.
- Banc Cambria will be a co-operatively owned community bank for Wales. We have agreed a clear process for establishing the bank. We have agreed outline terms with the Community Savings Bank Association (CSBA) to utilise the community banking model (a bank in a box) they have developed.
- In consultation with the CSBA, the project has been split into four distinct project work-phases with clear timescales. These are detailed in our full response below.
- Community banks have an important role in regionalising and localising financial flows and keeping money in communities. At present, Wales lacks money supply infrastructure owned and controlled within its borders. By creating money and recirculating wealth within the Welsh Economy, a Community Bank has the potential to be a key agent in developing resilient and sustainable economies and communities.

Introduction

Banc Cambria was developed by the Public Bank for Wales Action Group. The Group formed Cambria Cydfuddiannol Limited (Co-operative Society) which is the project delivery entity (a Co-operative Society) for Banc Cambria, a Community Bank for Wales. The Wales Co-operative Centre provides the Group with secretarial support. The Board of Banc Cambria welcome the opportunity to respond to the Committee's consultation and are happy to provide any further information on the points raised in our response, and for our response to be in the public domain.

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

The variety of ways in which branch closures and access to free ATMs can affect local communities (for instance the impacts from a business, tourism, social, demographic and regeneration perspective).

Bank closures continue to have a detrimental impact on access to banking services for individuals, communities and SMEs across Wales. Office for National Statistics figures show that nearly 6000 local branches across the UK have shut since 2010, with around 13 million adults in the UK now living in areas where at least half of the local banks and building societies have closed.

There is evidence to suggest that this impact is particularly felt by groups at increased risk of financial exclusion. This includes those on low incomes such as single pensioners, long-term unemployed and those unable to work due to disability. The FCA noted that bank closures may disproportionately harm certain consumer groups such as older people or people in low-income communities.¹ The Social Market Foundation also found that access to financial services is likely to become the main barrier to financial inclusion, as the less affluent, those with basic qualifications and the unemployed are particularly likely to rely on branches to manage their money.² The University of Nottingham's Changing Geography of British Banks and Building Society's Networks also found that as mainstream financial institutions continue to pull out of economically distressed areas they are replaced by more predatory forms of financial institution.³

Following bank branch closures, ATMs become a lifeline in many communities. Yet consumer group Which? found that nearly 1700 machines in the UK started to charge withdrawal fees between January and March 2019. The economic impact of ATM closures could be considerable. Recent Which? research suggests that

- One in five (22%) consumers would be less likely to use local businesses
- One in seven (16%) consumers would find it more difficult to pay for products and services⁴

¹ Financial Conduct Authority, Strategic Review of Retail Banking Business Models <https://www.fca.org.uk/publication/multi-firm-reviews/strategic-review-retail-banking-business-models-annex-reports.pdf>

² Social Market Foundation, Balancing Bricks and Clicks: Understanding how consumers manage their money, <http://www.smf.co.uk/publications/balancing-bricks-click-understanding-how-consumers-manage-their-money/>

³ The Changing Geography of British Bank and Building Society Branch Networks, 2003-2012, http://eprints.nottingham.ac.uk/2199/1/ChangingGeographyofBritishBank&BuildingSocBranchNetworks2003-2012_FINAL.pdf

⁴ https://www.fsb.org.uk/docs/default-source/fsb-org-uk/cr_atm-inquiry_apr18.pdf?sfvrsn=0

Further research from FSB demonstrates the business impact of potential ATM closures, including:

- 9% of small businesses would lose over £50 a day in revenue from not having access to a cash machine
- 13% of small businesses fear they would lose customers if their nearest cash machine wasn't operating.⁵

There is also a strong correlation between those at risk of financial exclusion and digital exclusion. The National Survey for Wales (2016-17) showed that 15% of adults do not regularly use the internet in Wales with older and disabled people, those with limited qualifications and those on lower incomes still the least likely to use digital technologies. As bank branches close and banking services move online these are the people who are most at risk of being left behind. For example, only 38.7% of adults aged 75 and over have used the internet in the past three months and 93% of those aged 80 or over do not use internet banking.⁶

Branch closures are also negatively affecting small businesses' access to banking services. The FSB state that small businesses continue to rely on branches for services where face-to-face interaction is not easily replicated by alternative communication channels.⁷ For example, small businesses identify branches as an important source of advice, particularly in advance of major banking decisions. Closures create an advice gap in some communities with limited access to alternative support. In advising the People's Bank for Wales Action Group, Professor Gerry Holtham found that the withdrawal of local Bank managers and loan assessors, while reducing Banks' cost bases, is very likely also to reduce the local knowledge that would enable them to make loans based on qualitative and more deeply informed judgement. By restricting loan assessment to centralized spreadsheet-based processes it could reduce local lending and exacerbate any savings outflow from Wales.

There is also a continuing reliance on cash and cheques that remain rooted in the operations of both many small businesses and local economies across the UK. Restricted access to cash due to branch closures and insufficient numbers of ATMs can lead to a range of negative impacts including customers moving away from the local economy and towards other high streets where cash could be more easily obtained.

There is evidence to suggest poor and unreliable internet connectivity in areas affected by bank branch closures further compounding the difficulty in accessing banking for small businesses.. Activities such as processing a bill payment or registering for a service are often compromised as a result.⁸

In summary:

⁵ https://www.fsb.org.uk/docs/default-source/fsb-org-uk/cr_atm-inquiry_apr18.pdf?sfvrsn=0

⁶ https://publications.parliament.uk/pa/ld201617/ldselect/ldfinexcl/132/13206.htm#_idTextAnchor015

⁷ FSB, Locked Out: The impact of bank closures on small businesses
[https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-bank-branch-closures-\(final\).pdf?sfvrsn=0](https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-bank-branch-closures-(final).pdf?sfvrsn=0)

⁸ FSB, Locked Out: The impact of bank closures on small businesses
[https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-bank-branch-closures-\(final\).pdf?sfvrsn=0](https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-bank-branch-closures-(final).pdf?sfvrsn=0)

- Access to bank services has been obstructed by branch closures coupled with increasing use of withdrawal fees for ATMs. This is compounding issues of financial and digital exclusion for vulnerable groups.
- Branch closures are also negatively affecting small businesses' access to banking services, particularly face to face advice. They are also negatively impacted by the move to fee-charging ATMs. There are also concerns about their ability to access digital services in areas with poor internet connectivity.

To understand the potential process, benefits and challenges involved with establishing a community bank with multiple branches in Wales.

Process of establishing a community bank

Banc Cambria will be a co-operatively owned community bank for Wales. We have agreed a clear process for establishing the bank. We have agreed outline terms with the Community Savings Bank Association (CSBA) to utilise the community banking model (a bank in a box) they have developed. The society has sole rights to use the model within the defined territory (Wales). The CSBA model provides several small, medium and large sized branch solutions and includes a comprehensive online offering. The CSBA have negotiated preferential terms with KPMG to support our banking licence application. A letter of engagement has been developed between KPMG and the first four banks utilising the CSBA model, including *Banc Cambria*.

In consultation with the CSBA, the project has been split into four distinct project work-phases:

- Project set-up (April to July 2019): A short period in which the key parameters of the next two years are clarified; jobs roles are established and job holders appointed. It is also the time when the vision and personality of *Banc Cambria* is articulated and 'lived' for the first time - the tone of the organisation is set in this period. In line with the other banks being established elsewhere, an interim team will be established and contracted to deliver this four month phase. They will be appointed on the basis of merit, in an open and transparent manner, directly by the Board. The project plan will also be completed. This will be a business plan for the Board, pioneer members and investors expanding on timescales, deliverables, key risks, systems strategy, necessary networks and interfaces to external bodies identified, and detailed budgets.
- Pre-start (July 2019 - Dec 2020): The key phase (18 months), primarily focused on applying for our banking licences, raising funds and working up detailed plans for launch in March 2021 & product specifications. During this stage, the Feasibility and Demand Study will also be completed and an operational hub will be established. The product range will be defined, branded & specifications completed.
- Launch (Jan 2021 – Dec 2021): We would look to open a number of 'branch' types and channels to market across Wales. These will cover a mix of urban, rural, geographical spread, and branch types. We will also aim to open at least one branch where the customer base is evidenced as suffering particularly badly from financial

exclusion. We will work closely with CSBA to ensure all the equipment, processes, and products are rigorously tested prior to launch.

- Early stage consolidation (Jan 2022 - Dec 2026). This is the phase where the bank moves from start to sustainability and profitability

The management and governance of the bank will be wholly democratic and participative. We will require expertise at Board level, and will welcome nominations for election to the Board (Board 1.0 or 2.0 as defined later) from supportive and relevant bodies, including from the likes of Credit Unions, the Development Bank of Wales and others.

The bank will operate a flattened salary structure. The highest paid executives will be remunerated fairly, but not excessively. Front-line staff will be paid sufficiently to support a generally acceptable lifestyle. The ratio between highest and lowest paid staff will be set by the membership, will be sector-leading, and will avoid the bonus culture common to many banks. We will aim to be a Living Wage employer from the outset.

Benefits of establishing a community bank

Community banks have an important role in regionalising and localising financial flows and keeping money in communities.⁹ The Inclusive Growth Commission of the RSA recommended the setting up of regional banks as an important way to deliver inclusive growth in the UK. These banks redress regional inequalities, build financial inclusion, significantly increase the proportion of bank lending going to the 'real' economy and SMEs instead of the financial economy, build economic resilience, and herald a return to customer service, relationship banking and trust.

At present, Wales lacks money supply infrastructure owned and controlled within its borders. By creating money and recirculating wealth within the Welsh Economy, a Community Bank has the potential to be a key agent in developing resilient and sustainable economies and communities. In advising the People's Bank for Wales Action Group, Professor Gerry Holtham stated that there is evidence of serious gaps in the current Welsh financial system that leave businesses and individuals without financial services of the calibre they need.

Banc Cambria will focus on providing straightforward banking services to individuals and small and medium-sized businesses across Wales. Services, based around a low charge current account, will include micro loans and homeowner mortgages. *Banc Cambria* will not provide products that further exacerbate the economic inequalities evident across Wales. We will seek to ensure those furthest from access to financial services are not left behind. We know that those at the margins of our financial system often pay more for services the rest of us receive for free. *Banc Cambria* will ensure we operate a fair and transparent system of

⁹ Putting banking back in the hands of the people, <https://www.thersa.org/discover/publications-and-articles/rsa-blogs/2019/01/putting-banking-back-in-the-hands-of-the-people---the-role-of-regional-cooperative-banks-in-community-wealth-building>

charges, and we will actively work to end the 'Poverty Premium' where those with least, pay the most for essential services.

Challenges

The Community bank would not need subsidy to compensate for it taking risks on small businesses, and having high overheads by operating in marginal areas where other banks have withdrawn. Experience in Credit Unions and Community Development Finance Institutions (CDFIs) operating in other countries is that small loans from a sympathetic lender actually have a lower recidivism rate than medium sized loans from commercial sources. The experience of co-operative and community banks in other countries, many of which are over 100 years old, is that they are profitable in their own right, and need no public subsidy, because they operate prudently. Also, the business model proposed of working with existing financial institutions, can open up the availability of a range of high street outlets at low cost. Possible high street partnerships could include existing Credit Unions and CDFIs.

In summary:

- Community banks have an important role in regionalising and localising financial flows and keeping money in communities. At present, Wales lacks money supply infrastructure owned and controlled within its borders. By creating money and recirculating wealth within the Welsh Economy, a Community Bank has the potential to be a key agent in developing resilient and sustainable economies and communities.