Banking on access

Ensuring access to banking
in a digital age

Scott Corfe
Richard Hyde
Bill Anderson-Samways

SMF
Social Market Foundation

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CONTENTS

About the authors 4
Foreword 5
Executive summary 7
Chapter One – Introduction 11
Chapter Two – How banking is changing 13
Chapter Three – Opportunities and risks from these changes 21
Chapter Four – Ensuring access to banking for all 42
Chapter Five – Recommendations 66
Appendix 1 – About the survey and focus groups 72
Appendix 2 – Retail banks' actions to ameliorate impact of branch closures 73
Endnotes 76

ABOUT THE AUTHORS

Scott Corfe

Scott Corfe joined the Social Market Foundation in 2017 and is our Research Director. As well as managing the SMF's research team, he authors research on a wide range of topics including consumer markets, taxation, low pay, housing and technology.

Before joining the SMF, he was Head of Macroeconomics and a Director at the economics consultancy Cebr, where he led much of the consultancy's thought leadership and public policy research.

Richard Hyde

Richard joined the SMF in August 2019 as Senior Researcher. Before joining he was a Senior Policy Advisor at FSB (Federation of Small Businesses) with responsibility for a diverse range of small business policy issues including the small business regulatory environment, data and cyber security, crime and civil justice. Prior to FSB, Richard was a Policy Officer at the Law Society of England and Wales. He has also held policy and research roles at Which? and the Small Business Research Centre (SBRC) at Kingston University.

Richard has an LLM in Law from the University of London and an MA in Global Political Economy from the University of Hull.

Bill Anderson-Samways

Bill joined the SMF in January 2022. He holds an MPhil in the Environmental Social Sciences and a BA in Politics and International Relations, both from the University of Cambridge. Previously, he worked for a local authority, researching and writing policy on various matters including alternatives to growth-based metrics of local wellbeing.

Bill's main area of knowledge lies in climate change and environmental policy, but he has wide-ranging interests in subjects including income inequality, 'stakeholder capitalism', and the social impacts of emerging technologies such as Artificial Intelligence. He is currently working on projects relating to access to banking and corporate social responsibility.

FOREWORD

James Kirkup, Director of the Social Market Foundation

This report is about the issues and questions that give the Social Market Foundation its purpose and name. It's about a market and the things that it provides, and the society in which that market operates. And it's about how markets can best provide things that society wants and needs.

Most developed economies use markets to allocate resources because they – correctly – judge that allowing people and companies to make their own choices about those allocations is the best way to deliver both prosperity and fairness. The state, meanwhile, acts as referee and, where necessary, safety-net.

This arrangement was best described by Germany's post-war Social Democrats in their slogan – "As much market as possible, as much state as necessary." But slogans are easy. Real markets and real policies are difficult. Where should the line be drawn between state and market in cases where the state wants the market to provide something? How can public and private actors work together to ensure that market participants seeking to profit from selling their products also achieve socially desired outcomes?

Sometimes, markets meet social objectives without anyone really noticing. Arguably, that has been the case with the bank branch network: while it was there, it was easy to take for granted the role that branches played in communities and individual lives. Now, the questions about the future of those branches are well-known.

That shift towards online banking is, in aggregate, a positive thing: it increases efficiency, promotes the competition, and spurs innovation. But societies are made up of individuals, and individuals do not experience life as national aggregates. It is possible for a change in banking to be good for the economy as a whole, while also presenting new challenges to some of the individuals who live in that economy.

The needs of those individuals then inform society's demands of markets. The gradual move away from physical branches towards online banking throws into stark relief the social expectation on banks to provide access points to their services.

But as that expectation becomes clearer and stronger, it raises a question about the boundary between private goods exchanged in a commercial market and the provision of public goods, things that everyone should have. That question: in an age of online and remote banking, is access to banking now a public good?

Banking services certainly seem to have some of the characteristics of a public good; they clearly are not a purely commercial product. If they were, none of the trends and shifts described in this report would be of any concern to policymakers. They could simply shrug and leave it to market participants to decide how and if they would offer their products to those who might feel left behind by those changes.

Almost no-one takes that view because we don't regard banking as a narrowly commercial product. Instead, as participants in our roundtable sessions for this project discussed, this is a market with an inherently social dimension. In an online economy, it is easier than ever to see how access to banking can start to resemble a public good, something that we collectively wish to see made available to all.

But how to ensure that happens?

One way to ensure availability of something is state provision. There is no serious case for a public provision of banking and indeed, the state has just spent several years trying to get rid of its stakes in banks, because it is generally agreed that the state should not be trying to participate in this market.

If monolithic state provision is at one end of a spectrum and a *laissez-faire* non-intervention is at the other, what lies in the sensible centre ground between those two extremes? The SMF approach has long been to advocate policies that help markets deliver socially positive outcomes without giving up the allocative freedoms that make markets so useful. In practical terms, that often means partnership and co-operation between public- and private-sector actors.

And so it is here. The proposals in this report for local authorities and other public bodies to host banking hubs are a case in point. Private actors working together to deliver a public good using public resources – this is a quintessentially social market approach to the challenge of ensuring the market provides good and broad access to banking.

The same can be said of our proposal for a "digital preparedness commission", which would mean cooperation between state and industry – and within the industry – to ensure the population has the skills and wherewithal to operate in an online-first market for banking.

Exactly how should the private sector and the state co-operate to deliver these things? Should the state provide incentives or even subsidy to support such innovations? How can this approach be pursued consistent with strong competition laws?

These are complex questions, some of them beyond the scope of this report – hence our call for a major new taskforce to consider the role and future of banking. Our aim here is not to offer definitive answers. Instead, we aim to stimulate debate among policymakers and industry participants alike. Such debates may be long and sometimes uncomfortable, especially for those with fixed or ideological views about markets and the state. But the debate is worth having, because a social market in banking is a prize worth striving for.

EXECUTIVE SUMMARY

This Social Market Foundation report explores future access to retail banking services as we move further into the digital age. It also considers the implications of a potential shift away from the prevailing "free-if-in-credit" (FIIC) model for current accounts. It takes a neutral approach on these shifts – we do not say here whether banks should or should not make such changes. Instead, it considers the consequences if they do, and the best way to ensure any such changes take place fairly and sustainably, in a way that ensures access to essential banking services.

The key findings of our research are summarised below.

Banking is changing rapidly and dramatically

- **Between 2007 and 2019, online banking usage in Britain soared from 32% to 78%.** This has risen even further to 93% since the start of the COVID-19 pandemic.
- **Most adults now use mobile banking.**
- **Cash's share of all payments in Britain declined from 56% in 2010 to 45% in 2015 and 17% in 2020.**
- **Use of the bricks-and-mortar bank branch network is waning.** According to the Financial Conduct Authority's (FCA) 2020 Financial Lives Survey, just 27% of adults used a bank branch at least monthly over a period of 12 months, down from 40% in its 2017 survey. Notably, this significant decline was not merely a COVID-19 pandemic effect: the 2020 Financial Lives survey ran from August 2019 to the first two weeks of February 2020.
- **Further, use of face-to-face services in bank branches for many "everyday" banking activities is even rarer**. According to the 2020 Financial Lives Survey, just 15% of adults went to a bank branch to check their current account balance in the previous 12 months. This compares with 67% checking their balance online and 58% using mobile banking.
- **One important exception is use of bank branches to deposit cash and cheques.** 56% of adults did this face-to-face in a bank branch, while 42% used a self-service machine in a branch.
- **The COVID-19 pandemic has accelerated change.** According to the 2022 Opinium survey commissioned for this research, close to two-fifths (38%) of current account holders were using online banking a lot more (23%) or a little more (15%) for everyday banking activities than before the pandemic. About one in 12 (8%) current account holders said that they had stopped using bank branches altogether for everyday banking, while close to three in ten said they were using branches a lot less (14%) or a little less (also 14%).
- **Emerging technologies and channels will see further evolution in banking.** This includes the rise of video-banking, enhanced web chat facilities and new forms of physical banking such as banking hubs and money collection and drop-off services.

- While more speculative, the prevailing charging model for current accounts may change in the medium to long-term, with a shift away from the prevailing FIIC model. Several pressures on the model were noted at an expert roundtable convened as part of this research, including:
    - The long-term decline in global interest rates.
    - A rise in use of open banking, which will allow consumers to more easily access lower borrowing rates and greater interest on savings – placing pressure on margins in retail banking.
    - Curtailed banking revenues from card issuing and interchange fees.

Change brings with it opportunities – but also risks

- **There are significant opportunities for improved consumer outcomes in banking across age and income groups – if the right commercial and regulatory frameworks are in place.**
- **This includes better forms of *physical* provisions of banking.** New banking hubs, enhanced provision through the Post Office and banking services offered in public sector real estate such as libraries could all represent an improvement on traditional branch-based banking. Cashback without purchase and new money collection services could also provide improved ways of depositing and withdrawing cash.
- **Digital banking can continue to evolve to provide more personalised and timely access to banking, as well as greater returns on savings and reduced borrowing costs.** This includes through the possibilities enabled by open banking and "platformication".
- **However, it is vitally important that all can benefit from this evolving banking landscape, and that no one is left behind.** Remaining regular bank branch users are more likely to be:
    - Older and retired
    - Self-employed
    - Digitally excluded
    - In lower-income households

  Social justice demands that such groups be included and supported during and after any change in provision.

Recommendations

1. **Building on the precedents of the Joint Authorities Cash Strategy Group (JACS)[i] and the Cash Action Group[ii] (CAG) the Government should convene a taskforce with the banking industry, relevant UK authorities (such as the FCA, Bank of England, Payment Systems Regulator and local government representatives), and appropriate civil society groups to urgently review the banking requirements of the UK population, and develop a workplan to futureproof solutions to meet these needs as the market evolves.** As part of its work, the taskforce should:

    - Pay particular attention to mapping the critical banking needs of the most vulnerable groups, and the role of physical banking services alongside digital channels in meeting their needs.
    - Investigate how the new FCA Consumer Duty might be relevant to safeguarding the present and future banking needs of consumers in general and the vulnerable in particular, or whether more explicit requirements may need to be put in place to protect access to banking services.
    - Ensure that Basic Bank Accounts (BBAs) meet basic banking needs and are flexible to ensure their relevance into the future.
    - Examine ways that collaboration between local authorities and banks could be encouraged, including the potential for using suitable property from the public estate (e.g. local libraries, council offices or empty municipal buildings) for locating alternative face-to-face banking services to meet demonstrable local needs.
    - Consider what oversight should apply to the implementation and on-going operation of any new arrangements that emerge from the taskforce.

2. **The Government should establish a "digital economy preparedness" commission**, to ensure the UK is appropriately prepared to navigate - as successfully as possible - the technological changes over the coming decades, which will influence the nature of industry, patterns of consumption and structure of the wider economy for the foreseeable future. The commission should bring together leading public, academic and private-sector experts to evaluate the country's preparedness for the kinds of technological improvements that will likely influence the development of the economy over the coming decades and develop policy proposals to help correct the deficiencies that are identified.

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[i] In 2019 HM Treasury established the JACS group, bringing together the Payment Systems Regulator (PSR), the Financial Conduct Authority (FCA) and the Bank of England (BoE) to coordinate policy efforts to safeguard access to cash for those who need it, whilst supporting digital payments.

[ii] CAG was convened in 2020 by UK Finance, and chaired by Natalie Ceeney CBE (author of the Access to Cash Review) and made up of senior representative from across the financial services industry, leading consumer groups, FSB, LINK and the Post Office. It produced a landmark agreement between the major retail banks to share cash services, and to independently assess the cash needs of communities in the UK.

3. **Policymakers must ensure any shift away from FIIC banking, or the continuation of FIIC, provides value-for-money for consumers.** The FCA should:

    - Commit to undertake a regular analysis of value-for-money in the current account market, including a focus on comparability of the quality and prices of products so that competition is not hindered.
    - Take the necessary steps to correct the problems identified.

CHAPTER ONE – INTRODUCTION

The way we bank has changed profoundly. While in 2007 about a third of adults in Britain (32%) used online banking, in 2022 over nine in ten (93%) do.[1] Over a quarter of UK adults have at least one account with a digital-only bank that does not offer a traditional bricks-and-mortar branch network.[2]

Coinciding with the rise of online banking is the rapidly declining use of cash as a medium of exchange. As the Bank of England noted, only 23% of all payments in 2019 were made using cash, down from close to 60% a decade earlier. [3] The COVID-19 pandemic led to a further decline in cash usage, with just 17% of payments made with cash in 2020.[4]

More change is on the way, with the rise of channels such as video-banking and enhanced web chat functionality, as well as new physical banking channels such as hubs and money collection and drop-off services.

Given reduced demand for banking regularly in a branch, and depositing and withdrawing cash, there has been, and will be, pressure on the viability of maintaining traditional banking channels. UK bank branch numbers have almost halved since 2015[5] and almost a quarter of free-to-use ATM machines have been removed since 2018[6].

The new world of banking brings with it significant benefits for the majority of British households and businesses – for example with the ability to do banking tasks more rapidly from any location, at any time of the day, and to take advantage of increasingly sophisticated banking apps allowing people to more easily manage their finances.

But the risk is that – without policy intervention and coordination between government, regulators and industry – a significant number of individuals will be left behind and face difficulties accessing crucial banking services. What of, for example, the 7% of adults that still do not use online banking? Or the more than one million unbanked in the UK[7]? Or the households and businesses that rely on cash as a means of exchange?

This SMF report explores the state of access to banking in 2022 – the latest trends, their implications and the risks and opportunities faced by different groups. The research draws upon a review of relevant literature and new analyses of official datasets. As part of the study, we also convened two roundtable discussions with expert stakeholders and two consumer focus groups. In addition, we commissioned a nationally representative survey of current account holders in the UK.

The structure of the report is as follows:

- **Chapter Two** examines how banking in the UK is changing, including how the COVID-19 pandemic is likely to have a permanent impact on banking patterns.
- **Chapter Three** explores the opportunities and risks likely to arise from the trends identified in Chapter Two.
- **Chapter Four** offers an overview of some of the possible future trends in the evolution of the retail banking sector and outlines (in the context of the changing sector) the complex landscape of measures that have been put in-

place by the industry, governments and regulators - or are forthcoming - that try and ensure ongoing access to cash and face-to-face retail banking services for those consumers – and especially vulnerable consumers – that want and need them.

- **Chapter Five** provides recommendations for government, industry and regulators to ensure access to banking is preserved for all groups amid a rapidly changing landscape

CHAPTER TWO – HOW BANKING IS CHANGING

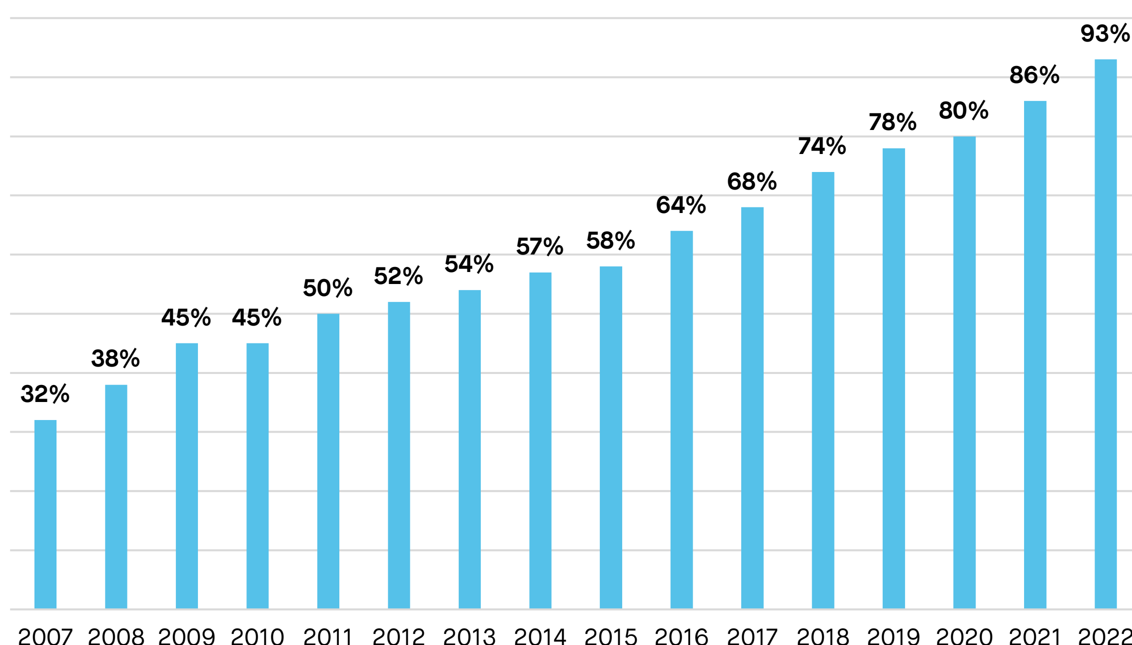
The previous chapter described, briefly, some of the pivotal changes to banking in recent years amid the shift to digital. In this chapter, we examine these trends in more detail. We also draw on new survey research exploring the ways that the COVID-19 pandemic may have had a permanent impression on banking trends.

Even before the pandemic, banking was changing dramatically

Digital banking and non-cash payments have surged

Between 2007 and 2019, online banking usage in Britain soared from 32% to 78%. As the chart below shows, this has risen even further to 93% since the start of the COVID-19 pandemic. Data from UK Finance also shows that most adults now use mobile banking.[8]

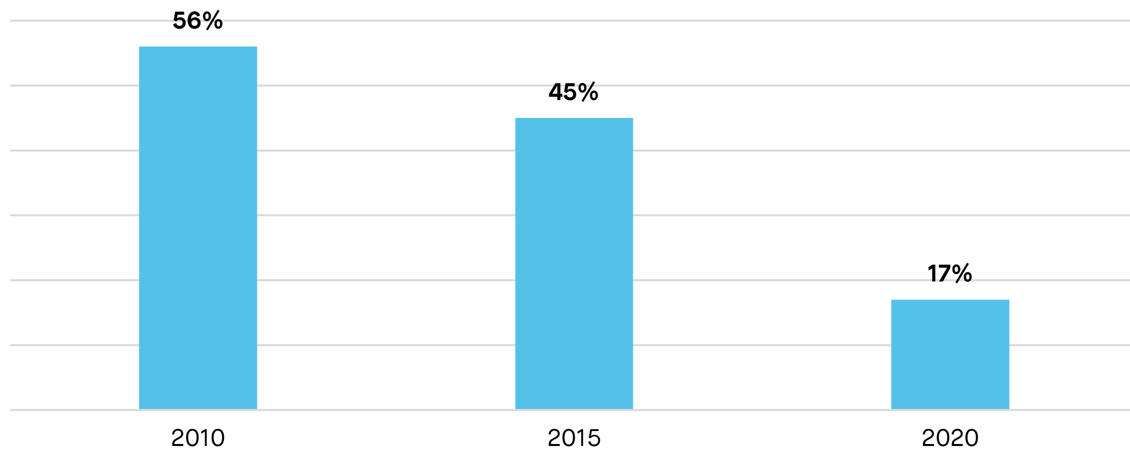
Figure 1: Online banking usage in Great Britain from 2007 to 2022



Source: Statista

The payments landscape has also shifted dramatically, in part driven by these trends, with a rapid move away from cash. Some 83% of people in the UK now use contactless card payments. Nearly a third (32%, 17.3 million people) of the adult population were registered to use mobile payments by the end of 2020, an increase of 7.4 million people compared to 2019.[9] Cash's share of all payments in Britain declined from 56% in 2010 to 45% in 2015 and 17% in 2020.

Figure 2: Cash as a % of all payments



Source: UK Finance, "UK Payments Market Summary 2021"

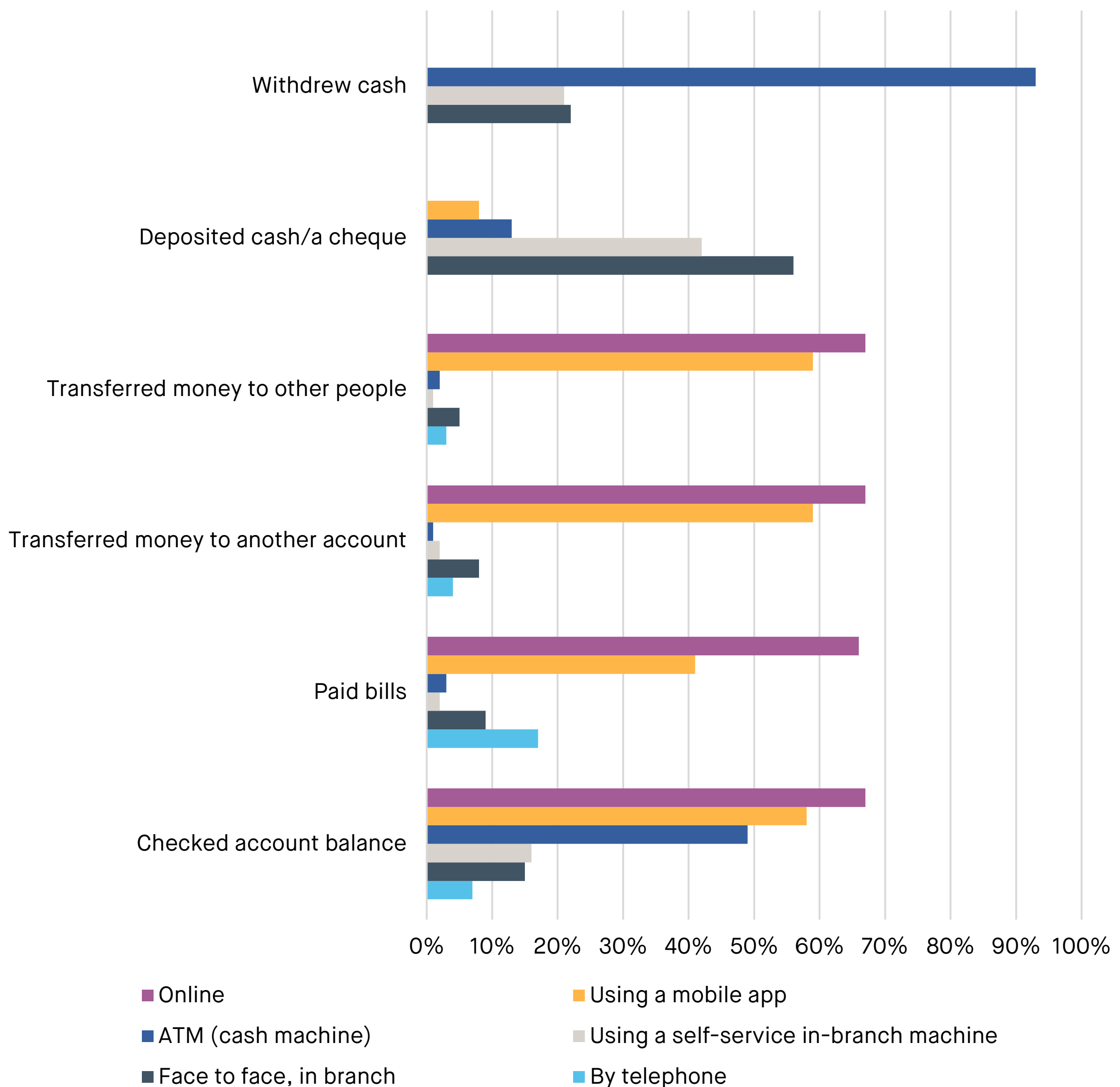
Consequently, use of the bricks-and-mortar bank branch network is waning. According to the Financial Conduct Authority's (FCA) 2020 Financial Lives Survey, 27% of adults used a bank branch at least monthly over a period of 12 months. down from 40% in its 2017 survey. Notably, this significant decline was not merely a COVID-19 pandemic effect: the 2020 Financial Lives survey ran from August 2019 to the first two weeks of February 2020.

Further, use of face-to-face services in bank branches for many "everyday" banking activities is even rarer. According to the 2020 Financial Lives Survey, just 15% of adults went to a bank branch to check their current account balance face-to-face in the previous 12 months. This compares with 67% checking their balance online, and 58% using mobile banking.

Only 9% went to a branch to pay a bill face-to-face, 8% to transfer money to another account, and 5% to transfer money to other people. The figures for doing these activities using online banking is 66%, 67% and 67% respectively.

One important exception is use of bank branches to deposit cash and cheques; 56% of adults did this face-to-face in a bank branch, while 42% used a self-service machine in a branch. Just over a fifth used face-to-face branch services (22%) or a self-service machine in a branch (21%) to withdraw cash.

Figure 3: Use of different banking channels for "everyday" activities. Percentage of adults using channel in last 12 months, among those that engaged in each activity over this time period



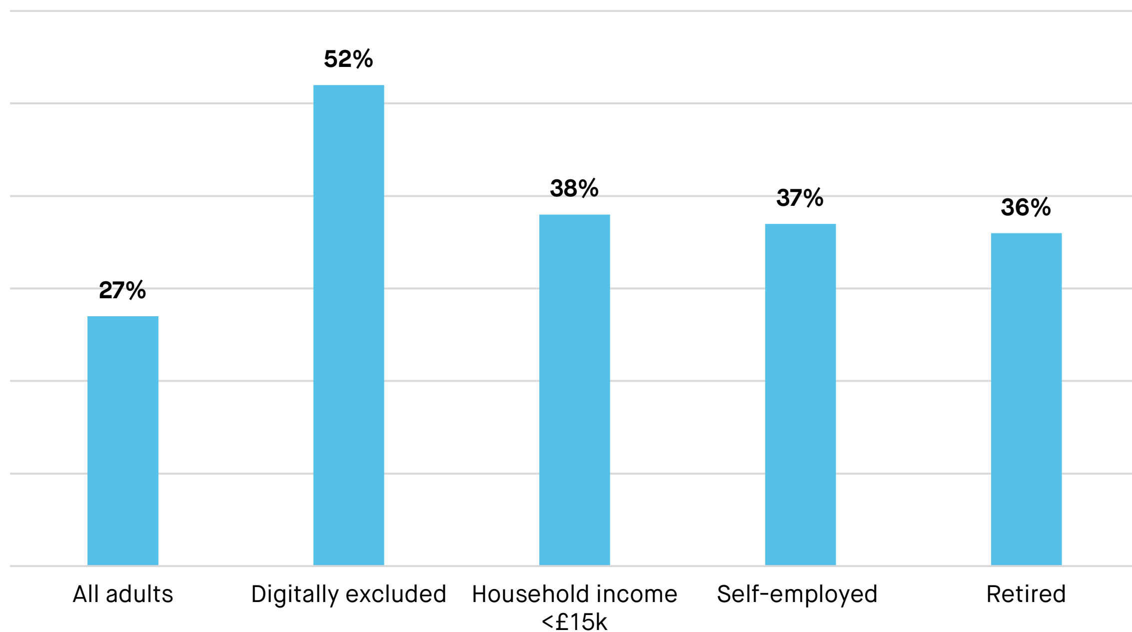
Source: FCA Financial Lives Survey 2020 (survey took place between August 2019 and first two weeks of February 2020)

Reliance on traditional banking channels varies across the population

There is significant variation beneath this aggregate picture of rapid change in how people bank. As the chart below shows, the remaining regular bank branch users are much more likely to be:

- Older and retired
- Self-employed
- Digitally excluded
- In lower-income households

Figure 4: % reporting using a particular bank branch at least one a month over the last 12 months



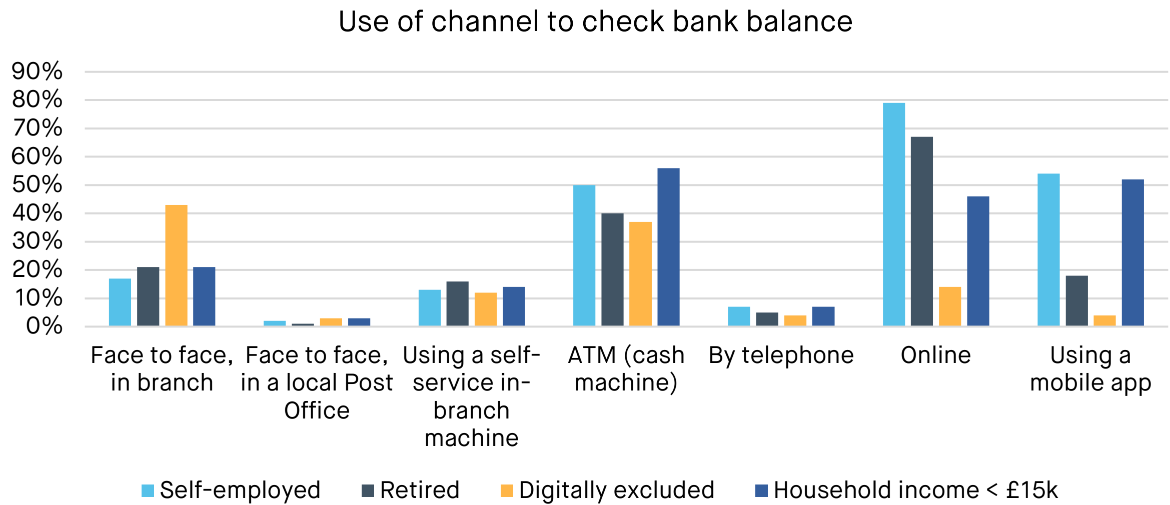
Source: FCA Financial Lives Survey 2020 (survey took place between August 2019 and first two weeks of February 2020)

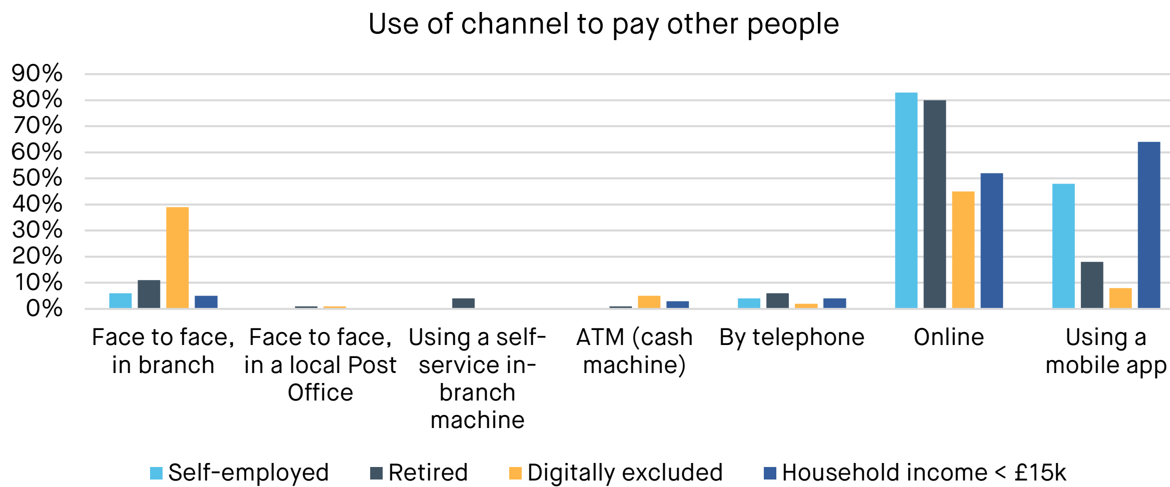
However, it is important to look beyond these headline branch usage statistics and explore *why* these groups are using branches rather than digital channels. Data in the Financial Lives Survey is revealing here, suggesting that for retired households, self-employed individuals and those in lower-income households, branch usage revolves heavily around cash – in particular, depositing cash. Individuals in these groups are more likely to be using digital banking channels to check their bank balances and make payments.

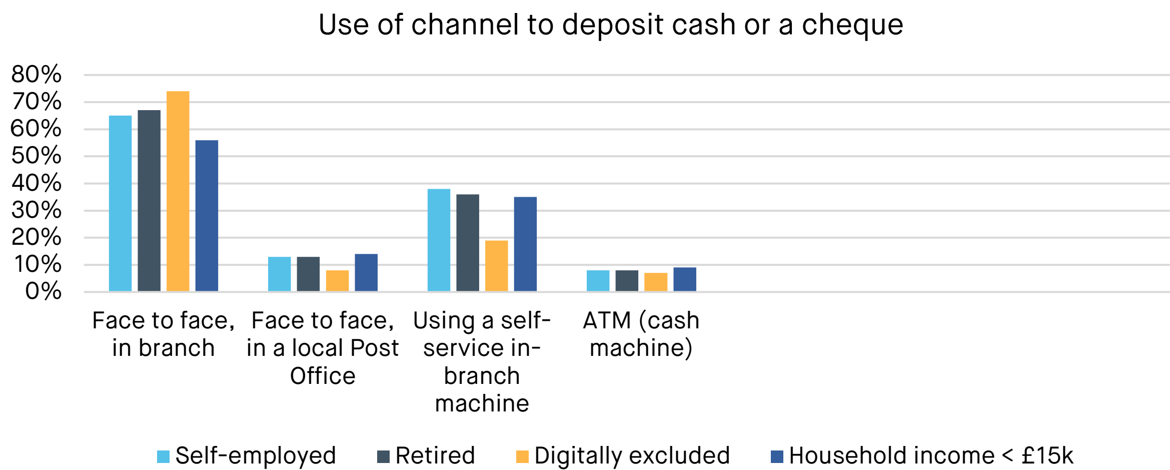
By definition, the digitally excluded are more likely to need to use bank branches for a wider range of activities. Use of bank branches predominantly as a means of depositing and withdrawing cash was also widely mentioned in one of the focus groups convened for this project, which consisted of regular branch users.

As we will discuss later in this report, this suggests that it is important to consider access to cash and access to other banking activities as separate issues, with the former affecting a broader range of individuals.

Figure 5: Use of different banking channels for everyday banking activities over a period of 12 months







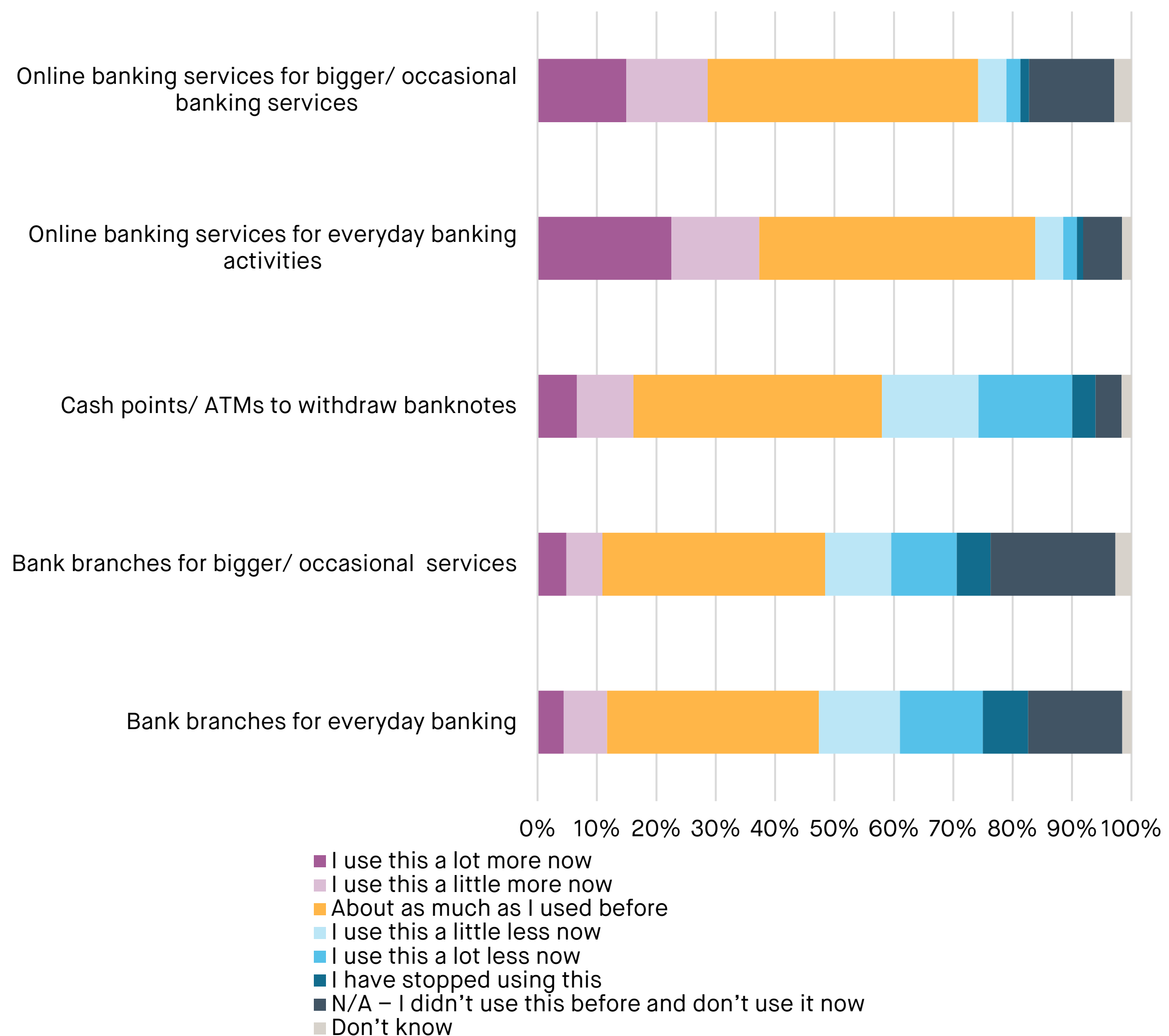
Source: FCA Financial Lives Survey 2020 (survey took place between August 2019 and first two weeks of February 2020)

COVID-19 has permanently changed how we bank

The COVID-19 pandemic has accelerated some of the trends towards digital banking that were just described. Rather than just temporarily disrupting the way we bank, new survey research commissioned for this report suggests that the pandemic has led to permanent behavioural change for a significant share of the population.

According to the 2022 Opinium survey commissioned for this research, close to two-fifths (38%) of current account holders were using online banking a lot more (23%) or a little more (15%) for everyday banking activities than before the pandemic. About 1 in 12 (8%) current account holders said that they had stopped using bank branches altogether for everyday banking, while close to 3 in 10 said they were using branches a lot less (14%) or a little less (also 14%). The survey data also suggests that a significant proportion of individuals are using cash points less than before the pandemic, as well as bank branches for more occasional services such as to discuss a mortgage or opening a new account.

Figure 6: Use of banking services compared with before the COVID-19 pandemic (i.e. before March 2020)



Source: Opinium survey of current account holders

Emerging technologies and channels will see further evolution in banking

New banking channels are emerging and set to grow in usage over the coming years, probably having a further impact on usage of face-to-face banking within a branch.

Video banking has been rolled out by several banks, allowing face-to-face discussions to take place remotely. Video banking can be used for a wide range of banking activities, including applying for a mortgage Agreement in Principle, applying for a loan, or opening a savings account.

Web chat facilities have also emerged as an alternative to telephone or branch-based conversations. This may take the form of “robo” chat facilities, where an algorithm-driven “digital assistant” answers queries from a customer.

Open banking will also continue to lead to the development of an enhanced set of banking apps meeting customers’ requirements, by enabling banks, third parties and technical providers to securely exchange data.[10] The number of open banking users in the UK recently passed the five million mark.[11]

The nature of residual face-to-face banking is also set to evolve. This includes through more banking taking place within “hubs” where individuals can engage in a range of everyday activities (such as depositing cash), regardless of which bank(s) they hold their current account(s) with. [12]

The future of the prevailing free-if-in-credit banking model

In addition to changing banking channels, there may also be an evolution in the prevailing charging model for current accounts, with a shift away from the FIIC model that has been pervasive in Britain since the 1980s.[13] According to the 2020 Financial Lives Survey, just a quarter (24%) of adults pay a monthly or annual fee for their current account.

While more speculative than future use of branch-based banking, our research and conversations with stakeholders suggest that such a shift is well within the realms of possibility in the medium-to-long-term.

FIIC banking is far from universal, with regular charges – even if one is in credit – common in France[14], the Netherlands[15], and Germany.[16] A study by the Competition and Markets Authority examined the banking market in the Netherlands and found that the average Dutch account holder pays around €70 (about £60) per year in current account fees.[17]

And, while FIIC banking is popular with a majority of UK consumers[18], there are concerns about its impacts. Adair Turner, when Chairman of the Financial Services Authority, described it as a “central problem in UK retail banking” with banks only able to provide free current accounts by cross-selling other products to consumers. Lord Turner argued that this made it difficult for new banks to enter the market and compete with large incumbents, saying that “it may be difficult for a new entrant to make a business plan stack up unless they assume the sale in some future year of high margin

ancillary products – products which if we are not careful may be for both the incumbents and the new entrants, the next PPI". [19]

There has been criticism of the cross-subsidies implicit in the FIIC model, such as from those in overdraft to those in credit.[20] The FCA has argued that FIIC is in fact a "misnomer", given that over 80% of all FIIC account holders make a positive contribution to their bank's profits, indicating that these consumers all "pay" something to use their FIIC account, including foregone interest, overdraft charges and foreign transaction fees.[21] Having said that, there appear to be important questions around the distributional burden of these costs – 10% of FIIC customers account for over 62% of the total, and costs are a greater proportion of income for consumers in more deprived areas.[22]

Going forward, market and regulatory forces may place pressure on the FIIC model. Several pressures on the model were noted at an expert roundtable convened as part of this research, including:

- The long-term decline in global interest rates.
- A rise in use of open banking, which will allow consumers to more easily access lower borrowing rates and greater interest on savings – placing pressure on margins in retail banking.
- Regulator intervention curtailing banking revenues from card issuing and interchange fees.

A departure from FIIC banking could have significant implications for consumers and there are several important questions for policymakers to explore. What is a "fair" charge for a current account? How will different types of consumers (e.g. by income group) fare in such a market? Do we need to retain some kind of free bank account and, if so, who should be able to access it and what services should it include? How do we ensure that the charges faced by consumers are transparent and competition to attract and retain customers is flourishing? As we discuss in the next chapter, a shift away from FIIC comes with risks – but there are also opportunities. The role of policy and regulation will be to ensure the latter dominates.

CHAPTER THREE – OPPORTUNITIES AND RISKS FROM THESE CHANGES

The trends detailed in the previous chapter present opportunities for improved consumer outcomes in the future, if government and banks take the necessary actions. The digital revolution is making, and will continue to make, banking more flexible, agile and personalised to most people's needs.

On the flipside, if managed improperly, there are also serious risks associated with some groups, such as the digitally excluded, losing or facing reduced access to banking. This chapter delves into the specific opportunities and risks associated with the shift away from bank branches towards alternative forms of both physical and digital provision. It also explores the implications of any shift away from the prevailing FIIC model, something we noted as a potential future trend in the previous chapter.

The opportunity to be seized: a future of better, more personalised banking

If the right commercial and regulatory frameworks are put in place, we will be on the road to significant opportunities for improved consumer outcomes in banking across age and income groups. The main opportunities explored here are: a future of more accessible and sustainable physical alternatives; and an accelerated uptake of improved digital banking, which consumers tend to prefer regardless of age or income.

Better forms of physical provision

At present, many consumers are attached to the physical services provided through the branch network. However, it is possible to deliver these physical services through channels which depart from and improve upon the branch model.

One major opportunity is around "banking hubs" – essentially a single access-point where consumers can draw upon the physical services of *each* of the major banks (and possibly 'challenger' banks, too, should they decide to participate).[iii] Where such hubs are not financially viable, there is scope to provide continued physical access through alternative channels such as the Post Office and, as discussed in our recommendations towards the end of this report, public sector real estate such as libraries.

In the first focus group that we held, which discussed the future of branches and alternative channels, participants were strongly in favour of the banking hubs concept when introduced to it – more so than any other alternative. Participants expressed positive views of hubs on seven separate occasions in the 90-minute session, a high number for a short (and small) focus group. In particular, participants saw hubs as a good potential *aggregator* of services from different banks (mentioned four times). One participant even raised the idea before we did:

[iii] Here "major banks" refers to the "Big Five" - namely the five private retail banks in the UK which together account for the large majority of the sector's market share: Lloyds, Barclays, HSBC, Santander and the Royal Bank of Scotland. It also includes Nationwide, a building society, which approaches a similar scale.

> *"I don't know why you can't just have one bank that banks for everybody. So, you walk through the doors and it can be whatever bank it wants to be. It doesn't have to be a Santander, Nationwide, Lloyds… You don't need to have a string of banks on the high street, you can just use one facility."*

In fact, a handful of participants stated that banking hubs would be *better* than the current situation, with branches still available but closing rapidly.

Indeed, one of the key advantages of the banking hub model is that it is more sustainable than the branch model, and therefore potentially more stable. As one of our expert roundtable participants noted, the model remains one of universal access for consumers, but each individual bank bears (at most) a fraction of the hub's cost, which is shared between the banks.

Such hubs could moreover deliver improved consumer outcomes in terms of accessibility and competition. In communities which previously only contained one branch from a single bank (for example in rural areas), consumers would not be forced to choose between banking with that one local bank or travelling long distances to the nearest branch of their preferred bank. Instead, they could choose between each of the banks represented in their local hub (improving competition), with no extra travel time (improving accessibility). In the words of one roundtable expert, hubs are:

> *"Frankly, better [than branches], because in a small community, you can bank with them whoever you bank with, rather than just the one bank."*

Our roundtable participants also emphasised that, even while being more competitive for users, hubs could also facilitate great cooperation among the banks on a local level, enabling them to deliver collective goods such as digital upskilling of consumers via a shared space.

The CAG is currently in the process of setting up the Banking Hub Company – an idea which emerged from CAG's work in December 2021. That month, CAG announced that five new hubs would be instituted in different locations across the UK.[23] Our roundtable heard that the aim of the Company is to establish a model for the banks to adopt or follow.

One potential problem with the hubs concept is that the decision to set one up ultimately rests upon the agreement (and therefore discretion) of the participating banks. This presents serious obstacles where hubs are not a commercially viable option. As a recent Royal Society of Arts report suggests, "hubs will not be viable in the most remote areas"– i.e., precisely in the communities which would need them most.[24]

However, it is important to stress that hubs are not the only available physical alternative to branches. In particular, while the hubs concept is still in its early stages, there already exist over 10,000 Post Offices where banking activities could be (and in many cases, already are) performed.[25] Post Office banking operates similarly to hub-based banking, providing a single access point to the services of most major banks – although currently services are restricted to depositing and withdrawing money, and checking one's balance.[26] Future changes to this model could make Post Office banking a serious alternative for large swathes of the population. Our focus group

participants expressed some enthusiasm for the Post Office as an alternative provider of physical services, mentioning the positives of this idea four times. One participant suggested that Post Offices could address many of the problems relating to branch closures:

> *"The Post Office are taking up a few banking facilities. And that's quite handy. I've got a new one quite near to me. If that's the way it has to go, where the Post Office fills in for banks, then maybe that might be the answer."*

The idea that Post Offices provide a kind of "ready-made" hub was also raised. When the hubs concept was introduced, one participant said:

> *"I think the Post Office is doing similar thing where there's various different banks where you can pay cheques in, pay cash in [etc.]"*

However, other participants stressed that the Post Office needed some improvement before it could represent a proper hub-style alternative to branches. Several stated that they already used Post Offices for other (non-banking) services, and that queues were long enough as it is:

> *"I wouldn't want it [banking services] to be in a Post Office because I do a lot of posting. And I already have to wait in queues for people who are doing money transactions."*

This reflects external data showing that, generally speaking, the public tend to worry about the length of queues in Post Offices, as well as generally regarding them as less secure and private than banks.[27] Moreover, the Treasury Select Committee found that Post Offices are not the best environment for vulnerable people: staff do not always have the proper training to deal with them.[28]

Nonetheless, the same participants who had raised the aforementioned drawbacks also perceived some ways forward – most importantly the idea that there should be separate facilities within Post Offices for banking and postage:

> *"I think the more services they add, then they'd need to... have a separate counter in the post office, just for banking"*

> *"If it is in the Post Office, it would be good if it was in a separate place where you can just buy your stamps and... post your letters"*

Overall, this suggests that, if sufficiently upgraded, Post Offices could well represent a sustainable future alternative to branches – for instance, in areas where hubs prove less cost-effective.

Another physical alternative to bank branches would be providing banking services in government-owned buildings such as libraries. Indeed, the idea that banking services should operate in 'community' settings was raised more than once in our focus groups. We outline this idea in full in the final chapter.

Regarding cash specifically, there are further alternative physical channels which could substitute for branches. In terms of withdrawing cash, the major opportunity is around cashback without purchase – essentially allowing businesses to offer cash in exchange for card payments, without any requirement for the customer to purchase anything additional from the retailer. This possibility was raised twice in our expert roundtable.

Cashback without purchase was provided for in a 2021 amendment to the Financial Services Bill, seen as a mechanism to both facilitate lower-cost access for consumers and to recycle cash through local communities. In October 2020 LINK, the ATM cash network, launched a 12-month pilot of cashback without purchase in 12 places in the UK, leading to over 12,000 cash withdrawals; they then rolled out this service across the country to over a thousand LINK retailers. Cashback without purchase is therefore a proven model which can (and should) be scaled rapidly. Nonetheless, the consumer group Which? was keen to emphasise that the discretion to offer the service still lies with individual businesses, and it is difficult to gauge retailers' attitudes here. Cashback without purchase should therefore be seen as just one effective alternative means of offering access to cash, along with (for example) the Post Office.

Where it comes to deposits, one existing alternative is around cash collection services – where the bank (usually via a specialist intermediary) comes to the consumer to pick up cash "at the door", with the intermediary accepting responsibility for covering the cash from the moment of pickup. This service exists solely for businesses; but as already noted, the self-employed are more likely to use branches for such purposes, so this is a useful alternative. Examples include various services offered by Lloyds such as their "Carrier Cash Direct" product, and Barclays' cash transit service "Barclays Collect". Barclays provides their service through G4S, security specialists who are the largest providers of this kind of "cash-in-transit" service; other providers include Loomis and SecPlus. Cheque deposits are often bundled into the service. Thus, cash collection also represents one future channel via which consumers could make deposits, alongside Post Offices and hubs.

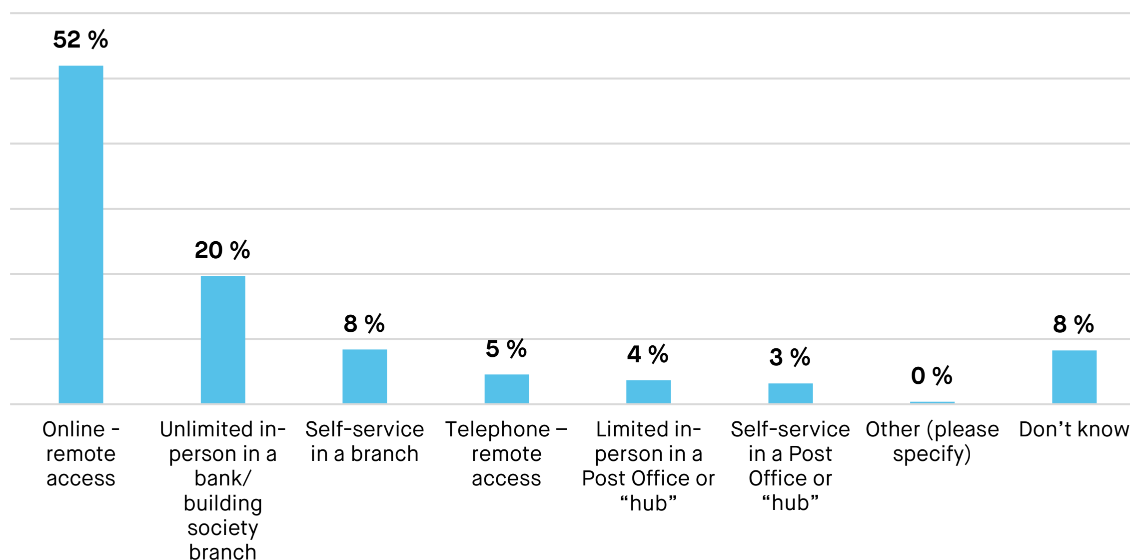
Meeting consumers' preference for digital banking

Although a large proportion of consumers regard physical services as "necessary" (see the following section), their overall preference is for digital banking. This seems like a paradox, until we consider the possibility that most consumers view physical access-points as an important *backstop* for services they cannot access online – particularly depositing and withdrawing cash, which (as noted in the previous chapter) is the more common "everyday" activity currently undertaken in branches. If this backstop is provided through alternative physical channels as described above, however, the shift away from branches provides an opportunity for banks to direct even more resources into meeting their customers' rapidly growing preference for digital services.

Our survey research indicates that consumers prefer to access banking services digitally. As detailed in Figure 7, a majority (52%) of respondents listed "Online – remote access" when asked their preference for accessing banking services, compared to only 20% for "Unlimited in-person [access] in a bank / building society branch".

Our focus groups bolstered this finding. The idea that banking services are much better now that they are mostly online was expressed nine times in total. For example, one participant stated that "not having a queue in a bank is a blessing", attributing this to greater online uptake.

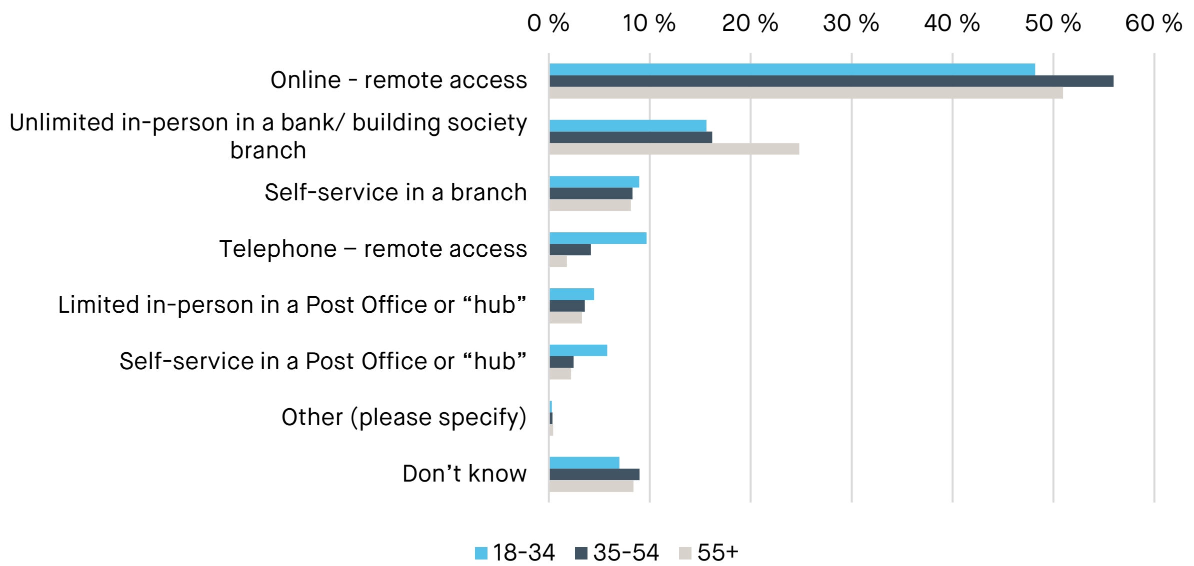
Figure 7: Survey respondents' preferences regarding channels for accessing their banking services



Source: Opinium survey of current account holders

We might expect younger people to have a stronger preference for online banking than older people. Interestingly, however, our research demonstrates that consumer preferences for digital access hold across age groups. Indeed, the preference was if anything slightly stronger amongst older age groups – with 51% of respondents aged 55 or over stating online banking as their preference, rising to 56% of 35–54-year-olds, compared to 48% of 18–34-year-olds (accounted for by the latter's greater preference for telephone banking). Figure 8 visualises these findings.

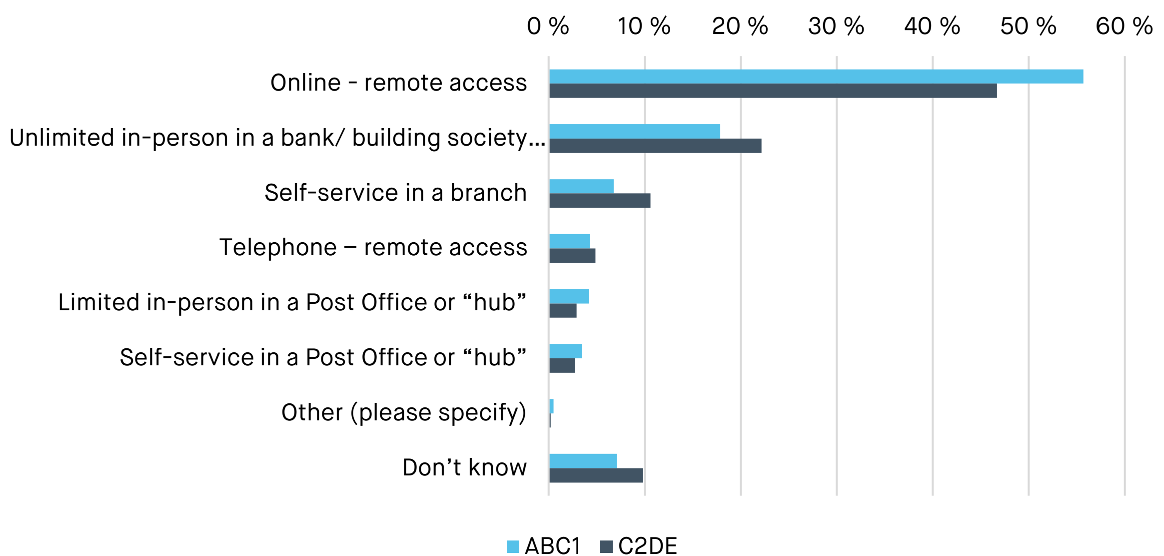
Figure 8: Survey respondents' preferences regarding channels for accessing their banking services, segmented by age



Source: Opinium survey of current account holders

Our survey also shows that the preference for online banking holds across income brackets. Just under half (47%) of respondents in the C2DE category, encompassing skilled working-class, working-class and non-working individuals, stated "Online – remote access" as their preferred channel, with just 22% preferring unlimited in-person branch services (compared to 56% and 18% respectively in the ABC1 category, encompassing upper middle class, middle class and lower middle-class individuals). Figure 9 summarises these findings.

Figure 9: Survey respondents' preferences regarding channels for accessing their banking services, segmented by social class



Source: Opinium survey of current account holders

It is worth exercising a little caution here: this data captures only a narrow range of age-groups (three) and social classifications (two). Nonetheless, the balance appears to be strongly in favour of digital. We can at least say that digital appears to be the preference of large swathes of the population, when segmented in broad terms. This preference is likely to grow even further in generations to come.

Our data suggest that branch closures represent an opportunity for banks to focus on improving the digital services that consumers are more likely to prefer – as long as a physical alternative is available as a backstop. One example of improved digital services might be better web chat functions. Although many people in our focus group regarded the chat functions currently available as 'too slow', there is certainly room for improvement and optimism here. One younger participant was particularly enthusiastic about chat functions, in fact finding them faster than telephone banking:

> *"Based on my experience [web chat...] was really good. So, I had an issue and then they were able to resolve the issue within the chat. And then that was it! So that worked really well for me."*

This example illustrates the potential future gains from re-directing banks' resources away from their legacy infrastructure towards improved digital services.

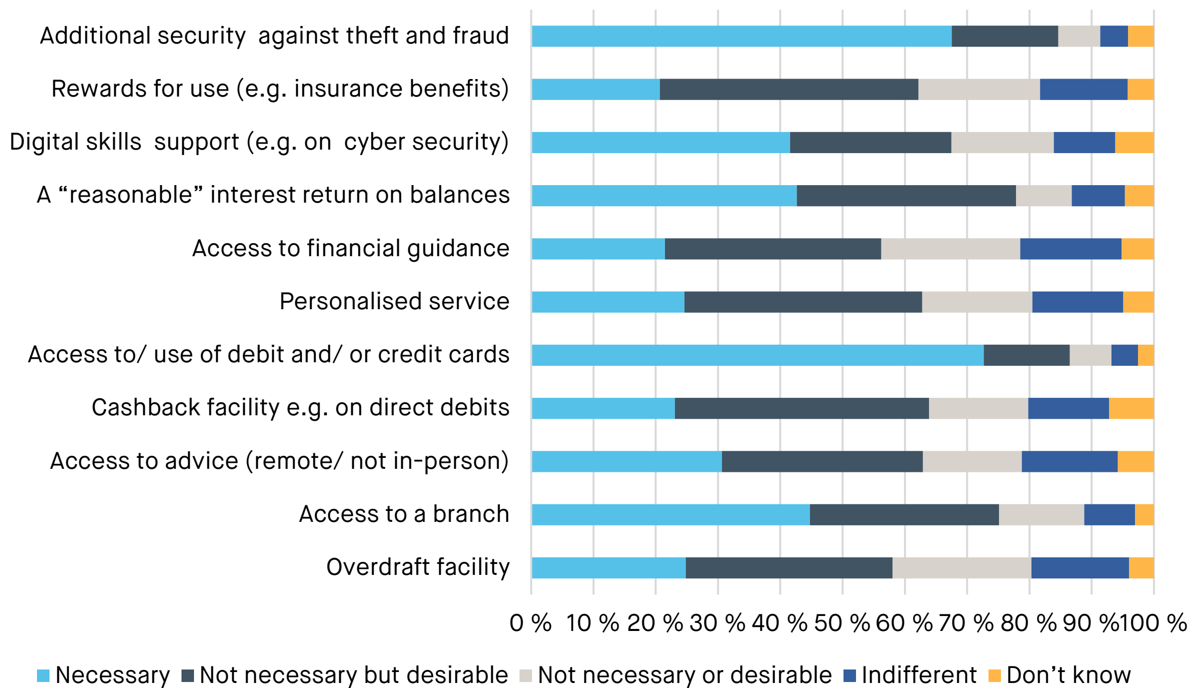
The risk that needs to be managed: reduced access to banking for some groups

There are also risks from the transition, however. Most consumers still regard access to physical services as either "necessary" (45%) or "desirable" (30%) (as shown in Figure 10), suggesting that one risk relates to the *unpopularity* of branch closures. However, averages also mask significant variations depending on age, socio-economic position, and employment category. *More vulnerable* consumers – defined here as those most exposed to the negative side-effects from the physical-to-digital transition, such as elderly, low-income, or disabled individuals – generally express greater concern about branch closures. Potential risks to their wellbeing include difficulties in accessing cash to pay for goods and services, and greater problems with assessing the state of their finances.

Risks associated with unpopularity

The Opinium survey we commissioned demonstrates that, on average, 45% of consumers view physical access as "necessary", and a further 30% as "desirable" (Figure 10). Physical access is perceived as the third-most "necessary" service after access to debit / credit cards and greater security against theft and fraud.

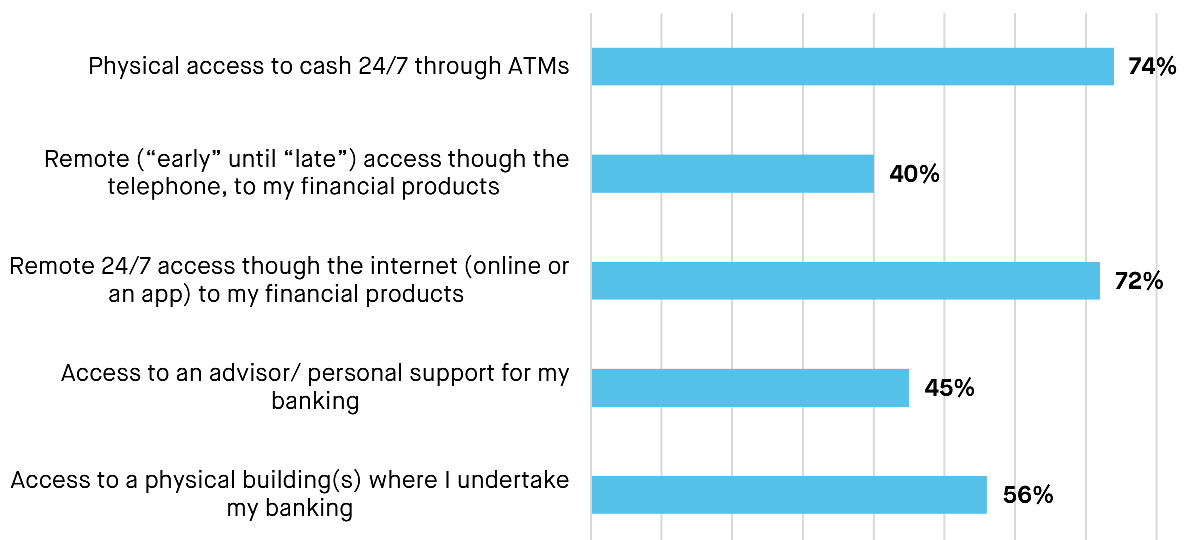
Figure 10: Views on the relative desirability / necessity of selected retail banking services



Source: Opinium survey of current account holders

Similar proportions said that access to *some* form of physical building where they can undertake their banking was "important" – a total of 56% (Figure 11). However, it is worth noting that this comes in behind "physical access to cash" (74%) and "remote 24/7 access through the internet" (72%), again suggesting that online banking is also valued highly by consumers.

Figure 11: % of respondents who say that the following channels are "important" in being able to access and use the banking services they have



Source: Opinium survey of current account holders

We know from other studies that most people regard in-person banking as more trustworthy than online banking.[29] Our focus groups supported this finding. The idea that branches were more "familiar" than online banking came up most frequently (five times). For example, one participant stated that:

> *"You know, I've been with my bank for a long time. And I'd be very disappointed if it did close. I'm fortunate enough that it's quite local to me and there is that personal contact with them. And I feel like I get a good service out of the local bank."*

Participants felt particularly strongly that they would rather undertake "big" decisions – for example, taking out a mortgage – in-person. (This is consistent with the findings of a 2016 SMF report, *Balancing Bricks & Clicks*).[30] For instance:

> *"I think the more money involved, you'd rather do it in person... certainly with a mortgage."*

> *"I would agree definitely in person because... it's a bit of an event, and it's very important obviously to save your money in the long run and get it right, you know, because of the detail involved in it."*

This suggests that there are particularly strong risks in any situation where access to a staff member in-person is not available even for occasional large decisions. Again, hubs could provide a backstop here, amongst several possible physical alternatives to branch access.

Regarding digital alternatives, concerns about security risks have historically been the biggest factor inhibiting take-up.[31] One roundtable expert agreed:

> *"The experience of the pandemic with an apparent epidemic of scams... is definitely a barrier we see among our clients [to digital uptake]."*

On seven occasions, our focus group participants expressed skepticism that extra security could overcome this fear. One participant even stated that "there isn't a way it could be made safe". However, some people did believe that extra security would be of value here.

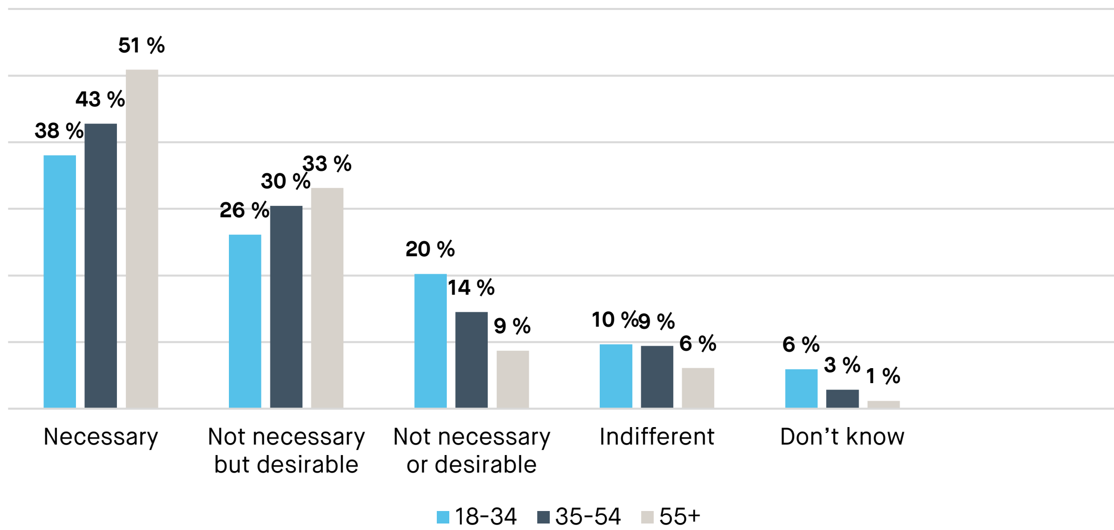
Focus group participants stated several times that they would consider 'switching' bank providers in response to branch closures.

Risks associated with vulnerability

We moreover find that vulnerable consumers are more likely than comparison groups to regard physical in-person services as necessary or desirable.

Age is a major factor affecting vulnerability to branch closures. Our survey found that a majority (51%) of respondents aged 55 or above regard access to a physical branch as "necessary", compared to a minority (38%) of younger people (aged 18-34). Figure 12 visualizes these findings.

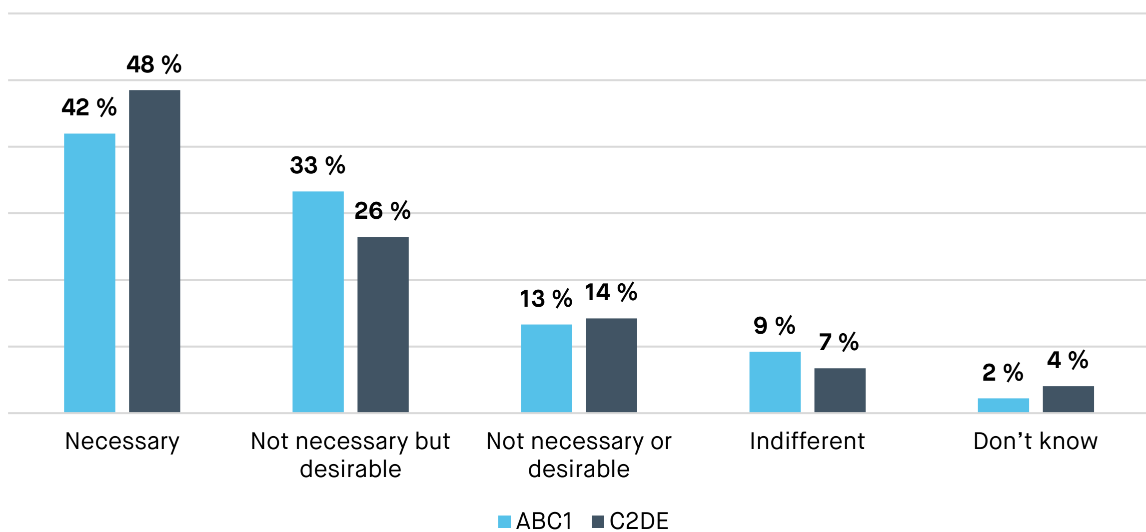
Figure 12: Views on the relative desirability / necessity of access to a branch, segmented by age



Source: Opinium survey of current account holders

A similar finding holds with respect to social class. Respondents in the C2DE category were more likely to say that access to a branch is "necessary" (48%) compared to those in the ABC1 category (42%), as shown in Figure 13.

Figure 13: Views on the relative desirability/necessity of access to a branch, segmented by social class



Source: Opinium survey of current account holders

Others who rely on branches more than comparison groups include: people in poor health; women; the self-employed; "single-channel" users, namely those who only interact with their bank via one medium; people with lower levels of financial 'sophistication', i.e. with experience of comparatively fewer financial products; and SMEs.[32] [33] [34]

Our focus group participants generally expressed a strong awareness of consumer vulnerability. In the words of one participant:

> *"There's a significant minority, perhaps broadly categorized as elderly – but it's not just the elderly, there are younger people, in poverty – who don't have access to online, who don't have smartphones, who don't have laptops."*

Indeed, such digital exclusion is probably a major reason behind the preference of older and lower-income individuals for physical services. Digital exclusion refers to a lack of knowledge of, or capability in, or engagement with, digital activities. Nearly 10% of UK adults are digitally excluded, although this is down from nearly 15% in 2017.[35]

On eight separate occasions roundtable participants highlighted that a key problem is that digital services just will not work for some groups, no matter how hard we have tried to digitally upskill them. For example:

> *"There's a hard core of people for whom digital doesn't yet work. And I would stress, that's not that they haven't tried hard enough, it just doesn't yet work."*

> *"There are always going to be some people who it's not going to work for... [and that is] never going to completely go away."*

Experts at the roundtable similarly mentioned age (four times) and low income (five times) as contributing factors here, as well as disability (once). Poverty and low income in particular were seen as an 'elephant in the room'. Participants stressed that for lower-income individuals, poor internet connection often inhibits online uptake; that many lower-income people simply do not have bank accounts; and that many prefer cash to online banking, as cash is better (or at least perceived to be better) for budgeting. With respect to age, our roundtable experts highlighted that core issues include physical limitations (failing vision, poor dexterity) and a lack of confidence surrounding fraud and scams.

We also know from external data that the elderly and disabled are less likely to switch to online banking when their branch closes.[36] Thus, there is a significant risk that such vulnerable consumers will be left behind by the digital transition – *if* a physical alternative (such as banking hubs or Post Offices, as detailed above) is not available.

Banking is by no means the only sector in which digital exclusion is a critical issue. From the controversy surrounding digital access to essential government services such as Universal Credit, to the diminishing physical presence of the retail sector and the concomitant "decline of the high street" , a lack of digital access – frequently due to poverty or disability – severely inhibits the capabilities of the most vulnerable in society.[37] [38] Ultimately, this only bolsters our central point here: there is no 'quick fix' to the problem of digital exclusion from financial services, for example through better financial technology provision alone. Wider problems of social exclusion must be addressed for digital to "work" for the most vulnerable. In the meantime, some physical services must remain.

While there are certainly large groups in society who cannot access digital banking due to (for example) issues of affordability or physical capacity, many individuals in these same groups (often for similar reasons) frequently also do not possess sufficient digital skills. Incidentally, this holds not just for banking, but for a wide range of important day-to-day tasks. According to Lloyds' *Essential Digital Skills* report, many disadvantaged groups possess lower levels of 'foundational' online skills compared to relevant reference groups. For example, only 28% of those aged 75 or over possess foundation-level skills, compared to 97% of 18-24 year olds; 44% of those with no formal qualifications possess these skills, compared to 94% of those with a degree, masters or PhD; and 58% of those with sight or sensory impairment possess foundation-level skills compared to 87% of those without such impairments.[39] All in all, this suggests that a "two-pronged" approach, with digital upskilling being combined with continued physical availability through hubs or Post Offices, probably represents the most effective strategy.

This overall approach is bolstered by the strong likelihood that there are some areas in which digital engagement – no matter how skilled individuals are – could worsen existing consumer vulnerabilities. For example, a particularly serious risk associated with the digitalisation of banking is the danger that many more vulnerable consumers will fall into problem debt. Our second expert roundtable heard that the societies in which digital banking is most widespread – namely, the Scandinavian countries – have experienced debilitating resultant debt problems for many individuals. The secondary literature bolsters this finding, with the Access to Cash Review identifying Sweden as a particularly worrying example of the relationship between digital payments and indebtedness.[40] This relationship exists largely because digital transactions, in place of cash, often *enable* far greater levels of impulse spending than cash, as users can purchase goods remotely and/or without monitoring their budget closely. One of the participants in our second expert roundtable gave some insights from their experience of conducting in-depth research in Norway:

> *"When you've got a lot of electronic transactions going on, many, many more people end up in serious financial difficulty... The first thing any debt advisor would say, would be move to a cash budget to keep control of your money."*

> *"There are [even] people on very tight budgets who, every now and then, the[ir] depression and anxiety – ... which [often] go hand in hand with a very low income – frequently, the depression gets so much [that] you just treat yourself to something and however small that treat maybe it can knock you right off. So there's no money then to pay the bill that's about to come out."*

This situation could well be replicated in the UK. The Royal Society of Arts has found that "[f]orcing people on to digital [in the UK] could lead to a loss of control over finances and spiralling debts".[41] It notes that over a third of the UK population find it harder to keep track of their finances via digital when compared with cash.[42]

Ultimately, the way forward that maximises the opportunities from change has to combine digital upskilling with new forms of physical banking provision and, critically, access to cash. More also needs to be done to ensure that non-cash transactions work better for those with constrained budgets – helping these individuals to manage their finances, rather than heightening the risk of falling into debt. There is already good work being done in this space by financial services providers, such as with apps that provide budget forecasts[43] and the ability to cap or prevent spending on items such as gambling.[44] These initiatives should be built-upon and more should be done to ensure uptake is high among vulnerable consumer groups.

Opportunities from a move away from FIIC banking

The opportunities and risks associated with a shift away from FIIC banking are both more opaque, as this is merely a future possibility (unlike with the move away from physical branches, which is occurring already). We therefore do not possess a good understanding of what a non-FIIC model might look like in the UK– something our expert roundtable participants were keen to stress. Nonetheless, we can draw some more limited conclusions from our data (as well as from the literature on charging structures in Europe and the United States).

Beginning with the positives, the main opportunities explored below are the possibility of easier and more transparent forms of priced banking accounts; and the possibility that a non-FIIC model could be fairer than the current system. Nonetheless this possibility needs qualifying heavily – the existing model may no longer be as regressive as in the past, and the experience of other countries such as the United States suggests that fees can themselves be regressive.

We should preface this section with a word of caution: the end of FIIC is not an inevitable trend, but simply one possibility out of many for the evolution of the current account market. Indeed, influencing whether or not it occurs at all is a relevant question for both policymakers and industry, given both the risks and opportunities outlined in the following section. Moreover, if FIIC *does* end, we by no means expect this change to be imminent: instead, any change could be expected to occur in (and over) a number of years.

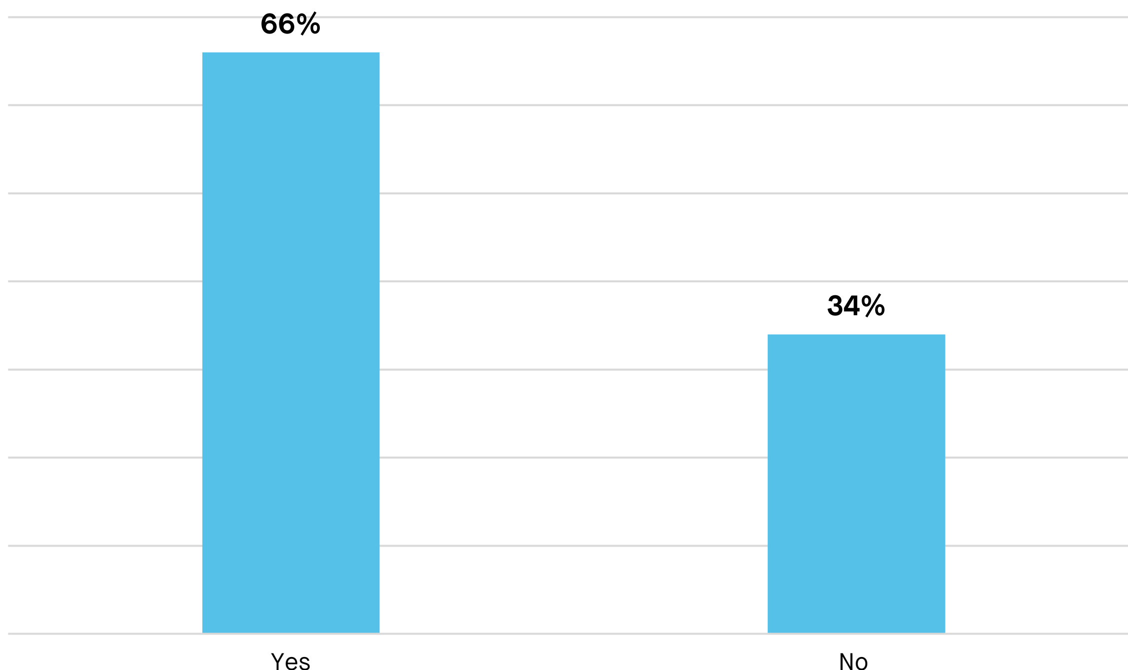
Making costs more transparent

Our roundtable experts were keen to stress a particular point: we already pay for so-called ‘free’ current accounts. In the words of one participant:

> *“Let's not kid ourselves, customers pay for banking. We just don't pay directly in current account charges, but we pay through many other things, whether it's the spread on debt, or overdraft charges or credit card fees, or whatever.”*

Moreover, the evidence suggests that consumers are by no means unaware of this situation. In a PwC survey from 2015, around two-thirds of respondents suggested that they understood ‘free’ current accounts contain higher overdraft charges or lower interest rates than their fee-paying alternatives.[45] Figure 14 captures the result.

Figure 14: Respondents' indication of whether they were aware that FIIC accounts "sometimes have additional charges such as higher penalty charges or lower interest rates than fee paying accounts" (2015)



Source: PwC, "There's no such thing as a free lunch: Why fees are the future for current accounts" (main report)

Our focus groups corroborate these findings. Four participants together mentioned three different ways in which (they believed) banks make their money:

> *"By charging people who are overdrawn."*
>
> *"They know a certain amount of money is going to come into the banks every month... so they can invest it and use it."*
>
> *"They pay a very low rate on the money sitting in people's current accounts, but then it's lent out at a higher rate through loans and mortgages."*

These three factors – overdraft charges, "funding benefit", and foregone interest respectively – overlap with the three main sources of funding for FIIC identified by the Financial Conduct Authority.[46] Thus, it appears that at least some consumers have a pretty strong awareness of how FIIC is "paid for".

The trouble is that the notion of a 'free' bank account is therefore somewhat misleading – and if the above data is correct, consumers are probably already aware of this. That may decrease confidence and trust in the banking system, and raise cynicism (both sentiments expressed in our focus groups).

Properly constructed, a future shift away from FIIC towards much simpler, clearly-priced accounts with more automatic benefits and without the implicit cross-subsidies and costs of FIIC could mitigate this problem, as long as a zero-fee alternative is still available for vulnerable consumers – and as long as the fee structure of current accounts is simple and easy to compare. Indeed, one of our focus group participants

suggested that improved transparency in charging structures could increase trust in the banks:

> *"If they... were more transparent about what they were offering their customers, then banks might have a better reputation."*

It is important to stress, however, that just replacing FIIC with existing paid-for models is unlikely to work – and would probably only decrease consumer confidence further. Existing 'packaged' bank accounts, entailing a fixed monthly fee for a variety of disparate benefits, often requiring consumers to remember to claim them in order to be valid, were distrusted in our focus groups. For examples:

> *"Many of the supposed [insurance] 'benefits' you can get more cheaply... elsewhere, by going through CompareTheMarket.com, Moneyfacts and so on."*

> *"It's not more transparent... And it's clearly not necessary, because you can get a nice clean bank service without doing that."*

The secondary literature bolsters this view. Some have suggested that packaged accounts enable banks to "cross-sell" additional products to consumers that the latter do not necessarily want and hardly ever use. Indeed, in 2017 around 30% of the users of packaged accounts never used any of the services offered. On the other hand, 65% drew upon the most popular products – such as a 'free' overdraft facility and insurance offers – suggesting that retaining these "core" facilities and pricing purely (and explicitly) on the basis of such facilities represents one way forward.[47] One of the participants in our second roundtable, featuring experts on the political feasibility of specific policy interventions into the retail banking market, stressed that regulators could step in here to increase the transparency of existing fee-paying accounts. In their words:

> *"The FCA... [should] look much more carefully at the simplicity and transparency of fees for those who do already have an account [which is paid-for]."*

An example of such regulation could be requiring banks to "unbundle" services by stating the charges associated with each element of the current account offer (for instance, the cost of insurance provision), enabling consumers to compare these costs with those elsewhere on the market.[48]

Overall, if a shift away from FIIC does occur in times to come, it should be seen as an opportunity to make benefits both more accessible and measurably more cost-effective than those offered by both "free" accounts and alternative providers (such as insurance companies).

(Possibly) greater fairness

FIIC was originally introduced by Midland Bank in 1984, in response to a long-term economy-wide rise in rates of return on credit, meaning that banks could earn more interest from a given stock of current accounts.[49] [50] Consumer demand also responded favourably to this shift: Midland gained almost 500,000 customers in a single year. As this history suggests, FIIC was widely seen as a positive development; it was certainly not intended to hit the most vulnerable.

However, in the early 21st Century academics and regulators began to express concern that FIIC was potentially a regressive system, as it partially relies on cross-subsidisation from overdraft charges. In the case of unarranged overdrafts, these are more likely to hit poorer customers.[51] Any future shift away from FIIC could entail less reliance on such consumer debt to 'pay for' current accounts – in other words, an opportunity to redress some of the possible (unintended) limitations of the existing model.[52]

It is worth qualifying this argument though, and for positive rather than negative reasons. In 2020, the FCA introduced reforms to align unarranged overdraft prices with those for arranged overdrafts. This may have significantly reduced one of the most notable 'regressive' elements of FIIC detailed above. In the words of one roundtable expert:

> *"The FCA's intervention [on…] unauthorized overdraft fees has massively reduced the burden [of free-if-in-credit] on those people who are on lower incomes."*

"Massively reduced" suggests that FIIC's possible regressive elements are perhaps no longer the most important concern when it comes to the model's sustainability. Nonetheless, the roundtable participant also stated that:

> *"The system isn't perfect that we've got at the moment… there's still something to do there."*

This suggests that a *partial* move away from FIIC at a future date could represent an opportunity to eliminate remaining regressive elements of the current model entirely. If current accounts were paid for largely by affluent customers who wanted to pay for them, with lower income customers continuing to receive a free account now enabled by such charges, this would flip any regressive cross-subsidisation on its head – additional benefits would accrue to those who most wanted them; whilst a universally available free account would meet the needs of the most vulnerable. Indeed, this system probably represents the "optimal" method of paying for current accounts, were we to "start from scratch". It both ringfences the requirement to provide a universal free bank account for vulnerable individuals, whilst meeting the desires of consumers who are willing to pay for improved services. While there are regulatory hurdles involved in delivering this system – not least the assessment of who counts as "vulnerable", probably going beyond normal regulatory definitions of vulnerability to focus predominantly on lower-income individuals – there is no reason why it could not be achieved in principle.

Nonetheless, it is critical to recognise that this is not the default outcome – a shift away from FIIC would by no means automatically guarantee a less regressive system. Regulatory intervention would be required to ensure the system operates along the above lines. Indeed, there is a strong risk that the end of FIIC could be detrimental for poorer consumers – a point explored in the subsequent section.

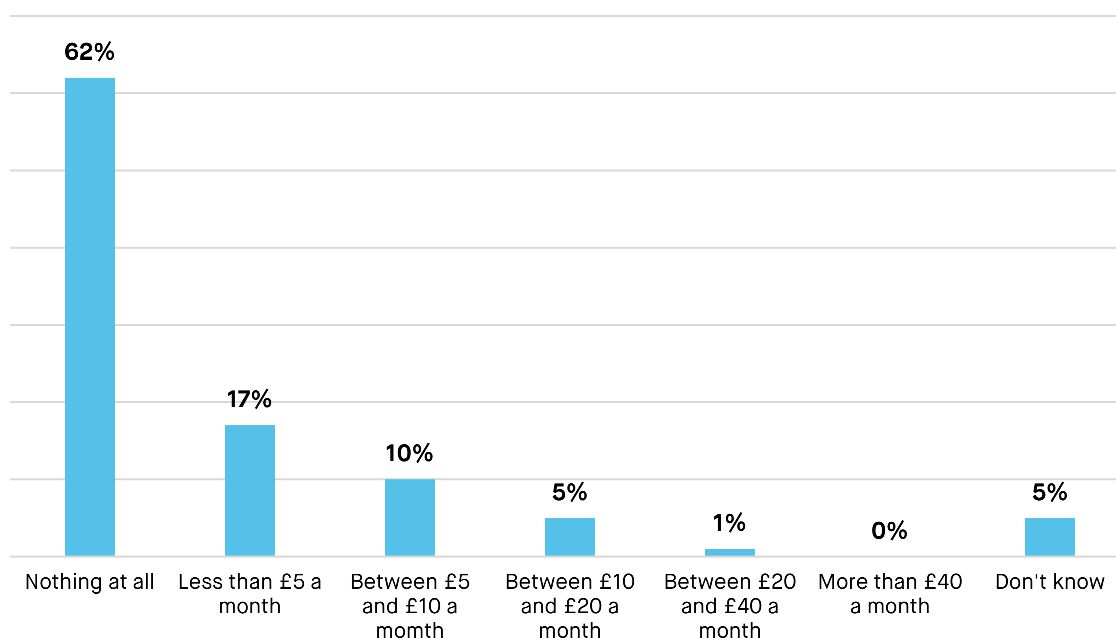
Risks associated with a move away from FIIC

To move onto the risks, the main potential downsides once again appear to relate to both popularity (and the prospect of associated commercial losses for any first-mover bank) and (more importantly) the possibility of harmful costs for vulnerable consumers.

Risks associated with likely unpopularity

Perhaps unsurprisingly, proposing to end FIIC is quite unpopular. In a 2015 PwC survey, almost two-thirds of participants said that they wouldn't be willing to pay anything for their current account; a further sixth said they would only be willing to pay "less than £5 a month". These results are captured graphically in Figure 15.

Figure 15: Amount of money that respondents would be willing to pay for their bank account (2015)



Source: PwC, "There's no such thing as a free lunch: Why fees are the future for current accounts" (press release)

Our own research corroborates this finding. In the focus groups, most people were happy with the status quo in terms of current account provision, with the 'convenience' of the current model mentioned six times in total. Participants were also very resistant to the idea of paying for their current account. When presented with this idea, one participant said:

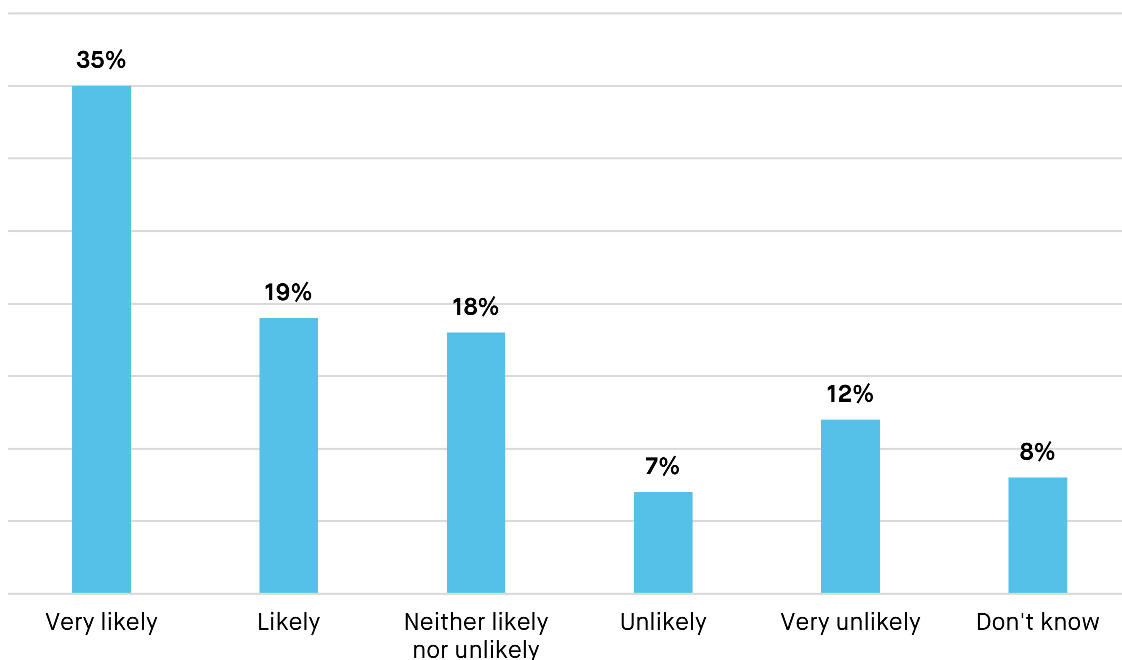
> *"I don't think that they should be charging us… they're making so much money out of our money."*

Several participants felt so strongly about this matter that they would consider switching bank if their present provider introduced current account charges. One individual said that they would regret having to do this given their general satisfaction with their bank, but that they would feel they had no other option:

> *"I think being forced to do anything... would definitely make me question which institution I was with... I don't want to change banks. I'm quite happy. But if they suddenly went right, you're paying, I'd be like, no, I don't want to."*

This finding is consistent with PwC survey data, suggesting that a majority of consumers believe that they would be "very likely" or "likely" to switch banks in response to current account charges. Figure 16 summarizes these findings.

Figure 16: Respondents' views as to how likely they would be to switch current account provider if their bank introduced a monthly fee (2015)



Source: PWC, "There's no such thing as a free lunch: Why fees are the future for current accounts" (main report)

Our focus group respondents expressed particularly strong negative feelings about the prospect of paying for services which they presently regard as necessary – a sentiment expressed 14 times in total. One participant said that they would consider stopping using high street banks altogether in such a situation, given the distance to their nearest branch:

> *"My local [branch] is a 40-minute bus journey. So I'm not going to pay to go and stand in a bank after being on a bus for 40 minutes. No way. I'll just go to the local Post Office [instead]."*

Thus, as with the closure of any individual bank's branch network, there is a risk that any bank that attempts to introduce current account charges ahead of its competitors will lose customers. Given the proportion of consumers stating that they could switch providers in response to fee introductions, this represents a significant potential commercial risk.

Risks associated with vulnerability

Again, mirroring the risks surrounding the closure of the branch network, there is a strong chance that the end of FIIC will disproportionately affect vulnerable consumers. 'Vulnerable' here refers to a narrower range of consumers than with respect to branch closures – mainly lower-income individuals who cannot afford to pay (rather than elderly individuals, for example). Four of our roundtable experts expressed deep concern surrounding the impact of any change to FIIC on these consumers. For example:

> *"On free-if-in-credit banking, I would strongly urge all the banks to resist any model which just makes the vulnerable pay more... for services that that frankly they have no choice but to use."*

> *"If you get rid of free-if-in-credit banking, you'll end up passing on more cost to people who can least afford it."*

Other countries' experience with fee-paying current accounts also suggests that the introduction of charges, if unregulated, could be regressive. According to a participant in our second expert roundtable, fees are frequently a major barrier for the most vulnerable in countries where such charging structures exist: often the poor end up paying *more* than their wealthier counterparts to access the same services.

One good recent example of this is in the United States. In the past decade, many US retail banks including Wells Fargo, U.S. Bank, and Bank of America started charging previously free (or de facto free) checking accounts – the US version of current accounts – if customers did not meet certain financial conditions (such as balance or deposits thresholds). This had regressive impacts, with poorer customers struggling to meet such conditions. For example, at the more moderate end of the charging spectrum, in January 2018 Bank of America introduced a monthly $12 fee to some of its customers' checking accounts – a fee that could only be waived if customers kept their bank balances above $1,500, or their deposits at or above $250 per month.[53]

As has been suggested might occur in the UK, the introduction of checking account charges in the United States was largely a response to government regulation of overdraft fees to curb the impact of the latter on vulnerable overdraft users. The loss of revenues meant that the banks started looking for other ways to make money. Unfortunately, the charging structure they settled on – in the form of monthly fees – also disproportionately hit vulnerable consumers. The US case demonstrates the serious dangers involved in introducing current account fees without considering the impact on vulnerable consumers.[54]

Our focus group participants also expressed fears about the regressive impacts of the end of FIIC, suggesting that the public are by no means ill-informed on this matter. For instance, here are quotes from two of our participants:

> *"Even a small fee of 10 pounds or something could tip some people over the edge."*

> *"[There are] certain groups of society that will just be completely chucked out of the banking system [as a result of charges being introduced]."*

One participant even stated that they would consider switching on the basis of detriment to vulnerable consumers (despite not being themselves vulnerable), suggesting that any regressive impacts from ending FIIC could feed into the commercial risks outlined above.

The flipside of this is that, although consumers *believe* that they would switch in response to the introduction of charges (as detailed in the above section), it is not necessarily clear that they *would* do so in reality. Individuals in European countries without FIIC do not demonstrate a higher propensity to switch, for example. This brings its own problems for vulnerable consumers, suggesting that they will not always switch to a 'free' alternative when presented with bank charges.[55]

Another potential problem which emerges from the cross-national comparative data is that the UK appears to have better consumer outcomes where it comes to bank accounts than the EU-27. The 2020 EU-wide Market Monitoring Survey found that 87% of UK adults trusted their bank account provider either "a great deal" or "a fair amount" compared to 78% of adults in the EU-27; 94% of the former also rated their experience of obtaining bank accounts as "very positive" or "mostly positive", compared to 89% of the latter.[56] Although UK adults were about as likely to have experienced problems with their bank accounts (8% in the UK compared to 7% in the EU) as well as non-financial impacts relating to their bank account such as stress, anger, or loss of time (76% compared to 75%), they were significantly less likely to have experienced a financial loss (22% compared to 38%).[57] All in all, this suggests that countries without FIIC (i.e. European nations) do not automatically experience better consumer outcomes than those under a FIIC model (i.e. the UK). Indeed, we might reasonably infer that consumer detriment may be higher in European countries than in the UK.

Of course, we do not know for certain what consumer behaviour, or consumer outcomes, would look like if the UK introduced a charged model from the current FIIC baseline. Nonetheless, it remains a significant risk that ending FIIC may not deliver measurably good outcomes for more vulnerable consumers, and could well make them worse-off.

A final point to note is that although FIIC may contain some "leftover" regressive elements not addressed through the FCA's 2020 rules (see previous section), it is quite difficult to think of ways of further mitigating this problem (something which may eliminate any benefits for the most vulnerable arising from the end of FIIC). One roundtable expert was keen to stress that "the problem is easier to describe than the remedy" when it comes to FIIC and fairness. In their words:

> *"Starting to regulate in a very detailed way the complicated business of how banks charge their customers is a big… challenge. And it's easier to talk about the objectives than to design ways in which the bank charging system would be fair, and especially fair towards poorer and more vulnerable customers."*

Therefore, it is unlikely that ending FIIC would automatically bring benefits to vulnerable consumers – and potentially quite difficult for government to regulate in a way which mitigates harmful impacts. This presents a challenge to policymakers.

CHAPTER FOUR – ENSURING ACCESS TO BANKING FOR ALL

As the preceding chapters have demonstrated, the retail banking market is changing. Technological, economic and sociological factors are driving shifts in consumer behaviour and retail banking business models. As Chapter Three in particular highlighted, these disruptions come with upsides and downsides. The latter in particular, pose challenges for society, the economy, politicians, policymakers and the retail banking industry.

The key socio-economic challenge was laid down by one of the participants at the first expert roundtable that SMF hosted as part of the research for this report. They stated that:

> *"The challenge…isn't about meeting consumer needs or 'progress' – it's about making sure that people aren't left behind".*

The aim of this chapter is to describe the current landscape of measures which are being implemented by Government and the industry to deal with the challenge of not leaving anyone behind, that was laid down at the roundtable and raise some questions about the future evolution of such measures.

Digital banking usage will continue to grow

Banking industry estimates of customer use of digital channels

Figure 1 of this report illustrates the substantial growth in online banking in the UK, in recent years. More than nine in ten customers are accessing banking services through the internet. Reinforcing this growth picture is the data presented in Table 1, which reports the estimates made by some of the major retail banks of their digital customer base, as they were described to the House of Commons Treasury Select Committee.

Table 1: Estimated number of digital customers of a selected number of retail banks, 2021t banks

Bank	Estimates of digital customers
Barclays	Barclays reported that they have 11.5 million customers that are "digitally active" and 74% of their customers primarily interact with their bank through online, mobile or telephone banking.
HSBC	HSBC said that 60% of their users are "digitally active" and that 90% of customer interactions take place over the telephone, or through the internet or a smartphone.
Lloyds	Lloyds suggested they have 17.4 million active digital customers, with 12.5 million mobile app users.
NatWest	NatWest claimed they have 9.5 million active digital users and 8 million active users of their mobile app. Further, they have noted that 60% of their retail customers exclusively use digital channels and 67% of commercial banking sales are undertaken online.
TSB	TSB said that 90% of consumer transactions are conducted through digital channels and two-thirds (67%) of customers use mobile banking.

Sources: Barclays (2021); HSBC (2021); Lloyds (2021); Nationwide (2021); NatWest (2021); Santander (2021) and TSB (2021).

There are indications that use of digital channels for banking is going to intensify, with a growing variety of banking activities conducted through digital devices and mobile apps in particular, in the coming years. For example, the use of mobiles apps as a digital channel for consumer banking grew by 354% between 2012 and 2017. Yet, the utility of apps was limited in those early years. However, the range of functions available through apps has steadily expanded. In a review of retail banking models the FCA described how:[58]

> *"Initially apps simply allowed customers to check their balance and see their most recent transactions. But just over half (51%) of banking app users now use these services to pay bills, three fifths (62%) to transfer money to friends and just over a quarter (27%) to set up standing orders…".*

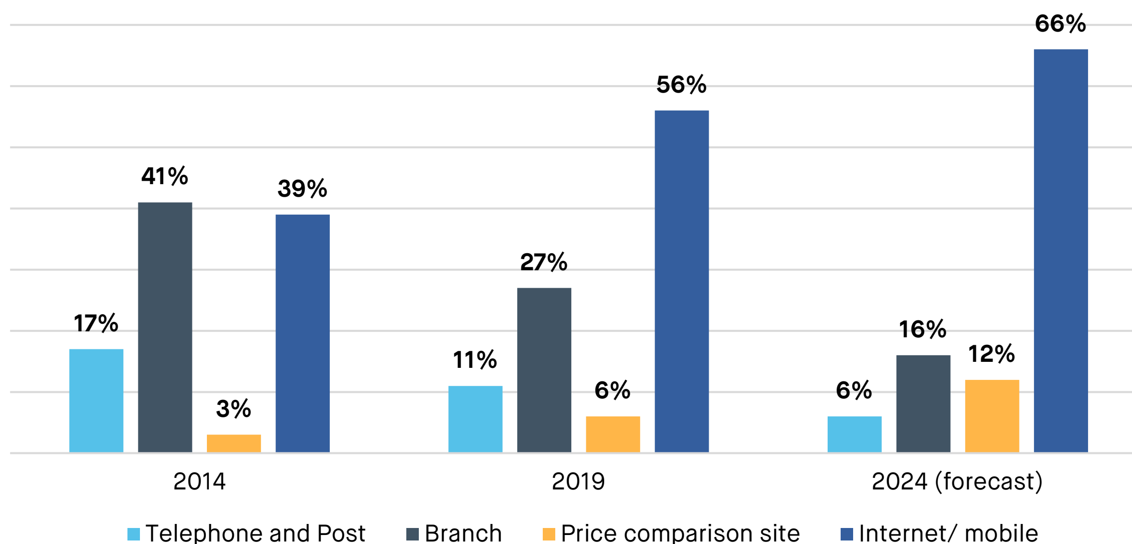
The data on usage described by the FCA suggests that, not only has there been a considerable increase in the intensity of use of mobile apps – with large proportions of users utilising them for tasks such as making payments, but that there is still considerable room for growth. With some way to go before the large majority of mobile banking app users are using their apps for these wider range of tasks. For example, one estimate suggested that the proportion of bank customers using apps to do their banking will continue to rise, reaching 71% by 2024.[59]

Use of digital banking for more than day-to-day banking activities

Growth in the use of digital channels, is not limited to day-to-day banking services, such as checking balances and making small transfers. Use is intensifying into more complex areas of retail banking, as noted in Chapter Three. Figure 17 illustrates this

trend with the example of opening savings accounts, which has often been assumed to be something that consumers prefer to do face-to-face.

Figure 17: Channels used to open savings accounts, 2014, 2019 and 2024 (forecast)



Source: CACI, 2019

In 2014, for example, four in ten (41%) of savings products were opened in a branch and 39% were done through online (internet and mobile app) banking.[60] In 2019, just over a quarter (27%) of such products were taken out in a branch, while 56% are opened up through the internet or a mobile app.[61] Further growth in the use of the internet and mobile apps for opening savings accounts is expected, such as that by 2024, as many two-thirds of savings products in the UK could be opened through digital channels.

Anticipating future technology-based changes to retail banking and barriers to access

In a report into the future of the digital banking, KPMG argued that by 2030, the adoption of technologies like Artificial Intelligence (AI), Virtual reality (VR), the internet-of-things and the blockchain – which are also driving a wider set of changes in many industries – are likely to have significant consequences for the business models of the retail banking industry.

More competition

One consequence the KPMG analysis anticipates is that that technology will facilitate more new entrants into the retail banking sector. It suggests that these will not just be start-up fintech businesses or traditional challenger banks, but also existing technology firms. The latter see an opportunity to move into an industry being disrupted by technology, where their technical expertise could put them in a good position to compete with the incumbents.[62]

How open banking might impact the retail banking industry

Others have touted a further range of possible benefits that could emerge from the growth of open banking over the next decade. There are five million users currently in the UK.[63] Over the next decade it's likely that open banking's full potential will begin to be seen more widely across the retail banking sector. For example, as one participant at the first expert roundtable argued:

> *"Particularly via open banking, consumers will be getting better ways of borrowing money than unarranged overdrafts and better ways of getting interest on their products…".*

It has also been suggested that technological changes associated with the development of open banking could deliver a number of benefits that could improve access to financial services of those who are partially or wholly financially excluded.[64] These could include: more accurate credit scoring, the encouragement of saving through "smart savings apps" and new ways of pricing financial services products such as "pay-as-you-go" insurance.[65]

New payment mechanisms will likely become available to consumers too, albeit with some regulatory encouragement, with a roundtable participant noting that:

> *"…the payment systems regulator is keen to promote account-to-account transactions…retailers accepting interbank payments…".*

Retail banks as platforms

One of the most significant projected changes to banking could be a transformation of the retail banking model from one of directly servicing consumers' financial needs into a platform role. This process is described as "Platformication".[66]

Box 1: "Platformication"

One of the directions in which retail banking model might go in future decades is towards what has been called a "platform model" of banking. The Centre for the Study of Financial Innovation (CSFI) describe this as a model where banks no longer focus on providing services directly to consumers but act more like a "financial assistant" to the customer.[67]

Analysis by KPMG also touted this as a likely model of the future. They argued that "banks as a platform" would see:[68]

> *"Traditional boundaries within the financial services industry…disappear…with a move towards 'platformication' – where banks allow customers to choose services personalised for their needs from a range of providers. To facilitate this, banks will become an orchestrator of various alliances and capabilities which may be owned by them or others".*

Sources: CSFI (2016) and KPMG (2019)

Technology, competitiveness and consumer vulnerability: compatible or not?

However, as one banking expert has highlighted, the ability to benefit from the application of technology to banking services depends on factors such as the market knowledge, purchasing power and digital and financial capabilities. Consumers that are vulnerable (see page 26 for a definition and Figures 8 and 9 for data on some vulnerable groups and their banking preference)[iv] have fewer of these attributes. As a result, they are, generally, much less likely to experience the kinds of benefits many suggest developments like open banking and the emergence of new products and ways of delivering banking services will bring.

As the retail banking sector changes over the coming years – in light of technological innovation, changing consumer behaviour, business model transformation and the emergence of new products - there is a risk of large numbers of consumers being left behind by such developments. Chapter Three explored some of the potential downside consequences of these factors "playing out" without adequate care taken to ensure no-one is left behind.

As a result, these dynamics create a difficult dilemma for policymakers and the banking industry: over the next decade and beyond the imperatives of competitiveness need to be squared with the social goals of:

- Ensuring that such change do not prevent those consumers who need and want to continue to access cash and face-to-face banking services from doing so, especially the vulnerable in general and the digitally excluded in particular.
- Enabling anyone who wants to embrace technological channels to conduct their banking, to do so.

The trends in bank and building society branch and ATM closures

Data suggest that, overall, the number of bank and building society branches operating in the UK fell by 51% between the mid-1980s and mid-2010s,[69] from more than 21,000 to just over 10,000. In 2021 there were 8,810 bank and building society branches still operating.[70]

There has also been a decline in the number of ATMs available to consumers, since 2015.[71] As one analysis noted:[72]

> "*Between July 2018 and February 2022, the number of ATMs in the UK fell by 12,968 or 20%...There was a fall in the number of ATMs in all regions and countries of the UK*".

[iv] Vulnerable characteristics are strongly linked to financial and digital exclusion.

The reasons behind declining numbers of branches

A number of factors have driven the decline in bank branches in the UK over multiple decades.[v vi] The growth of digital banking has been one of those factors because it has led to fewer people using branches for many kinds of banking activities, as has been noted by the banking industry trade body, UK Finance:[73]

> *"The seismic shift in transactions...has inevitably led to fewer transactions in high street branches of banks and building societies. The average branch received 104 visits per day in 2017, down from 140 in 2012 – a 26 per cent fall".*

Evidence from individual high-street retail banks reinforce the picture of declining use of branches for accessing banking services by consumers. For example:

- NatWest has suggested that between January 2018 and February 2020, counter interactions in their branches fell by 30%.[74]
- HSBC has pointed out that the number of customers using their branches had reduced by a third, between the mid-2010s and early 2020s.[75]

Close observers of the retail banking sector have argued that over time, growing numbers of consumers will cease accessing banking services through branches altogether. One forecast suggested that by 2024 just under half (45%) of bank customers would not be using branches in any capacity.[76]

Access to face-to-face banking will remain important to some

The ongoing trend in branch closures raises a number of challenges for politicians, policymakers, the industry and their customers. Salient among these is the issue of alternatives for those unable or unwilling to switch to a largely or wholly digital means of accessing banking services – of whom, there are many millions across the UK. As was observed by one of the participants in the first roundtable held as part of the background research for this report. They suggested that:

> *"digital doesn't work...[for]...between 5 and 8 million people... [in the UK]".*

A key reason why digital "doesn't work" for a significant minority of people is their reliance on and use of cash. Recognising this, UK Finance established the Access to Cash review, which was published in 2019, which found that[77]:

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[v] These factors include: new technologies providing alternative channels for accessing banking, a decline in "footfall" in many branches, the fallout from the financial crash, management efficiencies that have resulted in the centralisation of decision-making and other operations and the merger or takeover of banks and building societies. Sources: Banking-and-competition-in-the-UK-economy-May-2021.pdf (smf.co.uk) and Bank branches: why are they closing and what is the impact? (parliament.uk)

[vi] It should be noted that, despite the branch closures over multiple decades, the FCA observed that, in 2017, banks: "*...spent a total of around £4.4bn on their branch networks...Major banks and small retail banks spent an average of 21% of their total cost base on operating their branch networks, and building societies spent an average of 16%. Most specialist lenders and digital banks do not incur branch costs at all*". Source: Strategic Review of Retail Banking Business Models: Final report (fca.org.uk)

> *"…cash will still be here in 15 years' time, but potentially accounting for as few as one in every ten transactions…[further]…around 17% of the UK population – over 8 million adults – would struggle to cope in a cashless society".*

As the review further highlighted, and as Chapter Three of this report explored, the barriers to moving away from cash for some are high and the potential negative consequences for a sizeable minority could be significant:[78]

> *"For many people in the UK, using cash is not a matter of choice, but of necessity. Digital…options just don't yet work for everyone…poverty is the biggest indicator of cash dependency…[while]…Some of these are likely to reduce over time…other needs will require thoughtful and tailored solutions…".*

As the Access to Cash Review argued, ameliorating such risks will require action by the industry, regulators and policymakers.

Further, as Chapters Two and Three show, face-to-face banking – or at least the opportunity for it, if needed – remains important to many customers (e.g. see Figures 7 to 12). Therefore, it is not just retaining access to cash that is imperative, but access to a range of face-to-face banking services, too.

Current efforts to help ensure ongoing access to cash and face-to-face retail banking services

In light of the decline in branches (and ATMs) as channels for accessing cash as well as other banking activities, there have been a number of initiatives developed by the banking industry and regulators aimed at supporting access to cash and face-to-face access to a range of banking services.

Measures initiated by the retail banking industry

Specific measures taken by the retail banking industry, to help maintain access to cash and ensure the availability of some face-to-face banking services, include:

- Formal commitments from the UK's main banks and building societies to "*…preserve access to cash over the long-term*".[79]
- Agreeing an Access to Banking Standard, which sets out good practice standards for banks to follow when closing down branches, including measures around engagement with affected local customers, especially vulnerable ones, to help them adjust to such changes (see Box 2).[80]
- Setting up the CAG[vii] in 2021 following the Access to Cash Review in 2018, which proposed a number of measures to help maintain access to cash and sustain a cash infrastructure across the UK, in the context of the long-term decline in its use and the consequent impact on the long-term financial viability of a cash infrastructure under such circumstances.

[vii] CAG was convened in 2021 by UK Finance, and chaired by Natalie Ceeney CBE (author of the Access to Cash Review) and made up of senior representative from across the financial services industry, leading consumer groups, FSB, LINK and the Post Office.

- The CAG helping produce an agreement between the major retail banks to share cash services, and an arrangement whereby LINK[viii] would act as the coordinating entity of the CAG and undertake independent impact assessments of proposed changes to banking provision in communities, as a spur to the identification of measures which could ameliorate some of the negative consequences in a locality.
- Running Community Access to Cash pilots, in eight areas where different possible solutions for maintaining access to cash were trialled.[81]
- The CAG founding a banking hub company (as noted in Chapter Three) to help roll out more banking hubs across more of the communities where bank branches have closed, and ATMs have disappeared.[82]
- Enabling "alternative access to cash services" such as cashback without purchase, to be rolled out.
- Entering into an agreement with the Post Office to provide a range of basic face-to-face banking services.

The Access to Banking Standard

As Table 2 in Appendix 2 highlights, all the main retail banks state that they adhere to the requirements of the Access to Banking Standard, when closing branches. This standard has been a key development in the access to cash and face-to-face banking services landscape in recent years. It sets out "good practice" standards for banks to follow when branch closures (see Box 2) are planned and implemented. Key objectives of the standard are to increase the transparency around branch closures for those communities likely to be affected, and to contribute to lessening any downsides – especially for vulnerable customers – associated with closures.

[viii] LINK is the UK's largest cash machine network. Source: LINK / Home

Box 2: Access to Banking Standard

In 2015 the retail banks published an Access to Banking Protocol, which aimed to ameliorate the negative impacts of branch closures by ensuring that:

- Consumers are still able to access some banking services.
- Communities are given reasonable notice of planned branch closures.
- People are told about alternative arrangements.
- There is support in place to help people adopt internet or mobile banking options.

In light of a review by Professor Russel Griggs, a revised protocol was published in 2017 and it was renamed the Access to Banking Standard.[83] The review suggested, among other recommendations, that a revised standard should:

- Increase the period of engagement with consumers likely to be affected by a branch closure from 12 weeks (which was the minimum period in the original protocol).
- Undertake more direct engagement with vulnerable customer groups such as the elderly, including providing for trained staff to help the vulnerable that need assistance.
- Improve the impact assessments that banks undertake of the likely local fallout of a branch closure. Griggs suggested this should involve splitting the assessments into two, with the second reflecting the results of consultations with local communities.

However, more recently there have been a number of criticisms of the standard from the Treasury Select Committee, the Scottish Affairs Select Committee and the Economy, Infrastructure and Skills Committee of the Welsh Assembly. Specifically, questions have been raised about whether it is robust enough in delivering on the intentions behind it.[84]

Sources: Bennett, O. (2020) and Lending Standards Board (2018)

The Post Office banking agreements

Chapter Three noted that the Post Office is sometimes considered as an alternative option for those customers who want to continue to have access to a range of face-to-face banking services when a local bank branch has closed. Further, many of the "banking hubs" being rolled out in different parts of the country are partnerships with the Post Office.[85] The expanded banking role of the Post Office is the result of an agreement between the main retail banks and the Post Office to provide a number of face-to-face banking services, especially where they might not otherwise be available (see Box 3).

Box 3: the Post Office banking agreements

In 2017, a number of the high street banks and the Post Office signed the Post Office Banking Agreement. This arrangement allows consumers to go to a Post Office to access some banking services face-to-face. These include checking balances, paying in cheques and withdrawing and paying in cash. The first agreement covered the period 2017 to 2019.

There has been criticism of this attempt to develop an alternative to the high street bank branch. In 2019, the Treasury Select Committee drew attention to the losses that the agreement generated for the Post Office, arguing that the loss-making agreement was tantamount to:[86]

> *"...subsidising the big six banks' lack of a branch network".*

To help overcome this problem, in 2019 a new agreement was reached, which included higher payments from participating banks to the Post Office network, for the delivery of banking services.

However, a number of other criticisms of the approach based around using the Post Office network as a channel for delivering some banking services - made by the Treasury Select Committee and others - have not yet been addressed. For example, the former highlighted that:[87]

> *"...the Post Office is not the optimum environment for consumers, particularly the vulnerable, to carry out their banking requirements".*

It went on:

> *"Post Office staff are primarily trained in dealing with postal inquiries and are not banking specialists. The Post Office cannot help customers set up basic banking transactions such as direct debits, and the layout of many Post Offices is not conducive to giving customers the privacy required to carry out basic banking transactions. In its present form, the role the Post Office plays in providing private banking services to customers can be compared to that of an ATM and should not be seen as a replacement for a branch network, but a complementary proposition where available".*

An analysis by Professor Russel Griggs into access to cash in rural areas concurred that Post Offices had a long way to go before providing a service comparable in scale and quality to face-to-face banking services delivered in bank branches. He noted that:[88]

> *"If Post Offices, and especially those now in local convenience stores, are to be the alternative to bank branches, as is stated, then both the Post Office and the individual banks have to work together better to make that happen".*

The Government, in response to the Treasury Select Committee's report, explicitly rejected going further, saying that, the:[89]

> *"...Post Office is not designed to replace the full range of services provided by traditional banks... [the agreement is there]...to ensure that essential banking facilities remain freely available in as many communities as possible".*

Sources: Bennett, O (2020); Treasury Select Committee. (2019).

The “banking hubs” that are run in conjunction with the Post Office may be able to rectify some of the deficiencies observed by the Treasury Select Committee in their 2019 report, in the Post Office alternative. The specific focus on banking services in such hubs, is likely to mean that they will be able to provide a more suitable environment for carrying out banking activities compared to a traditional Post Office.

Measures taken by regulators and legislators to support access to cash and other banking services

The UK government and regulators like the FCA have played a central role in encouraging some of the measures (described above) that the retail banking industry has taken forward. For example, the Government has helped germinate and promote efforts such as the Access to Banking Protocol and the agreements with the Post Office.

In addition to their roles as convenors and catalysts, the Government and regulators have implemented or have plan to implement specific measures to try and create an environment which supports on-going access to cash and other face-to-face retail banking services, as bank branches and ATM numbers continue to decline.

Arrangements to oversee the UK’s cash infrastructure

Specific actions undertaken by the Government and regulators aimed at supporting access to cash include the establishment of the JACS. This group comprises the Treasury, the Bank of England, the Payment Systems Regulator and the FCA.[90] It aims to provide for a comprehensive oversight of the UK’s cash infrastructure so that it remains functional and sustainable in the face of declining use and falling numbers of channels through which to access and use cash.[91] [ix]

In addition, the FCA has issued guidance, outlining what they expect to see from providers shutting down branches or ATMs.[92] Further, it has identified good practice principles that they expect to be followed, based upon their observations of the firms they regulate.[93]

At this stage, it is too early to tell, how effectively these relatively recently created mechanisms will ensure the cash infrastructure of the UK is sustained at sufficient scale to meet the population’s cash needs over the coming decades.

[ix] During the height of the COVID-19 pandemic, another group was created, which brought together the members of the JACS plus representatives of the retail banking sector. It was called the Banking Access Coordination Group (BACG) and was concerned with ensuring continued access to essentials like cash during that time.

Legislative action to preserve access to cash and basic retail banking services

Legislative intervention: cash guarantee

Central to the efforts of the Government and regulators to try and maintain easy access to cash, is the proposal (originally signalled in 2020) to legislate to ensure there remains a functioning cash infrastructure in the UK, and consequently, that cash remains useable by all those who want to do so.[94] The "access to cash guarantee" is to be included in the Financial Services and Markets Bill announced in the Queen's speech of May 2022.

A law along such lines was proposed in the final report of the Access to Cash Review. It follows the example of Sweden (see Chapter Three for more on Sweden's experiences). The latter is a leading digital economy where the penetration of alternatives to cash such as e-payments is very advanced. Consequently, due to the significant decline in the use of cash in Sweden and the existing cash infrastructure becoming less economical, the Swedish government considered a legislative guarantee was needed to preserve access to cash.[95]

Legislative intervention: Basic Bank Accounts

A longer-standing legislative measure relevant to the future of access to retail banking services is the Basic Bank Account (BBA). There are more than 7 million open BBAs across the UK.[96] The BBA and its role is described in more detail in Box 4.

Box 4: Basic Bank Account (BBA)

The Payment Accounts Regulations 2015 require the nine largest current account providers in the UK to offer BBAs. such accounts are for consumers who would not otherwise be able to open a standard current account. Key characteristics of the BBA include:

- An absence of fees and charges (apart from allowable charges on foreign exchange transactions).
- There are no permissible overdraft facilities available for BBAs.
- No credit checks are required of those who want to open a BBA.
- Users must be able to access key services such as ATMs and Post Office counter services.

Nine banks are designated as providers of BBAs. The criteria for being a provider is based upon an:[97]

> *"…institutions' geographic coverage, distribution of consumers and PCA market shares…".*

According to HM Treasury data, in 2021, the largest provider of BBAs was the Lloyds Banking Group, offering over 2 million such accounts. Nationwide were the second largest provider, supplying just over a million BBAs, followed by Santander UK, who operated just under a million.[98]

A recent review by the FCA into how BBAs are delivered by five of the nine banks that provide them found a mixed picture, with some banks performing better than others. Specifically, the FCA found that:[99]

- Some bank staff failed to identify eligibility for BBAs.
- The existence of BBAs was often only revealed in the latter stages of the account opening process.
- Bank workers did not always ask for appropriate identification documents of potential BBA customers.
- The approach taken by some bank staff was not tailored to the vulnerabilities of customers, despite relevant information highlighting them.

The FCA concluded that BBA providers should:[100]

> *"…create a customer journey which is inclusive of all customers and their needs…consider how best to support consumers who find that they are inadvertently excluded from participating in financial services, and to help prevent that exclusion from continuing…consider how the current structure of customer journeys on BBAs helps or impedes participation".*

Sources: FCA (2020); HM Treasury (2022).

The BBA is not just a key part of the efforts to reduce financial exclusion and protect vulnerable consumers. They constitute a "minimum offer" open to those who can't get a current account on full commercial terms. Consequently, they act as a de facto baseline product for the current account market.

As such, as long as the retail banking sector remains broadly similar i.e. the main business model is one of taking in deposits, facilitating the flow of money around the economy and providing other retail banking services directly (e.g. making loans) it is likely that the existence of BBAs – or something like them – will ensure that, for many of the most vulnerable customers, there is an affordable bank account product available.

However, the existence of BBAs does not guarantee particular channels of access to such accounts, will remain open. Further, given those with BBAs are overwhelmingly likely to fall into the category of vulnerable consumer, such customers will have a significant interest in maintaining access to cash and face-to-face banking services.

Regulatory intervention: protection of vulnerable consumers

Complementing the existence of BBAs has been efforts by the FCA aimed at protecting vulnerable customers.[101] In 2021, the FCA set out how financial services businesses selling to vulnerable customers should be looking to act towards those who fall into the category, and what kinds of products they should be offering to them.[x] More detail about the FCA guidance is given in Box 5.

[x] The guidance sets out how businesses should fulfil their obligations under section 139(a) of the Financial Services and Markets Act 2000.

Box 5: Treating vulnerable consumers fairly

The FCA defines a vulnerable customer as:[102]

> *"…someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care".*

A number of factors can underpin vulnerability, including: health issues, life events, financial and emotional resilience, and capability across domains such as financial and digital literacy, education and language skills.[103]

The aim of the guidance was to ensure vulnerable customers achieved outcomes on a par with those who aren't vulnerable:[104]

> *"Characteristics of vulnerability may result in consumers having additional or different needs and… limit their ability or willingness to make decisions and choices or to represent their own interests. These consumers may be at greater risk of harm… We expect firms to provide their customers with a level of care that is appropriate given the characteristics of the customers themselves. The level of care that is appropriate for vulnerable consumers may be different from that for others and firms should take particular care to ensure they are treated fairly".*

The FCA outline specific actions that firms should take to comply with the principle of "treating vulnerable customers fairly":[105]

- Understand the nature of the vulnerability of customers and the likely impact on a customer's needs.
- Ensure staff have the appropriate capabilities to deal with vulnerable customers.
- Implement the right processes and put in place sufficient and effective oversight to ensure vulnerable customers are treated fairly.
- Take vulnerable consumers into account when designing products and services and try and ensure products will cause no harm to vulnerable customers.
- Have customer services processes in place which are sensitive to vulnerability.
- Tailor communications to their audiences, including vulnerable groups.

Sources: FCA (2021)

Identifying individuals who fall into the category of vulnerable can be challenging in many circumstances. In particular, where the vulnerability is less obvious, effective processes are needed to elicit out of people whether they meet the criteria of vulnerability. The challenge is becoming more complex as technology plays a bigger role in people's lives in general and economic behaviour in particular. For example, in some ways technology increases the distance between provider and consumer, potentially making assessments of vulnerability more difficult.

In addition, it is argued by some that financial capability will improve as a result of new technologies on the market aimed at helping consumers navigate financial services products more effectively. In such circumstances, where such tools are utilised by a consumer, determining vulnerability becomes considerably more difficult. If such tools become widespread, the extent to which the regulatory framework acknowledges them as legitimate methods of ameliorating vulnerabilities will need to be debated and the answers will have implications for the responsibilities of providers.

Regulatory intervention: enhanced protection for all consumers

Another element of the regulatory environment with a potentially important bearing on the future of the access to cash and face-to-face retail banking services landscape is the FCA Consumer Duty, which is due to come into force in 2023.

In 2021, after sustained criticism about the inadequacy of some of the consumer protection aspects of the financial services' regulatory framework (including the FCA Principles), along with wider developments such as falling consumer trust levels in financial services, a longer-term trend towards outcomes-focused regulation, digitalisation and COVID-19,[106] the FCA embarked on a public process of examining whether and how the financial services consumer protection framework could be reformed. It undertook a two-part consultation on a proposal for a new Consumer Duty. Box 6 offers a brief outline of what are likely to end-up being its most salient elements.

Box 6: The Consumer Duty

The aim of the Consumer Duty, according to the FCA is to:[107]

> *"...bring about a fairer, more consumer-focused and level playing field in which... firms are consistently placing consumers' interests at the centre of their businesses and extending their focus beyond ensuring narrow compliance with specific rules, to focus on delivering good outcomes for consumers... with firms competing to attract and retain customers based on high standards and innovate in pursuit of good consumer outcomes, and consumers get products and services which are fit for purpose, provide fair value, that they understand how to use and are supported in doing so".*

It appears the duty will be made up of three elements. These are:[108]

- A new "Consumer Principle" establishing an overall level of conduct.
- A series of more detailed cross-cutting rules.
- A list of outcomes which establish the expectations that regulators have of providers.

More specifically, the FCA's expectation is that it will lead to:[109]

- Consumers getting more useful information, in a more timely manner.
- The sale of financial services products at "fair prices" that reflect the benefits the product will deliver for consumers.
- Product and service features that meet the needs of customers and function as described.
- High-quality customer service that caters to the needs of customers, no matter the issue e.g. whether that be switching, sorting out problems or handling complaints.

Across the UK's consumer-facing financial services businesses, the duty is seen as a significant change to the existing regulatory approach.[110] Some analysis has suggested that it will significantly impact the business models of many firms, because of the implications for the development and design of products and business processes and practices, the utilisation of technology and human capital and the approach to leadership and management taken by companies.[111]

Sources: FCA (2021); KPMG (2021); UK Finance (2022).

Questions about how the Consumer Duty will work

The Consumer Duty is expected to have significant implications for all consumer-facing aspects of the financial services industry, including the retail banking sector, as it becomes a key element of the regulatory framework for financial services. The magnitude of its importance has been highlighted by the banking industry, with UK Finance describing the Consumer Duty as:[112]

> *"...a fundamental rewiring of conduct regulation spanning the provision of all regulated financial products and services to retail customers".*

Some have raised questions about the design of the Consumer Duty. The UK banking industry for example, has noted potential inconsistencies between the Consumer Duty and existing FCA rules [113] and instances of ambiguity, which could lead to consumer detriment:[114]

> *"In particular, the subjectivity of central concepts such as "good faith", "foreseeable harm" and "value" could lead to the Duty being implemented inconsistently across firms and markets".*

Developments in retail banking and possible implications for vulnerable customers

A steady change scenario

As the retail banking sector changes over the coming decade or more, questions remain about how some of the most vulnerable consumers in particular, will be able to access BBAs for example, in the absence of branches or adequate alternative provision for accessing cash and face-to-face banking services. Perhaps the least dramatic of the spectrum of possible changes to the market for retail banking products is that trends towards more online banking continue steadily and the physical infrastructure of banks and building societies and the UK's cash infrastructure come under more pressure.

In such a context, it is possible "banking hubs" and the Post Office alternatives offer a degree of protection, although there are questions about what types of services they can and should provide, the geographic scale they may be needed to operate at and the speed at which they may need to be rolled out, that will have to be discussed in detail, if they are to be credible alternatives to branch networks, for those who want and need to continue to back face-to-face banking.

Movement away from the current FIIC model

Another scenario could see challenges to the dominant FIIC current account model, in addition to the technological and retail banking business model disruption already gathering pace.[115] [116] The possible consequences of a move away from FIIC, perhaps to fee-based current accounts, are discussed in more depth Chapter Three.

One of those consequences is distributional. In the mid-2000s the issue of overdraft fees was prominent. However, as Chapter Three notes, the changes to overdraft rates in recent years have reduced the unfairness of the FIIC current account product and concomitantly raised the fairness threshold that alternatives would need to reach to be considered a fairer product than FIIC accounts, especially for lower income and other vulnerable consumers. The likelihood of alternatives surpassing that fairness threshold met with some scepticism from several contributors to the first expert roundtable. One summed up the situation by noting that:

> *"We should not underestimate the difficulties of finding fair alternatives to FIIC... [there are]... Potentially trade-off[s] between fair and efficient allocation of costs".*

Were the FIIC's dominance to be displaced by alternatives, the role of the BBA as a baseline product available in the market may become more important, as it could provide a minimum service option for the most vulnerable consumers.

A more disrupted future for retail banking

If the more transformative predictions of how the retail banking might evolve are accurate e.g. banks become more like platforms than direct providers of services, as some have suggested, answering the question as to how access to basic banking services can be ensured will become more challenging.

Given the inherent unprofitability of some customers, and without a retail banking business model where poorer customers are not as easily cross-subsidised by the more profitable, it is going to be more difficult to provide services such as BBAs. In such circumstances, additional solutions may be required from the industry, politicians, policymakers and regulators.

Open banking in all three scenarios

The growth of open banking could help in all three scenarios. Its roll-out, along with the development of more tools by fintech's and others to maximise its potential, could help vulnerable customers become more active consumers i.e. enable them to more easily navigate the market for retail banking products and obtain greater value for money from what is on offer.

Protecting consumers in a changing retail banking and regulatory environment

This chapter has outlined a range of measures that the banking industry, successive governments, and the regulators have taken or are in the process of taking, aimed at protecting access to cash and face-to-face banking services, especially for vulnerable consumers, in the context of a rapidly changing retail banking environment. However, there is on-going debate about the effectiveness of the measures taken so far and whether more or less interventionist approaches are likely to deliver the best outcomes.

There have been ad-hoc evaluations of individual measures (e.g. the Access to Banking Standard, the Community Access to Cash pilots and the first Post Office banking agreement by the Treasury Select Committee, among others). However, there has not been any systematic analysis carried out of all the measures, how well they complement each other and their combined effectiveness on delivering for consumers. Further, any analysis needs to be sensitive to future developments when - as is the case here - the topic of evaluation is embedded in circumstances where there is considerable disruption.

There has been less discussion of how consumers, especially vulnerable ones for example, can be better helped to take advantage of more of the opportunities that come with the technological changes changing the retail banking sector, from which they might, currently, be partially or wholly excluded.

The focus of current and future interventions

In political, policymaking, industry and civil society circles there has been considerable debate as to the extent and nature of any intervention that might be needed to ameliorate the problems for consumers associated with declining opportunities to access cash and in=person retail banking services. That debate and the pressure for action that has built up as a consequence, has led to the kinds of measures described in this report. However, it has been a story of reacting to pressure and events rather than one of anticipation of trends and preparation for impacts.

Those that have come forward with suggestions about how the social goals of ensuring continued relatively easy access to cash and face-to-face banking services as technology, consumer behaviour and business models change, fall broadly into two camps:

- Interventionists (albeit with variations within it).
- Market based approaches.

Interventionist approaches

Back-stop requirements

In a 2019 report, the Treasury Select Committee suggested that the Government should intervene with a "back-stop" arrangement, which relied upon industry determining the best channels for maintaining some face-to-face banking services with a readiness to intervene if that failed. The Committee argued that:[117]

> *"…[it] is up to the industry to determine how best to maintain face-to-face banking, but options such as a greater expansion of mobile bank branches; sharing bank branch facilities with other banks, shops or community buildings; or pooling staff of different banks within one premises should all be considered."*

However, if there was a demonstrable failure to innovate and deliver such alternative services the Treasury and regulators step in:[118]

> *"…[if] the financial services market is unwilling to innovate…market intervention by Government or the FCA may be necessary to force banks to provide a physical network for consumers".*

Broad statutory obligations on banks

A report from the Welsh Assembly's Economy, Infrastructure and Skills Committee suggested the answer to future-proofing access to banking, especially for the vulnerable, was to require banks to set up "banking hubs" in Post Offices, which operated to government-set minimum service standards along with an appropriate subsidy to make them financially viable. It explained:[119]

> *"The "hub" should be properly funded, with an agreed private and business banking provision set by the Department for Business, Energy, and Industrial Strategy (BEIS) and the Treasury. Postmasters must be trained, equipped and compensated to make the hubs viable. BEIS should make an immediate assessment of what the banking provision should be, the indicative cost per hub, and propose how the banks should fund it".*

In a similar vein, but potentially more sweeping in its scope, it was suggested by one of the participants at the first expert roundtable hosted by SMF as part of the research for this report that a universal service obligation for the banks was needed. They suggested that this was the best way to ensure that a minimum set of services were maintained in all circumstances:

> *"Banking is not a normal business and should not be treated as such... We need a Universal Service Obligation to hoover up all needs and put an obligation on banks to service everyone".*

One potential risk with the more interventionist approaches is that legal requirements could "lock-in" particular modes of ensuring access to cash and delivering banking services. In-turn, this might lead to provision converging on the minimum required by the law, "blunt" the impetus to develop innovative solutions and consequently limit the range of options available to consumers for accessing cash and face-to-face banking services, which consumers themselves may become unhappy with.

Market based approaches

Relying on technological solutions provided through the market

Those with a more laissez-faire view towards the best way of helping vulnerable customers, have talked optimistically about the potential for fintech innovations to tackle some of the challenges faced by those being left behind by the decline in cash use, the concomitant risks to the UK's cash infrastructure and the reduction in the availability of face-to-face banking services as a result of the closure of bank branches.

The prospect of fintech solving some of the problems of access was noted by several of the expert attendees at the first roundtable facilitated by SMF as part of the research for this report. One participant highlighted that:

> *"One of the main reasons given for no intervention…is that fintech will sort it all out".*

The international evidence that is available broadly backs-up the contention that fintech can reduce financial exclusion – at least to some degree. One cross-country study by the International Monetary Fund (IMF) found that:[120]

> *"Fintech has a higher positive correlation with digital financial inclusion than traditional measures of financial inclusion…[while]…greater use of fintech is significantly associated with a narrowing of the class divide and rural divide but there was no impact on the gender divide".*

While another international analysis – published in the European Journal of Finance – discovered:[121]

> *"FinTech reduces income inequality indirectly through its effects on financial inclusion…financial inclusion reduces inequality at all quantiles of the inequality distribution…[and]…while…financial inclusion has significant negative effects on inequality, these effects are primarily driven by higher income countries".*

Limitations on fintech solutions

While it appears that there is some validity to the argument that new technology-based financial products can play a role in improving the position of some vulnerable consumers, there are likely to be limitations on what can be achieved by technological solutions alone. Not least because, as was observed by another expert at the same roundtable:

> *"Some consumers are just costly to serve and not desirable for the market…[and]…we need to recognise that fintechs need to make money too".*

A different contributor raised concerns about the conveyor belt of fintech solutions to vulnerability, suggesting that firms working on products that could help those in such circumstances faced funding barriers:

> *"…the challenge for fintechs is not the idea or the proposition, but the funding source…Fintechs often have…it, but aren't able to get funding for it…".*

Some potentially helpful innovations are not taking off

A further roundtable attendee observed that some innovations that already exist and which could play a role in helping ameliorate vulnerability, are not being taken up:

> *"Request to Pay would make it easier to use current account…[yet]…only…one bank offers it".*

Request to Pay is a messaging system that sits on top of the existing retail inter-bank payment systems (Bacs Payment System, the Faster Payment System and the Cheque and Credit Clearing Company).[122] It enables a payee and payer to communicate about payments. The former for example, can message a payer to request a payment. The latter will be able to make full or partial payments in real-time through a range of payment methods, ask for more time to make the payment, or decline it altogether.[xi]

The observation by the roundtable contributor about the Request to Pay experience raises the possibility that technological solutions may fail to make a significant difference to tackling vulnerability because they fail to get sufficient traction with consumers and businesses.

The FCA Consumer Duty and the changing market for retail banking services

Whichever approach policymakers take forward will be implemented in a complex landscape, which contains other measures, as had been detailed earlier in this chapter. One that could perhaps be one of the more consequential is the FCA Consumer Duty. Not only because of the obligations it will place on consumer-facing financial services firms, but because of the unknown way that it will interplay with other measures to support access to cash and face-to-face banking and the current

[xi] Supporters suggest Request to Pay has three benefits for consumers: improved money management; improving an individual's credit score and better protection from fraud. A report by Accenture for Faster Payments (who were folded into Pay.uk, who operate Request to Pay) it was estimated that the UK market could save up to £1.3bn a year in reduced billing costs if it was widely used. Source: Economics of Request.pdf (requesttopay.co.uk)

technological and business model disruption and changes in consumption patterns working their way through the retail banking sector.

As a result, at present, there are only a series of questions to be raised about how the potential consequences for consumer sin general and vulnerable consumers in particular, as the multiplicity of factors play out. These include:

- Does the Consumer Duty mean that banks will have to take further steps to minimise the challenges associated with vulnerability and in particular financial exclusion, and therefore, what kinds of measures will meet the Consumer Duty's requirements and what will they mean for consumers?
- How will requirements under the Consumer Duty fit alongside existing obligations towards vulnerable consumers, and what are the practical implications for the devising of compliance processes and the consumer experience?
- What implications might future technological change – the emergence of new business models and financial products and the evolution of consumer preferences – have for how the obligations under the Consumer Duty are interpreted and implemented?

More systematic and forward-looking efforts to support access to face-to-face banking

A future-focused set of arrangements for ensuring access to cash and face-to-face banking services

As the retail banking sector changes, consumer preferences evolve and new technologies transform the wider economy, a more systematic approach is needed to ensure that key social goals such as ensuring access to cash for those who want and need to use cash and the availability of face-to-face banking services (especially to those who are vulnerable) are achieved. In particular, a more systematic approach is needed than the current one, based upon a more future-focused outlook, that aims to anticipate likely future trends, where measures taken explicitly complement each other and remain relevant as time passes or can be quickly adapted to meet changing circumstances. This will require industry, regulators, the Government, and civil society to work in a concerted and less ad-hoc way.

A wider preparedness for the next phase of the digital economy

A more systematic approach to ensure access to cash and face-to-face banking services should inspire a similar joined-up effort to help those consumers who are unable to utilise digital technology to access banking services but would like to, to do so.

A comprehensive approach would not focus narrowly on just helping consumers who are currently excluded from obtaining the capabilities to bank digitally, but would look to help prepare all consumers (and businesses) for the technology driven changes that are likely to affect many sectors, the business models of firms in those industries and patterns of consumption in the coming decades.

Thinking and acting in such a strategic way about the challenges facing society and the economy as a result of technological change can only help the UK weather the societal downsides of such disruption and maximise the opportunities offered by technology driven transformation. However, as with ensuring access to cash and face-to-face banking, it will require politicians, policymakers, regulators, the business community, academia, unions, and relevant civil society groups to work together to produce the expert analysis on which it would rely and identify workable policy proposals to prepare consumers (and businesses) for change.

Change in the current account market

Chapter Three explored the potential consequences for customers, of developments (over the medium to longer-term) away from the current dominant FIIC current account model. How the current account market evolves is likely to not only be of central interest to consumers affected by any change, but also to regulators and policymakers because of the importance of current accounts to the economy and relevance to social problems such as financial exclusion. Regulators and policymakers are likely to be particularly interested in the possible impacts of any changes in the basic model on consumer detriment i.e. will changes increase or reduce the value for money of the products on the market and improve or worsen the position of vulnerable consumers? Such questions are particularly pertinent in the context of forthcoming reforms to the consumer protection framework e.g. the introduction of the Consumer Duty, where the possible implications of such changes for banks and consumers are not yet fully clear.

CHAPTER FIVE – RECOMMENDATIONS

The changing nature of the retail banking sector raises questions about how the inexorable forces of technological change and the impetus of competitiveness can be balanced with the social goals of:

- Ensuring that such change do not prevent those consumers who need and want to continue to access cash and face-to-face banking services from doing so, especially the vulnerable in general and the digitally excluded in particular.
- Enabling anyone who wants to embrace technological channels to conduct their banking, to do so.

To identify a route forward politicians, policymakers, academic, regulators, industry and civil society interests need to take a step back and look in some detail at the present and future cash and basic banking needs of consumers in general and vulnerable ones in particular, in the context of a changing retail banking sector. Equally importantly is the need to evaluate the current myriad initiatives. A re-set of the landscape, that brings more coherence and complementarity to existing efforts to ensure on-going access to cash and banking services may be needed. At the same time, also vital is the task of identifying new measures which might help further secure access to cash and face-to-face banking into the future.

Consumers need to be in the best possible position to adapt to the likely technological and business model disruption that will take place over the coming decades, in both the financial services industry specifically and the UK's digital economy (as it moves to the next stage in its development) more broadly. The Government, experts and interested parties need to collaborate to help develop a clear and effective nationwide strategy for societal adaption to this change, based upon a robust analysis of the likely changes and the possible (positive and negative) consequences that will stem from them.

While the FIIC current account model may dominate at the current account market moment, this may not be the case forever. Under any new dominant model it is crucial competition in the current account market is not harmed and if possible, competition is enhanced beyond its current levels. A concern that the FIIC model has stifled competition in the current account market has been a long-standing one investigated by the Office for Trading (OFT) and its successor the Competition and Markets Authority (CMA). A key reason behind that concern was the issue of transparency around cost and consequently there was difficulty for consumers in comparing accounts "on the market" on the basis of quality and price. New approaches should try and avoid similar pitfalls that might stifle competitiveness in the current account market.

This chapter sets out three proposals for ensuring that:

- UK consumers as a whole and the vulnerable in particular, can enjoy access to a minimum set of banking services, no matter how the retail banking business model changes and the technological transformation impacting the retail banking sector plays out.

- Consumers, and the country more widely, are suitably prepared so that the downsides of technological changes in the financial services sector (and more broadly the technology-induced shifts that are occurring across the economy) are minimised and the opportunities are maximised.
- Any changes to the dominant model for the provision of current accounts occur in light of lessons from the FIIC model, the experiences of those already using fee-paying accounts and the example of other countries (where non-FIIC accounts dominate), and consumer value for money is maximised.

Recommendation one – Identify and safeguard the present and future minimum banking needs of consumers

Building on the precedents of the JACS and the CAG, the Government should liaise with the banking industry, relevant UK authorities (such as the FCA, Bank of England, Payment Systems Regulator and local government representatives) and appropriate civil society groups with the aim of establishing a taskforce to urgently review the everyday banking needs (beyond just cash) of the UK population in general and vulnerable groups in particular, in the context of a changing retail banking market. Based on the analysis, the group should identify durable solutions that will help ensure such basic banking needs are met over the coming decades.

In the first instance – while the Government should set out the goals of the taskforce – the various parties should be allowed to try and come to a consensus on the scope and detail of the analysis and potential solutions. If this proves difficult Ministers should step-in to push for a consensus on ways forward.

As part of its work, the taskforce should:

- Pay particular attention to mapping the critical needs of the most vulnerable groups, and the role of physical banking services alongside digital channels in meeting them.
- Investigate how the new FCA Consumer Duty might be relevant to safeguarding the present and future banking needs of consumers in general and the vulnerable in particular, or whether more explicit requirements may need to be put in place.
- The taskforce should look at BBAs as part of its work, with a view to:
    - Making sure that BBAs are meeting current basic banking needs and look into whether they are likely to prove adequate tools for promoting financial inclusion over coming decades. Specific topics that should be considered include whether basic banking requirements should be tied to products or channels of access and what prominence issues such as financial wellbeing should have in defining what future basic banking needs are likely to be.
    - Ensuring, as a tool for "financial inclusion", BBAs are embedded proportionately across the banking sector. This could include a review of the existing criteria for designating a bank as one that needs to be subject to the "financial inclusion" obligations as well as examining the case for a regular review process to identify which – if any - additional institutions need to be brought within the scheme.
- Produce a set of practical recommendations, identifying areas for industry action and any role for legislation, focussed upon ensuing that access to banking services, especially for vulnerable consumers, can be secured on a long-term basis.

- Examine ways that collaboration between local authorities and banks could be encouraged, including the potential for using suitable property from the public estate (e.g. local libraries, council offices or empty municipal buildings) for locating alternative face-to-face banking services to meet demonstrable local needs.
- Consider what appropriate mechanisms need to be in place for overseeing the implementation and ongoing operation of any new arrangements that emerge from the taskforce's deliberations, including the role existing initiatives such as the Access to Banking Standard should continue to play in such a context.
- Commit to a periodic review of requirements and solutions to ensure they continue to be robust, proportionate, and continue to meet the needs of consumers on an ongoing basis.

Recommendation two – Eensure as many consumers as possible are well-placed to benefit from the technology driven changes that are disrupting the retail banking sector and that the UK is the most prepared country in the world for the next stage in the development of the digital economy

In tandem with the work of the taskforce to safeguard access to banking (see Recommendation one) politicians and policymakers need to give equal consideration to ensuring as many consumers as possible are able to participate in, and benefit from, the ongoing growth in the deployment of digital technology to deliver retail banking services in particular and, more generally, the next stage in the development of the UK's digital economy.

Consumers are going to have to adapt to more technological change in retail banking, including the emergence of digital money and currencies, growth in the importance of open banking, new financial services business models (e.g. platform banking) and products (such as digital wallets). They need to be prepared and equipped to be able to do so.

The influence of technological change is not confined to retail banking. The kinds of technological trends changing retail banking are mirrored in other sectors, reflected in changing patterns of consumption and the structure of the economy more generally.

Consequently, digital capabilities are likely to be even more crucial for consumers and businesses, than they are at present. Therefore, in order to maximise the opportunities and minimise the downsides of technological transformation the UK needs to be prepared to adapt effectively to ongoing technological upheaval. This will require the UK to take a long-term strategic approach to preparation.

The first steps towards a long-term strategic approach should be the establishment – by the Government – of a "digital economy preparedness" commission. It would bring together public, academic and private-sector experts to evaluate the country's preparedness for the kinds of technological changes that will likely influence the development of the economy over the coming decades. Specifically, the commission's work should have four elements:

- Map the current and (likely) future trends in digital technology and their potential impacts on the economy.
- Assess the quality of the UK's digital infrastructure, the scale and causes of digital exclusion around the UK, the stock of digital skills of the British population and the number and effectiveness of the variety of digital education and training schemes (private and public sector) in operation across the country.
- Develop policy proposals (and other supplementary measures) that can be taken forward by politicians, policymakers, regulators, business and civil society to help close the gaps in the UK's digital preparedness identified in the commission's work.
- Outline a strategy for implementing the commission's proposals.

Recommendation three – Make sure potential future developments in the current account market work for consumers

The present current account market has been criticised for – among other failings – its lack of transparency. Further, analysis has suggested inadequate transparency is an inhibitor of competition and ultimately leads to less value for money for consumers from the current account market, than would be the case more competitive circumstances.[123]

If alternative models of current account provision (such as fee-based ones) emerge and grow in popularity and are to deliver better value for money for customers both overall and within different socio-economic groupings, the alternative products must not repeat the mistakes of the existing dominant current account model.

This means learning the lessons from the FIIC experience, as well as the evidence (presented in this report) from consumers who already use fee-based current accounts and the experiences of other countries where fee-based approaches are in operation at scale. One of the most salient lessons is that alternative types of current accounts to the FIIC model need to be transparent if consumers are to engage with them at scale, and make the best choices about which current account on the market offers the best value-for-money.

There is a window of opportunity – ahead of further changes in the current account market - to ensure that principles such as transparency are embedded in all types of current account market on the market currently and which might come onto the market in the future. To ensure that transparency is entrenched in ways beneficial for the consumer, the FCA should:

- Commit to undertake a regular analysis of value-for-money in the current account market, including a focus on comparability of the quality and prices of products so that competition is not hindered. This includes the less direct costs of “free banking”, such as foregone interest and overseas transaction fees.
- Take the necessary steps to correct problems identified.

APPENDIX 1 – ABOUT THE SURVEY AND FOCUS GROUPS

To support this research the SMF commissioned a quantitative as well as two online focus groups.

The quantitative survey was undertaken by Opinium with a sample of 2,000 UK adults. The survey took place between 4th March 2022 and 8th March 2022. Results were weighted to be nationally representative.

Focus group participants were recruited by Indiefield. The first focus group homed in on regular bank branch users. The second focus group explored FIIC banking and views about paid-for current accounts.

APPENDIX 2 – RETAIL BANKS' ACTIONS TO AMELIORATE IMPACT OF BRANCH CLOSURES

Table 2 summarises some of the efforts being made by the main retail banks and building societies to reduce the downsides associated with branch closures across parts of the UK. The details are taken from correspondence published by the Treasury Select Committee in 2021.

Table 2: Summary of actions aimed at maintaining access to cash and face-to-face banking services where there have been branch closures

Bank	Actions
Barclays	Barclays said in a letter to the Treasury Select Committee in 2021 that it adheres to the obligations of the Access to Banking Standard around branch closures. Where branches have closed, Barclays stated that it provides "alternative physical options" to customers such as locating Barclays staff in local community venues such as libraries, as well as operating "mobile banking van" services and the having a "fixed presence" in "Money-stores". Where Barclays is the "last bank" in a community, it suggests that such branches are empowered to become more flexible, with the "Your Bank Initiative", which – through local consultation – can ensure branches can open at times more convenient for the community or leverage in specialists to the branch for local customers. Barclays added that it supported the Community Access to Cash pilots that started in 2020.
HSBC	HSBC stated in a letter to the Treasury Select Committee in 2021 that it follows the obligations of the Access to Banking Standard around branch closures. It added that it press-releases local and nationally all their planned closures. In addition, HSBC noted that their customers have been able to access their current accounts through Post Offices since 2013 and account holders can pay in cash or cheques, make withdrawals and check their balances at any of the 11,500 Post Office locations across the UK. HSBC said that they run tutorials for those who want to switch to telephone or internet banking and have supplied tablets to branches to distribute to digitally excluded local customers who will be impacted by a branch closure. Finally, they suggested that they were going to run a series of local "pop-up events" in areas where there had been HSBC branch closures. This programme would see two visits to each location within six months of a branch closing. During a visit, HSBC would – they suggested - offer information and other support (such as

	education about online banking, digital skills, budgeting and fraud, etc) to local residents impacted by the relevant branch closure.
Lloyds	Lloyds set out in a letter to the Treasury Select Committee in 2021 that it adheres to the requirements of the Access to Banking Standard around branch closures. Lloyds stated to the Select Committee that, while closing less profitable branches, it was investing in upgrading "flagship branches". Lloyds claimed to work with We Are Digital to provide support to those who are digitally less skilled and need help accessing the internet. Lloyd's banking services are also available through local Post Offices. The use of "voice ID" has made accessing their telephone banking offer easier, Lloyds argued.
Nationwide	Nationwide highlighted in a letter to the Treasury Select Committee in 2021 that it adheres to the responsibilities of the Access to Banking Standard around branch closures. In communications with their members about closure, Nationwide provides contact details for the relevant Regional Director, who customers can then contact about a closure. Nationwide stated that it hosts "Tea and Tech" events to help members explore online services. In addition, Nationwide suggested that it tries to contact all vulnerable members - who might be adversely affected by a closure - by telephone to discuss support and alternative arrangements. Those same members are supposed to be followed up after the closure, around 1, 3 and 6 months afterwards, to see if further support is needed.
Santander	In a 2021 letter to the Treasury Select Committee Santander stated that it follows the obligations of the Access to Banking Standard around branch closures. Santander claimed that it writes to all vulnerable customers who used the branch that is due to close, in the preceding 12 months and to all those customers that used it 3 or more times. These letters outline alternatives to the branch being shut, whether that be the Post Office, another branch or online and telephone banking. Santander suggested that its staff will help introduce customers to other branches or help them switch to another provider if they wish. The letter to the Select Committee stated that Santander's very vulnerable customers, such as those over-75 or where there are more complex banking arrangements in place e.g. users of Carers Card Account, or where Third Party access has been approved, etc,

	are contacted directly by telephone to discuss the possible impacts of relevant local branch closing.
TSB	TSB said in a letter to the Treasury Select Committee in 2021 that it adheres to the duties of the Access to Banking Standard around branch closures and in some areas "go beyond it" e.g. with their approach to notifying branch users about closures. TSB suggested that it offered one-to-one meetings with customers to discuss the closure, as well as facilitating the switching of any customer who is dissatisfied with the alternatives to the branch, to another bank. TSB also claimed that it facilitated personal introductions of the most vulnerable customers of a local branch (that is closing) to the local Postmaster, where some TSB banking services can be accessed. TSB highlighted in the letter that a range of their banking services are available through local Post Offices, under the Post Office Banking Agreement.

Sources: Barclays (2021); HSBC (2021); Lloyds (2021); Nationwide (2021); NatWest (2021); Santander (2021) and TSB (2021).

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