

HM Treasury 'Access to Cash'

Response to Consultation

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Question 1: Do you agree that legislation should provide the government with powers to set geographic requirements to ensure the provision of withdrawal and deposit facilities to meet cash needs through time?

We are convinced that there is a need for both qualitative and quantitative definitions for the provision of the services included under the “access to cash” concept. The definition, measurement, and compliance could be indeed mandated through regulation.

It is important to mention here that access criteria relevant for cash services *should be applied to all points of access* (bank branches, ATMs, post offices). Currently, the post office has a set of geographical access criteria that are assessed on the basis of straight line distance measurements, the ATM network has different unrelated access criteria (Link, 2021), while the bank branches network has none. From the point of view of the consumer, all these are points whose essential function is access to money and in particular cash.

Since the adoption of the post office access criteria as straight-line distance measurements (to the best of our knowledge; no unequivocal documentation about this is available), their fitness was challenged by Comber et al (2009), Langford and Higgs (2010), and recently by Sonea and Westerholt (2021). We argue for more considered measures that provide a better understanding of access to post office services among which a “service of general economic interest” (SGEI) is access to cash. Having said this, we believe that the criteria should specify meaningful, real-world assessment methods.

Spatial measures of *access to essential services* have evolved massively in the past few years and in solving the problems of access to cash we could take inspiration from those methods. These include access to sports facilities (Billaudeau et al., 2011; Higgs et al., 2015; Shrestha et al., 2019) supporting social and societal participation, access to healthy food (Aggarwal et al., 2014; Dai & Wang, 2011) fire stations (KC et al., 2020; Shahparvari et al., 2020), etc.

While these measures might seem complex, they are within the usual remit of geographers, social scientists, data scientists, and related scholars and given the importance and the scale of the problem we try to address, we should upgrade our methods, too. One way to achieve this would be to use routing engines based on the actual road network of the UK, rather than relying on straight-line distances between abstract points. While the latter are not very meaningful to the people affected, calculated travel distances and times are much closer to the real banking experiences of the residents concerned. Figure 1 illustrates examples of network-based distances to post offices in Wales. It is evident how different the resulting areas of similar access are from possible straight-line derived equivalents. Sonea and Westerholt (2021) recently used the Openrouteservice, a routing engine run at Heidelberg University in Germany, to calculate such equidistant areas. However, Openrouteservice³ is an open-source project, and a suitably responsible department of the UK Government could set up its own instance at little cost. This would also be a way to benefit from synergy effects, as such a service could equally be used for assessing access to other essential services and facilities too.

Another particularly promising avenue in addition to identifying access to cash could be to develop a meaningful composite measure for the need for basic banking services. Not every household in the UK is equally dependent on the availability of this type of service. A spatially differentiated indicator that combines various relevant dimensions of common users of basic banking services into a relatively easy to comprehend index would thus be very helpful to include the demand side in future criteria assessments, not only the supply side. In the long run, this could lead to an efficient yet effective network of post offices (and other points of access to cash).

The need for cash of certain communities needs to be considered together with an understanding of the barriers for adoption of digital banking which would require stable broadband, finances to pay for broadband, a smartphone, and a certain degree of digital literacy. Our research shows that using

³ The Openrouteservice is one possible solution. Other cost effective solutions for routing exist.

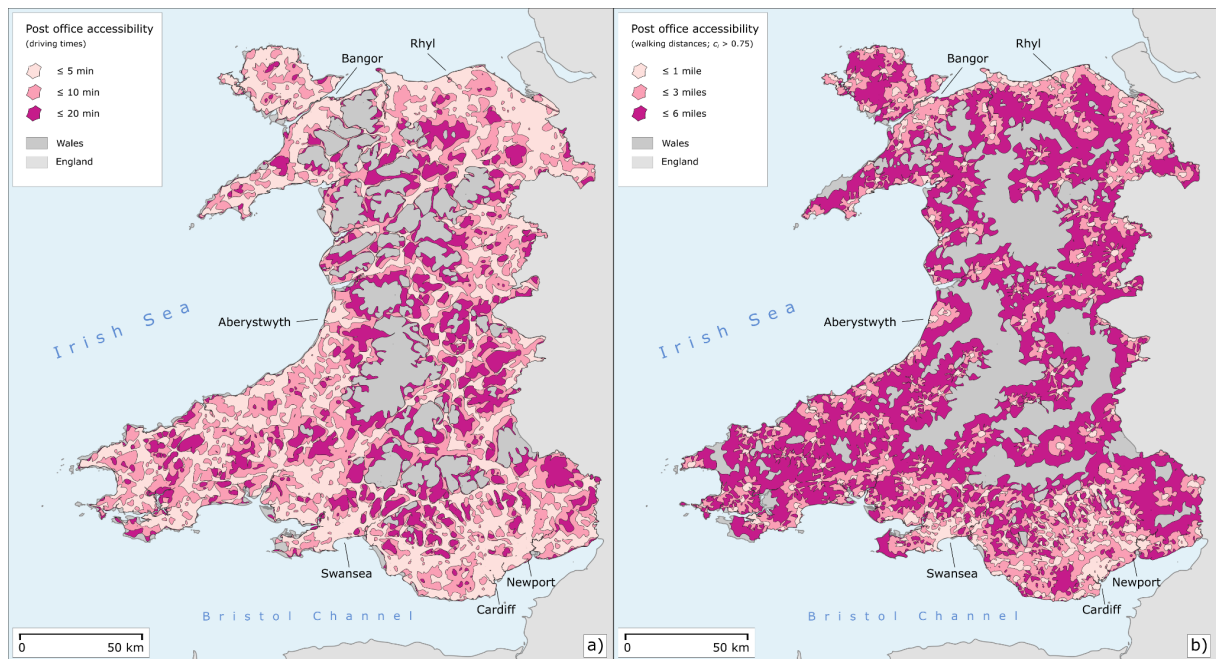


Figure 1. Examples of so-called isochrones for Wales, assessed for travel times (a) and distances (b) based on the UK road network. The isochrones show areas with similar geographical access to (in this case) post offices. The figure is taken from Sonea and Westerholt (2021).

already existing indicators of multiple deprivation (IMDs) (see McLennan et al. 2019), OFCOM, and CDRC broadband data quality we can identify the areas which most likely cannot adopt digital banking and as a consequence need cash. By taking a proactive approach the regulators can identify these areas and take measures to ensure cash access. Link programmes where communities need to prove their need for access in order to obtain a free-of-charge ATM puts the burden on the communities while a regulator has all the means to understand where these are needed.

Another recent example of measuring access to essential services in the UK is the so-called e-food desert index (EFDI) developed at the University of Leeds and available through the Consumer Data Research Centre web portal (Newing & Videira 2020). It is a complex but comprehensible way of assessing the demand for healthy food, adapted to modern conditions like online grocery shopping. We argue that a similar kind of indicator would be very helpful also for a nationwide assessment of the need for access to cash in general, and to basic banking services in particular.

Question 2: Do you agree that legislative geographic requirements should target maximum simplicity?

The purpose of “legislative geographic requirements” for access to cash is to ensure that the communities who need cash have access to it. Identifying these communities and measuring *dynamically* their access to this essential service might not satisfy a view of “maximum simplicity”, however it is achievable through methods thoroughly researched as shown in our reply to Question 1. Some policy makers might overestimate the complexity of classical spatial methods, which are entirely possible to be implemented nowadays given Government policies on open data, the richness of socio-demographic data available through ONS, NISRA, and NRS and also the reduced costs of cloud computational power. We suggest that we should target a better, more granular understanding of the local communities and of their needs for basic banking services among which access to cash is

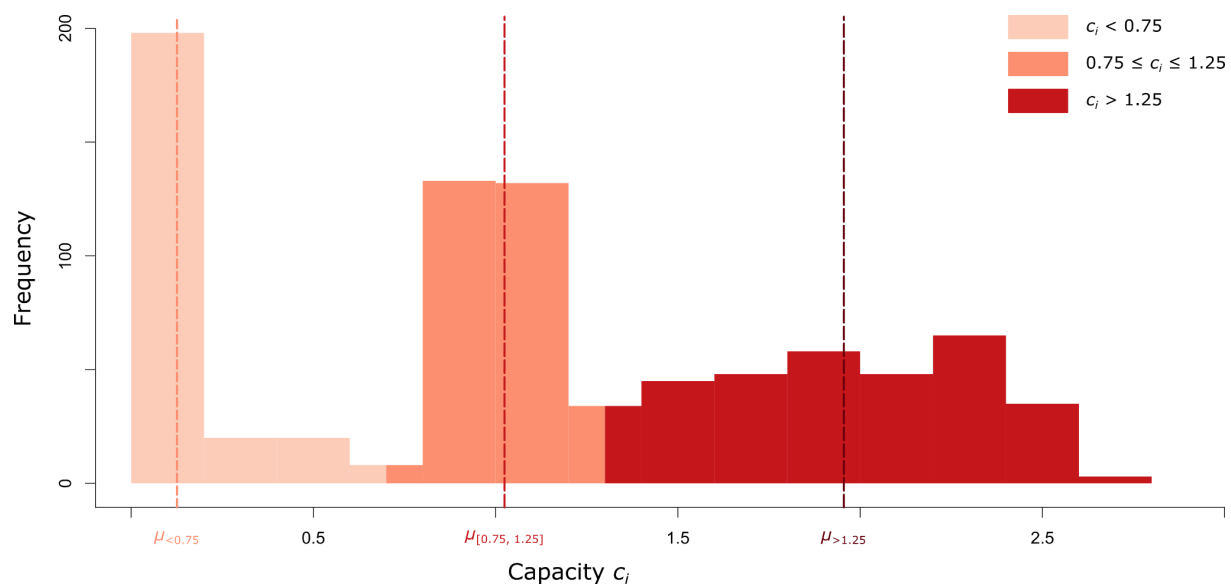


Figure 2. Histogram of the temporal capacities of post offices in Wales. The capacity values c_i are defined in relation to the typical opening hours of full-time bank branches. A value of 1 therefore corresponds to a service time comparable to that of a regular bank branch. The light red group includes 120 post offices that are open less than 2 hours per week. The figure is taken from Sonea and Westerholt (2021).

particularly challenged. Straight-line distance criteria as they are used at the moment and just for the post office network do not allow for a sufficient understanding of the current cash network. Instead, more complex yet realistic ways of measuring geographic (including temporal) access to cash should instead be adopted to better match the criteria (or rather: their assessment) up with the realities of those who are affected.

Our position is supported by recent research on access to basic banking services (Sonea et al., 2019; Sonea & Westerholt, 2021). A greater transparency of the location, of the capability and capacity of each point of access is required in order to understand the cash network. During the ongoing COVID-19 pandemic it became obvious and also quite challenging to manage the information regarding the network of closed points – being ATMs, post offices, or bank branches. Their locations, opening hours, and services offered became buried in temporary pdf files downloadable from websites, difficult to be used by the customers. Moreover, not all the points of access enable equally all basic banking services. A mobile branch or an outreach post office gives the impression of coverage if we consider strictly the location, however, most of them can accept very limited deposits if any and do only open for literally minutes per week at each stop. The latter is supported by Figure 2, which shows a histogram of the time capacity of post offices in Wales. What is striking is the large number of branches with very low capacity, many of which in fact correspond to service times of only a few minutes per week. We have in fact at least two differently shaped networks: the one which allows the withdrawal of cash within various limits (post offices, ATMs, banks, some shops) and one which allows the deposit of cash (banks, some post offices). Similar divisions can be seen also with regards to opening hours and service times. These observations imply a strong inequity in British banking.

Question 3: Do you agree that geographic requirements should initially be set to provide a level of reasonable access to all areas, reflecting the current distribution of cash access facilities?

We believe that using only spatial requirements (i.e., a mere geometric understanding of geography) does not offer parity for all, and instead some elements of social geography, including socio-economic

demographics could be useful. Using indicators of multiple deprivation for the access criteria could be ideal, however as each country in the UK measures deprivation differently, there would need to be some agreed-upon access criteria for all four nations harmonising and bridging the mentioned differences in indicators. However, we would like to point out that the use of the IMD alone is also unlikely to be sufficient. Instead, a more comprehensive understanding of the typical users of basic banking services is needed, which should be reflected in appropriate indicators.

The Post Office currently maintains the largest network of 11,500 points of access to cash in the UK. In August 2019 there were only approximately 5,300 physical banking branches, 800 mobile branches and 44,000 ATMs⁴. The number of branches and ATMs went down by 1,722 and 754 respectively compared to July 2019. However, because merchant banks and ATM operators do not have to abide by access criteria as a network this is not immediately visible. As the closures of bank branches, ATMs, and the changes in the post offices are not coordinated, an area could ultimately find itself deprived of all these and with short notice. We believe that the lack of knowledge about and coordination between the different access-to-cash networks puts local communities, especially vulnerable ones, at unnecessary risk.

It is essential that the method for defining the access indicators is published, made fully transparent, and that the granular local results become openly available. This is not the case nowadays for the post office criteria or for the ATM access criteria.

Question 4: Do you agree it is necessary to allow for requirements in Northern Ireland and Great Britain separately?

It is not immediately clear why in this case you would single out Northern Ireland out of the four countries. It is true that both Northern Ireland and Scotland calculate their Indexes for Multiple Deprivation (IMDs) by a slightly different methodology than England and Wales, and as a consequence the IMD results are not immediately or easily comparable across countries. Even more, Northern Ireland (Super Output Areas) and Scotland (Datazones) use other types of statistical areas than England and Wales (LSOA) for the calculation of the IMD and for the collection of many other socio-demographic data useful for measuring access to specific communities. Harmonisation of the likely scale and aggregation issues is therefore necessary to achieve consistency between all four countries.

When we compared access to banking among the four countries in 2019, Scotland appeared to have a different profile than the other countries, with points of access found at much longer distances than in the other countries (see Figure 3). Additionally, these areas seem to be dominantly served by post offices and not by banks or ATMs (Sonea, et al., 2019, 2019a).

Question 5: Do you think that requirements in Northern Ireland and Great Britain should be set at a consistent level?

The access to cash requirements across all UK countries should be consistent and comparable even if this may require the application of harmonisation techniques. It is not clear why the regulator would choose to make a difference between Northern Ireland and the other countries. If such a difference would be made, it would need to be transparently justified.

⁴ The bank branches numbers have been obtained from a combination of Open Banking API data and web-scraping. The ATMs and the post office locations have been web-scraped from the websites of the respective institutions.

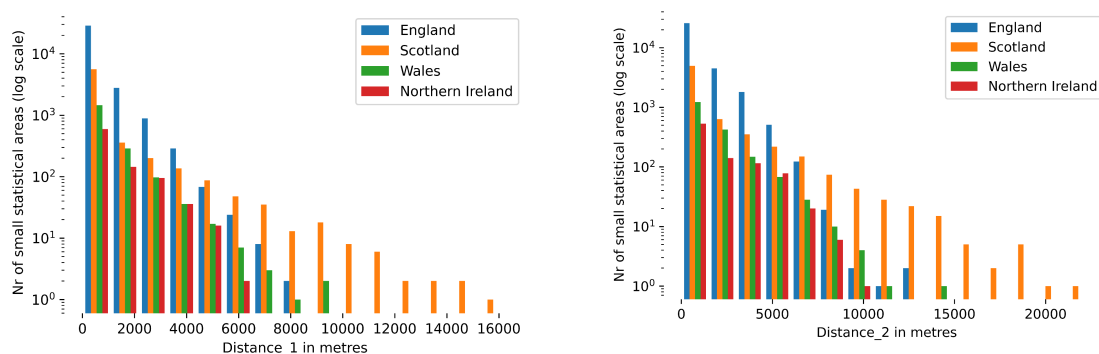


Figure 3. Euclidian distance in meters from the centroid of a small statistical area to the first (Distance_1) and then second (Distance_2) closest point of access to cash. (Sonea et al., 2019, p.17)

Question 6: Do you agree that requirements should be targeted at the largest payment account providers?

The access to cash and in general access to basic banking services should be thought foremost with the customers in mind. There are entire communities that use predominantly cash and this is very often due to a combination of lack of broadband infrastructure, and economic deprivation which limits their ability to spend money on smartphones, broadband or mobile data.

The configuration of cash providers might change as well as the broadband quality or the socio-demographics of certain areas. The requirements should be ultimately satisfied by certain types of players but we think it is not their size which the regulator should have in mind, but their type and the type of services that they can offer.

Question 7: Are there other factors beyond those listed that the government should take into consideration when designating firms?

Please see our answer to Question 1.

Question 8: Do you agree that the FCA should be the lead regulator for monitoring and enforcing requirements on access to cash?

We do not have a view on the FCA as lead regulator for access to cash.

Question 9: Do you agree with giving the FCA discretion on additional requirements for qualifying cash facilities?

It is important that the lead regulator for access to cash oversees all the entities which offer cash services with the purpose of ensuring coverage. In some areas, for example, this coverage could be done through post offices and in others through mobile branches. At the moment, there is no single regulator who has an overview of the whole UK network of entities enabling cash withdrawals or cash deposits because each type of entity (ATMs, banking branches, post offices) is overseen by a separate regulator or by no regulator at all.

Question 10: Are there any other factors, beyond those listed, that the FCA should consider as part of evaluating qualifying cash facilities?

The access to cash and basic banking services is a dynamic process. New banking channels have appeared and people's habits and behaviours will continue to change as a result. However, the fact that some banks offer mobile banking apps does not mean that people can also access them if their area has poor broadband or their economic situation does not allow them to buy broadband or a smartphone.

We have elaborated on additional factors to take into consideration in our response to Question 1.

Question 11: If geographic requirements are being met at a national level, do you think there are any circumstances in which the FCA should nevertheless be able to intervene at a local level?

Our recent research has shown that the criteria for access to post offices are currently very unlikely to be met at the national level (Sonea and Westerholt 2021). For instance, we found that in Wales only 88.76% of the population lives within 3 miles from a post office whereas the government criteria state that this figure should be at 99%. The mismatch is even bigger for the 1-mile threshold, for which we found that only 66.29% are covered instead of the 90% that should be according to the government criteria. This is important for the cash provision as Post Office is the de facto provider of basic banking services in the UK. Even if the criteria were to be fulfilled in the future, this would not be enough. The post office network is just a subset of the overall network for access to cash. Additionally, the access criteria are typically presented only at national level. This big picture ultimately leads to the consideration of national averages, but says nothing about possible local problems. For example, our research has also revealed that discrimination takes place in rural areas (in our case in Wales), at least when the opening hours of access points to cash are also taken into account. Figure 4 supports this finding. It shows a combination of spatial proximity and temporal access to post offices in Wales. Figure 1 shows a marked separation between the more urban northern and southern Welsh conurbations and the systematic undersupply of the central and western coastal regions. Opening hours, however, are essential as banking is part of people's everyday lives. People should be able to integrate this activity into their daily routines. In this sense, we think that the regulator should be granted appropriate rights of intervention to remedy local deficiencies. Of course, in order to enforce or implement such local interventions, it is first necessary to identify and constantly monitor local situations. The latter should be on the agenda and addressed.

Question 12: Do you have any other views regarding the future role of the regulators in protecting cash

Mandating the adoption of OBIE standards for API for branches and ATMs.

The Competition and Markets Authority (CMA) mandated the CMA9 banks⁵ to make available through open API their branches, ATMs and product. The first version of these APIs has been released in March 2017.

While the industry has invested a lot in developing and maintaining good quality standards they are of little value and little use if the industry cannot build the whole network of points of access using this modern, dynamic method of integration.

We cannot advocate enough of the value of making available dynamically the location, the capacity and the capability of all the participating entities.

⁵ The 9 mandated institutions (referred to as the CMA9) are: Barclays plc, Lloyds Banking Group plc, Santander, Danske, HSBC, RBS, Bank of Ireland, Nationwide and AIBG.

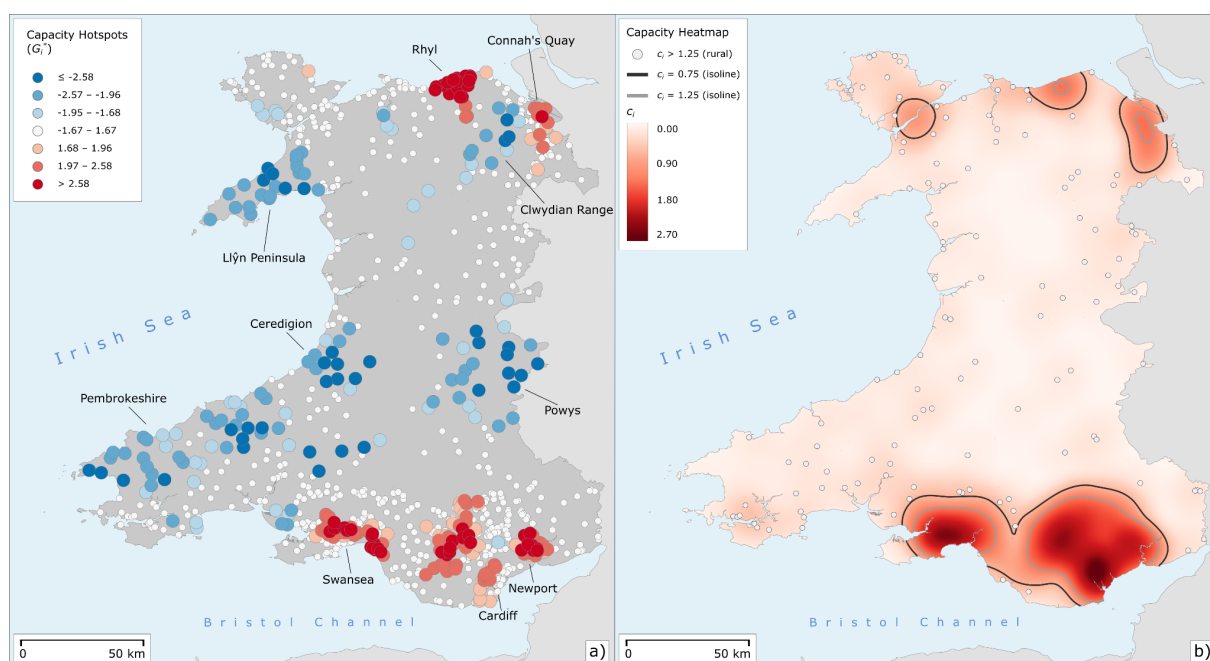


Figure 4. Statistically significant geographical clusters of long and short post office opening hours in Wales. (a) A map of so-called hot and coldspots of opening hours, assessed using the established Getis-Ord G_i^* statistic (Ord and Getis 1995). Blue colours indicate geographical clusters of short opening hours. Red colours analogously depict geographical clusters of long opening hours. (b) A heat map of opening hours with isolines indicating similar access. The figure is taken from Sonea and Westerholt (2021).

Access to cash does not equate with ignoring the digital world but on the opposite - using widely accepted digital tools in order to support access to cash where it is needed. The Post Office, The Link Scheme and the smaller banks should be supported to adopt the Open Banking APIs developed specifically for the type of entities they run as a main business.

By making available this data dynamically through APIs, it would be possible for local applications to embed it and make it easier to use for local communities. Will the mobile banking van come today? Will the outreach post office come next week? Where is the closest point where I can deposit cash next week on Tuesday? The network is dynamic and these are real questions that people have regarding basic banking services.

The problem is solvable through more transparency not less.

Post office as a provider of basic banking services.

As the banking branches network shrinks, post offices start to play a more important role in the local communities which use cash. This puts pressure on small post office owners and subpostmasters to do a number of activities which are costly in time and money: training, continuous update on the individually changing rules for service with each bank, security for the deposits taken, transport of cash, etc. These activities that the post office does on behalf of the bank need to be identified and fairly remunerated. Additionally, a common framework of interaction between banks and post offices would also create clear expectations for customers in terms of banking services that can be provided in a post office.

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