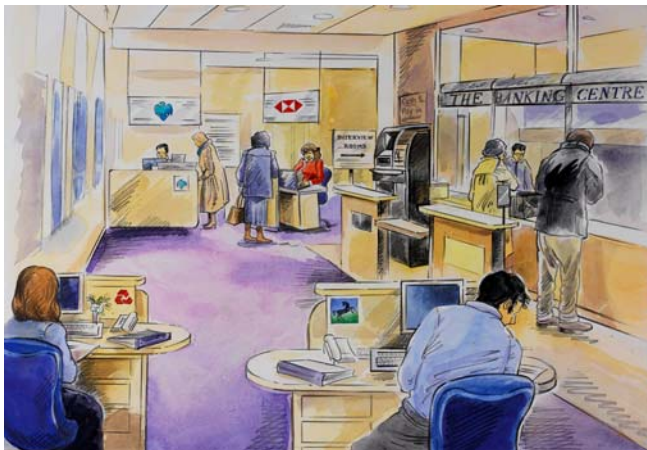




BANK CLOSURE PROBLEMS - ONE SOLUTION FITS ALL

How Flexible Format Shared Branching can meet the Needs of Banks,
Customers, Communities and Government.



Campaign for Community Banking Services
www.communitybanking.org.uk

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FOREWORD

Sustainability of communities, financial inclusion and reduction of carbon emissions are concerns deeply held by many people whatever their political persuasion.

The closure of easily accessible neighbourhood bank branches, and post offices, inflicts damage in each of these areas but a solution is available, very flexible in its formats, which has the capability to make a positive difference.

It is called sharing, and Britain's large retail banks could do this now at little or no extra cost to benefit hundreds of vulnerable communities and at the same time give themselves the opportunity to gain operating experience of a business model, already proven in America, which promises substantial financial gains for their businesses in the future as the banking market develops.

The time for action is NOW.

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The Problems

40% of bank branches in Britain have closed since 1990 reducing the network to just over 8000 supplemented by 2500 converted building societies. Britain's poorest communities have been the hardest hit by closures according to academic research. 900 communities, urban and rural, have seen all their banks disappear and today 1100 have only one bank branch with a further 500 currently having a choice of only two. 95% of the latter two categories rely on branches of the traditional Big 4 banks in England & Wales and the Big 3 in Scotland whereas the smaller networks of aggressive competitors are targeted on high footfall, high opportunity, town/city centre sites with benefits for their comparative financial performance.

At the same time the Post Office network, which has recently chosen to compete directly with the banking sector in the sale of own brand financial services products, has lost a third of its outlets and, following completion the present round of closures will reduce the network to 11000, of which around 3000 are in small communities which have never supported a banking presence.

Loss of local access to banking causes problems for the elderly, disabled people, carers, those on low incomes and others without access to private transport. Small businesses are particularly reliant on bank branches, according to recent FSB research nearly two thirds visit their bank at least weekly; 1 in 10 do so every day.

Because presence of a bank branch, as part of the critical mass of services, helps to keep people spending locally, and brings others into the community, retention is important to community sustainability. A banking presence in a deprived or ethnic community can make it easier for the less financially sophisticated to open and operate a bank account, or even start a small business, thus facilitating financial inclusion. Keeping banking footfall local, and therefore helping to sustain other retail businesses, reduces the need for travel to other larger centres with a beneficial impact on carbon emissions and urban congestion.

Currently the UK government, and opposition parties, share concerns about:

- Sustainability of Communities
- Financial Inclusion
- Reduction of Carbon Emissions

Although banks come under public, political and media pressure when closing local branches, most continue to do so, or will resume, as technology and alternative ways to bank reduce transactional footflow and because opportunities for the sale of profitable financial products are much lower in the smaller rural and less well-off urban communities, although some of the latter have large populations and business need. Investment is accordingly prioritised to improving the 'retail experience' in high footfall, expensive, town and city centre sites and retail centres where choice and competition abound.

Profits from the high street networks are under pressure and poor growth in comparison with other parts of the banking business is the subject of adverse comment from investment analysts. Further damage is threatened by increasing

competition from non traditional sources such as the internet and supermarket banks and from OFT inquiries into important but controversial revenue streams.

There is an urgent need to find a solution which would satisfy all parties and address the major issues of public and political concern whilst at the same time recognising that banks are commercial businesses and have a duty to shareholders to grow the return from their retail networks at a time of fierce competition and dynamic behavioural changes amongst the customer base resulting from technology and market developments from the benefits of which many are excluded.

The proposition which follows meets those needs and brings together, in one paper, the proposals of the Campaign for Community Banking Services developed over the last ten years to take account of changes in the market place. The theme is not unique, it has been put forward by independents from time to time, at least one established banking outsourcer has a conceptual model and the USA offers many examples of it working in practice right across the transaction volume spectrum.

Shared Branching - The Solution

Basic counter and related services, to agreed operating standards, delivered by a third party provider(s) on behalf of participating banks through a variety of appropriate delivery channels, including directly managed outlets, retail franchises, social sector franchises and mobile vehicles.

An independent multi-bank company could be established, or an existing one such as APACS utilised, which would be responsible for development, operation and control of the concept, selecting and setting standards for the provider(s) OR alternatively an outsourcer, having secured the necessary contracts from relevant banks, could take the initiative.

Three tiers are envisaged:

- A simple, limited, **shared banking franchise** appropriate to very small communities and often allied with a similar franchise of non-conflicting post office services.
- A '**community bank**' providing a stand-alone basic transactional service on behalf of all major retail banks and supplemented, in appropriate locations only, with a credit union/CDFI presence and/or generic financial advice or debt counselling.
- A '**banking centre**' in much larger communities, saving the banks substantial sums in operations but retaining a sales and service presence by individual banks.

Shared Banking Franchise



A major obstacle to national post office access to the accounts of the retail banks is that the Post Office has become a competitor of the banking sector in the sale of own brand financial products (mainly in partnership with Bank of Ireland) at a time when the banks are themselves under investor pressure to sell more products per customer. To facilitate, and pay post offices for, a service which removes sales opportunities from the banks' own branches across the country and gives them to a competitor is clearly unsustainable.

For some very small rural communities with no banking presence a limited shared branching franchise would sit easily alongside an existing post office franchise stripped of its financial products content or, because of the low sales opportunities in such locations, the banks may be prepared to live with the conflict.

Community Bank



Would be a directly managed outlet, similar to a bank sub-branch and probably taking on a suitable premises from a closing bank.

This level of presence would be expected to be in communities which currently, or recently, have/had only one or two bank branches and would involve no sales activity but availability of literature, contact telephones and, where possible, space for pre-booked interviews or promotions/surgeries by individual banks. A Community Bank facility would introduce/restore choice at local market level.

According to location, banking facilities could be supplemented by the part-time presence of a credit union, CDFI, generic money advice, debt counselling, etc. which would be separately funded.

Because the dominant retail banks each have a similar share of branches in sole and dual bank communities, according to CCBS network analysis, their closure and replacement by community banks would be broadly cost neutral but there would be opportunities for additional revenue from use by other banks and social use subsidies from charitable or government sources, including unclaimed assets. The model lends itself to cost-effective banking provision in new areas of housing expansion.

Research for the BBA in 2000 revealed a 'shared branch' as the most popular choice for individuals and small businesses if a local branch of their own bank was not available. In March 2001 Loughborough University Banking Centre found the community bank model of shared branching to be "operationally feasible and financially viable", subject to the co-operation of the major banks.

The principal benefit to the banks from introduction of this tier of shared branching is compliance, at little or no cost, with government objectives for community

sustainability, financial inclusion and reducing carbon emissions without recourse to legislation as exists elsewhere. Additionally it would remove a major source of brand damage from adverse media coverage of branch closures and provide a low-cost, low risk trial ground for the potentially major cost saving benefits that are achievable from the third tier, banking centres.

Banking Centres



For larger communities the more sophisticated shared branching model, The Banking Centre©, is appropriate. It is not intended to replace individually branded branches in high footfall, high opportunity sites, but would substantially reduce delivery costs whilst improving sales achievements.

The concept is based on airports (where baggage handling, check-in etc is dealt with by a common outsourcer) and some fast food provision (where table servicing etc is common). There are parallels too with cosmetics and fashion concessions in department stores.

In a banking environment management of counters, cash and deposit machines, interview rooms, etc would be the outsourcer's responsibility, as would be branch security, with sales/service desks (with appropriately protected exclusive IT links to cashiers) manned by individual banks. Enhanced transactional volume would justify investment by the outsourcer in the latest counter technology.



The advantages for banks are potentially considerable, especially at a time when real innovation in branch delivery to recognise the changed market environment is overdue and the low profit growth performance of the high street networks, relative to other parts of the business, has to be addressed.

- Savings of hundreds of millions of pounds in branch operating costs.
Sharing costs of a common transactional capability, and related overheads, provided more cost-effectively by a neutral outsourcer handling larger volumes assisted by more intensive use of technology.
- Property disposal; realisation of capital or rental saving.
Large parts of existing premises no longer required for banking purposes following the centralisation elsewhere of back office, advisers, business managers, etc.
- Remove responsibility for cash, security and maintenance of premises.
Banking centre premises and security would be responsibility of the outsourcer.
- Reduction in numbers of directly employed staff.
Recruitment, training and retention of cashiering and similar staff would rest with the outsourcer; cost benefits from higher volumes and more intensive use of cashiering staff and technology would accrue to participating banks.

- Increased focus for sales and service staff.
Directly employed sales staff would be relieved of distractions, concentrating on realising sales opportunities generated from direct enquiries, sales promotions, account queries and counter transaction information exclusively accessible by account holding bank's own staff.
- Facilitate opening for longer hours and at weekends.
Contracts of cashiering and administration staff would be the responsibility of the outsourcer and would be expected to follow established retail practice; numbers of directly employed sales staff would be small and could be incentivised according to potential and demand.

Proven shared branching technology is available in the UK known as 'MutualPlus' developed by LINK from the ATM switching model, in use by two large building societies, and LINK is keen to see it used in a commercial banking environment. Shared branching operations in the US can be inspected.

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CCBS SUPPORTING ORGANISATIONS

Action for Market Towns

Action with Communities in Rural England (ACRE)

Age Concern England

Amicus

Association of British Credit Unions

Association of Convenience Stores

bassac

Campaign for Better Transport

Campaign to Protect Rural England

Commission for Equality & Human Rights

**Commission for Rural Communities*

Community Development Finance Association

Debt on our Doorstep

**Federation of Small Businesses*

**Help the Aged*

Money Advice Scotland

National Association of Citizens Advice Bureaux

National Association of Local Councils

National Consumer Council

National Federation of Womens' Institutes

National Pharmacy Association

**New Economics Foundation*

**SCOPE*

Street UK: Micro-Finance

**Which?*

*** Represented on Steering Group**

CASE STUDIES

TORRISHOLME *A Franchise?*

A VILLAGE ON THE OUTSKIRTS OF MORECAMBE (LANCS) WITH A POP OF 7000, 40% OF WHICH ARE ELDERLY –ONE OF THE HIGHEST PERCENTAGES IN THE COUNTRY.

NATWEST CLOSED IN 1997, POST OFFICE CLOSED IN 2004 AND THE LAST BANK HSBC CLOSED IN JUNE 2005. MORECAMBE CENTRE ONLY A MILE AND A HALF BUT PARKING IS DIFFICULT IN SEASON ESPECIALLY.

THE BANK WAS VERY BUSY BUT IN HSBC'S MIND THE ELDERLY POPULATION WERE USING IT MERELY TO MANAGE THEIR MONEY NOT BUYING FINANCIAL PRODUCTS. TO LOCAL BUSINESSES IT WAS VERY CONVENIENT.

THE BANK PREMISES COULD HAVE BEEN USED TO **FRANCHISE** BASIC POSTAL FACILITIES, INCLUDING THE PO CARD, ALONGSIDE A SHARED BRANCHING FRANCHISE WHICH WOULD HAVE MADE BANKING FACILITIES AVAILABLE TO CUSTOMERS OF **ALL BANKS**. IT NEEDED HOWEVER A MINDSET CHANGE BY THE PO WITH REGARD TO NATIONAL AGREEMENTS AND ADOPTION OF THE NEUTRAL SHARED BRANCHING CONCEPT BY THE BANKS.

TINTAGEL *A Community Bank?*

'CAMELOT' IN CORNWALL IS THE HOME OF THE KING ARTHUR LEGEND. A MUCH VISITED TOURIST CENTRE, OVERSEAS AS WELL AS HOME TOURISTS, WITH THE CASTLE AND THE ARTHURIAN GREAT HALLS.

LOTS OF RETAIL AND CATERING TYPE BUSINESSES AND THE LOCAL AUTHORITY HAS INVESTED HEAVILY IN IMPROVING THE INFRASTRUCTURE. BANKS IN NEAREST TOWN, CAMELFORD, INVOLVE 10 MILE RETURN JOURNEY.

TINTAGEL ONCE HAD ALL 4 BANKS. – FULL HOURS 5 DAYS A WEEK, LESS IN WINTER. ONE BY ONE THEY CLOSED LEAVING, AT START OF 2005, AN HSBC MOBILE CALLING 3 X WEEKLY FOR HALF AN HOUR AND A LLOYDS TSB BRANCH OPEN FOR 2 HOURS ON A MONDAY AND FRIDAY; NO FREE ATM SO VISITORS MOVED ON TO SPEND ELSEWHERE. LLOYDS TSB SUBSEQUENTLY CLOSED ITS BRANCH. OPPORTUNISTICALLY NATWEST HAS INTRODUCED A MOBILE WHICH VISITS TINTAGEL FOR ONE HALF HOUR A WEEK BUT THAT IS NOT THE SOLUTION.

THERE IS NO DOUBT THAT TINTAGEL COULD SUPPORT A SHARED **COMMUNITY BANK** OPEN 5 DAYS A WEEK AND USABLE BY CUSTOMERS OF **ALL BANKS** AND TOURISTS: THE LLOYDS TSB PREMISES WOULD HAVE BEEN SUITABLE.

SHEPSHED *A Banking Centre?*

SHEPSHED IN LEICESTERSHIRE IS THE OPPOSITE SIDE OF THE M1 TO LOUGHBOROUGH, 5 MILES DISTANT. THE TOWN HAS A POPULATION OF 15000 AND IS EXPANDING ON THE BACK OF ITS PRIME LOCATION.

THE LAST OF ITS FOUR BANKS CLOSED ON JAN 5 2007, A MASSIVE CAMPAIGN HAVING FAILED TO PERSUADE HSBC (THE WORLD'S LOCAL BANK AND MOST CARBON CONSCIOUS) TO DEFER THE CLOSURE TO ALLOW SHEPSHED TO PARTICIPATE IN A SHARED BRANCHING PILOT SCHEME SHOULD THAT RESULT FROM THE RECOMMENDED REVIEW OF SHARED BRANCHING BY A TREASURY TASKFORCE AND TO WHICH THE MODERN PURPOSE BUILT HSBC BUILDING WAS EMINENTLY SUITED. A SHARED BRANCH IN SHEPSHED WOULD SAVE AT LEAST 1.4 MILLION MILES OF TRAVELLING A YEAR (500 TONNES OF CARBON EMISSIONS).

AT 15000 POPULATION SHEPSHED IS AT THE BOTTOM END OF COMMUNITIES SUITED TO THE THIRD TIER OF THE SHARED BRANCHING MODEL, THE **BANKING CENTRE**, AVAILABLE TO CUSTOMERS OF **ALL BANKS**, WHICH PRESENTS BANKS WITH AN ATTRACTIVE COST SAVING

ALTERNATIVE TO BRANCH CLOSURE IN LARGER COMMUNITIES. FOR THE BANKS SHEPshed
COULD HAVE BEEN A LOW RISK, LOW-COST TRIAL OPPORTUNITY FOR BANKING CENTRES.