Financial exclusion and the geography of bank and building society branch closure in Britain

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Abstract

Financial exclusion refers to those processes by which individuals and households face difficulties in accessing financial services, and is a product of broader social processes such as neo-liberalization and financialization. Economic geography was an important catalyst in developing research into processes of financial exclusion in the 1990s, focusing initially on the geographies of physical access. This research was motivated by a concern with the equity effects of financial systems, and identifying a general process of branch closure across industrial economies. This paper contains an analysis of the changing geographies of bank and building society closure in Britain between 1995-2003 and reveals that closures continue to be disproportionately concentrated within poorer areas. Despite this, the geography of financial infrastructure has been written out of UK financial exclusion policy. The paper concludes by arguing that policy needs to take greater account of the geography of retail financial services production and consumption, particularly through the concept of the financial ecology.

Key words: Retail financial services industry, financial exclusion and inclusion, bank and building society branches, public policy.

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I Introduction

In April 2005 customers of the HSBC bank in the former mining village of Ogmore Vale, near Bridgend in South Wales were informed that their local branch was to close within three months (Figure 1). The closure, part of the latest round of ‘network streamlining’ undertaken by the bank, was of the last bank branch in the village and triggered the by-now familiar feelings of abandonment which have afflicted so many communities across Britain. The inhabitants of Ogmore Vale, already reeling from two generations of economic setbacks following the decline of the coal industry, were understandably distressed by the decision, and concerned about the consequences of the closure for the future of village as a whole. HSBC’s closure represented an economic evaluation of the future of the community that was anything but positive. There was particular concern that those on lower incomes and with limited mobility would now have to travel much further to access branch services. Customers were justifiably put out by the advice that, following the closure, they should ‘visit the nearest branch in Pontycymer, less than three miles away’ (Walne, 2005). Viewed from an office in London such advice seems sensible enough; as the crow flies, Ogmore Vale and Pontycymer are about three miles apart. However, on the ground, the advice seems less sensible; Ogmore Vale and Pontycymer may be located only three miles away from one another in geographical space, but they are located within different valleys, the Ogmore and Garw respectively. The urban population of the south Wales coalfield is laid out in north-south ribbons, aligned with the river valleys within which pits were sunk into the coal deposits below. As a result, the main roads and railways flow north to south,

following the rivers down to the coast and the ports that once shipped coal to international markets. Therefore, while it *is* possible to travel between Ogmore Vale and Pontycymer, to do so requires a journey of over six miles and involves navigating a winding and hazardous B-road that creeps over the watershed that separates the two valleys; buses are infrequent and there is no direct route as the journey cuts against the grain of the north-south logic of the coalfield transport system (Figure 2). What might appear in principle to be a straightforward three-mile journey becomes far more problematic and time-consuming when the geographies and (im)mobilities of place are taken into account.

-- Figures 1 and 2 about here --

The closure of HSBC in Ogmore Vale is but one recent footnote in a much longer story of bank and building society branch rationalisation that has, over the past 20 years or so, seen the number of branches in Britain shrink by almost a third. As a consequence Ogmore Vale and many other communities like it have been left without a permanent bank or building society branch and have had to cope with the everyday ramifications of financial abandonment. While such stories continue to arouse passions within the local communities affected, financial infrastructure withdrawal is no longer the political issue that it once was. In large part this is because branch closure is perceived to have been solved as a political and practical problem in the early 2000s through the development of basic bank accounts, the enrolment of the Post Office to provide Universal Banking Services, and through a particular geographical framing of the problem of access to financial services which has set space against place (French et al., 2008). In the case of Ogmore Vale, the local, everyday contingencies of travelling the more than six miles by way of winding B-road to reach Pontycymer (that is, place) are at once displaced by HSBC's insistence that the nearest branch is actually a distance of less

than three miles (as the crow flies) (that is, space). This insistence must be understood in the context of the geographical politics of financial exclusion, and the manner in which exclusion has come to be officially defined as a distance of more than four miles to the nearest bank branch in areas like Ogmores Vale¹.

The closure of branches is the most visible expression of processes of financial exclusion and inclusion that are part of an ongoing renegotiation of the contract between the citizen and the state. The post-war welfare model has waned with social insurance becoming less significant with the commodification and privatisation of welfare provision. In particular, responsibility for short-term income smoothing and long-term financial security has been abandoned by the state and passed over firmly to the citizen and the retail financial services sector. This new financial landscape has been forged by at least two inter-related processes. First, the re-regulation of financial services has been in the vanguard of processes of *neo-liberalisation* which have swept across market based economies over the past 30 years or so. Initially, processes of neo-liberalism were associated with the 'roll back' of the state (Peck and Tickell, 2002), as markets were subject to processes of re-regulation to make them more open and competitive. The UK financial system was remade in successive waves of regulatory reform from the late 1970s onwards (Moran, 1991, 2003), and the financial services industry continues to be a key bell weather for ongoing regulatory change. In particular, the Conservative government's neo-liberal programme of regulatory reform in the 1980s dismantled long standing 'structural' forms of industry regulation, which encouraged risk-aversion and ensured that different retail financial markets remained institutionally distinctive, in favour of a more

¹ In geographical terms, physical financial exclusion in the UK officially exists when the nearest bank branch is more than one mile away in urban areas, and more than four miles away in rural ones (French et al., 2008). This distance has been widely interpreted by banks, as in the case of Ogmores Vale, as being measured 'as the crow flies'. This is notwithstanding a belated and long overdue change to the voluntary Banking Code, made on the advice of its independent reviewer, to make clear that from 2005 the distance should be measured 'by road, not as the crow flies' (Kempson, 2004, page 5; BBA, 2005).

‘prudential’ regulatory framework designed to encourage competition (Gardener and Molyneux, 1990). Subsequently, neo-liberalisation has proceeded through new policies by which states have sought to gradually abrogate responsibility for many areas of social life which are now left to the market and to the agency of individuals and households. This includes greater financial responsibility, and expectations of higher levels of financial capability (French and Kneale, 2008). This has had the impact of generating significant new markets for the financial services industry. Second, the process of neo-liberalization has been accompanied by an empowering of financial markets, which has led some commentators to argue that contemporary life is increasingly subject to a process of *financialization* (Froud et al., 2000, Froud et al., 2001, Sinclair, 2005). Financialization is seen to have agency at a range of scales, including higher levels of instability within the economic system as a whole (2000b, Dore, 2000a) and pressure exerted on corporations by capital markets (Sinclair, 2005). However, significantly, the process of financialization also increasingly has uneven social impacts as it works its way through the financial system and differentially connects individuals and households to wider financial processes (Froud et al, 2005). In particular, retail consumers have been connected to global financial markets as debt repayments are pooled and securitized to create investment products that are sold to international investment institutions (Leyshon and Thrift, 2008). In turn, securitization, and financialization more generally, has been enabled by rapid innovations in information communication technologies, developments which have also driven the emergence of telephony- and Internet-based retail financial services delivery channels, the centralization of processing tasks, as well as the replacement of traditional face-to-face systems of risk assessment and management with sophisticated, at-a-distance credit scoring (Bailey and French, 2005; Burton et al., 2004; French et al., 2005; French and Leyshon, 2004; Leyshon and Thrift, 1999; Marron, 2007; Richardson et al., 2000). Taken together these developments have, since the late 1980s,

enabled banks and building societies to downgrade the role of the branch and encouraged the rationalization of branch networks as a means of tightening control over credit and risk, and to reduce costs.

This paper considers one aspect of the contemporary landscape of financial exclusion and inclusion, the changing geography of bank and building society branches in Britain. It does so because we argue that an understanding of the fate of the branch provides an important lens through which to examine the wider terrain of financial exclusion. The branch is a crucial material, symbolic and political expression of the connection between financial institutions and their customers, and as such its geography matters. More particularly, this paper reports on the findings of research undertaken by the authors, the aims of which were two fold. First, to map, through the construction of a dedicated geographical information system, the branch networks of the four largest banks, the ten largest recently converted building societies, and the ten largest existing building societies for the years 1995 and 2003, and to assess the changing size and geography of these networks during this time. Second, to conduct an interview survey of representatives of the firms in question, together with relevant industry bodies and consumer organizations, to better understand the processes driving and shaping branch rationalization programmes. Seventeen semi-structured, in-depth interviews were conducted with: seven of the top 10 building societies; three of the top four banks; two of the top 10 converted building societies; four leading industry bodies, and; a financial consumer organization.

The remainder of the paper is divided into four parts. In part II we review research which, over the last 10 years or so, has focused on the geographical dynamics of retail financial services branches. Part III provides an analysis of the changing geography of bank and building society branches in Britain between 1995 and 2003, and considers

the implications of our findings for debates concerning the role of branch closure in processes of financial exclusion. In particular, our findings suggest that, in contrast to other recent work in this area, net change in branch networks has generally been greatest in more deprived and ethnically diverse areas and lowest in more affluent ones. In part IV we then go onto identify four processes that help explain the geographical dynamics of bank and building society branches in Britain. Part V concludes the paper.

II Branch networks and financial exclusion: A critical review

The branches of retail financial services institutions have been the subject of academic work since at least the early 1990s. This work has been of two main kinds. First, the branch has figured strongly in work from a broadly political economy perspective, which has been concerned with the equity effects of financial systems; that is, the distribution of financial outcomes – both positive and negative – across the population as a whole. Second, the branch has featured in academic research from a spatial modelling tradition, which has analysed the reorganisation of branch networks against normative expectations of efficiency and optimisation. We will now briefly deal with each of these kinds of work in turn.

The political economy of the retail financial services branch

Research on retail financial services branches from a political economy tradition emerged out of concern with the equity effects of the restructuring of the financial services sectors upon communities and localities. The range of issues captured by this work, and in particular that which has focused on bank branch closure, have been succinctly summarised by Argent (2002, page 319):

Individuals are forced to travel further to access face-to-face banking services, or make arrangements for others to do their banking for them ... businesses

experience increased costs and inconvenience in doing their own banking, and often notice a loss of local trade as residents shop and conduct other business in the nearest town with a branch; and the community suffers through the loss of local employment and the out-migration of skilled bank staff and their families.

Work on such issues has now been conducted within a number of advanced economies, the catalyst for studies of this kind was the research undertaken by economists Gary Dymiski and John Veitch on the financial dynamics of the Los Angeles economy (Dymiski and Veitch, 1992, 1996). Against a background of the neo-liberal reform of the US banking system, and the potent racial politics of the Los Angeles metropolitan area, they sought to illustrate the role of retail banking in the everyday construction of uneven development in the urban environment. This initial foray into the socio-economic consequences of financial dynamics and financial infrastructure was highly influential in the emergence of a geographical literature on ‘financial exclusion’ in the UK in the mid-1990s (Leyshon and Thrift, 1995, Leyshon and Thrift, 1993, Leyshon and Thrift, 1996). Financial exclusion was understood as a process by which certain individuals, households and communities were denied access to the financial system. This work was initially concerned with closure of bank and building society branches – financial infrastructure withdrawal – influenced as it was by the material evidence of large numbers of branch closures taking place against the background of regulatory reform and a more competitive market (Leyshon and Thrift, 1994). Empirical research on the reorganisation of bank and building society branch networks in Great Britain between 1989 and 1995 revealed that almost one in five (19 per cent) of bank and building society branches open in 1989 were closed by 1995. In addition, 16 per cent of bank branches

were downgraded to sub-branches over the period.² Parallel research that focused on the branch networks of building societies alone (Marshall et al., 1997, Marshall et al., 2000, Willis et al., 2001) identified similar processes, but also noted a distinctive regional dimension to building society branch closures which were concentrated ‘predominantly in the north and west of the country’ (Marshall et al, 1997, page 286).

By the late 1990s, work which focused on the reorganisation of retail financial services branches was also being undertaken in economies such as Canada (Bowles, 2000) and Australia (Argent, 2002). Bowles focused on the impact of large scale mergers upon the rural branch networks of Canadian banks, and discovered that 75% of rural communities in his case study province of British Columbia were classified as either being ‘moderately’ or ‘highly’ vulnerable to closures according to a Bank Closure Vulnerability Index (Bowles, 2000, page 33). Meanwhile, Argent revealed that the number of bank branches in Australia declined by over 20% between 1981 and 1998 (Argent, 2002, page 319). Both studies confirmed Leyshon and Pollard’s (2000) proposition that the wave of bank branch closures sweeping industrialised economies was the product of an international process of learning, and the adaptation of a set of industrial and organisational ‘conventions’ of how to manage change within the retail financial services sector. Moreover, Bowles and Argent also revealed that the outcomes of such conventions vary over space and, in particular, according to the nature of the institutional context in which they unfold. Thus, in both Canada and Australia, the existence of a richer and more varied ‘financial ecology’ – such as a vibrant credit union sector, for example – lessened the impact of bank branch closure compared to economies such as the UK which has a notoriously thin and centralised mix of financial institutions (Pratt, 1998, Leyshon et al., 2004).

² The description ‘sub-branch’ was applied to branches that were tied to other larger branches and not directly included in the clearing system. It denotes branches with fewer functions and less independent

A second body of work focusing on the geography of financial services branches emerged from a more applied, modelling tradition. While it would be too strong to argue that this work is part of the newly emerging insurgent and progressive quantitative analytical movement (Sheppard, 2001, Plummer and Sheppard, 2001), the work is informed at least in part by the concerns raised in the 1990s over financial exclusion. For example, Morrison and O'Brien locate their development of a site location model for a New Zealand bank firmly within the financial exclusion literature (Morrison and O'Brien, 2001). Bank branch closure in New Zealand proceeded quickly during the 1990s, as the number of branches fell by over 34% between 1993 and 1998 alone (page 306). Morrison and O'Brien argue that accounts of the geographical location methods used by the banking industry are missing from extant accounts of financial exclusion but are significant because 'these methods have an important role in enhancing our understanding of how customers are affected by branch closures, quite apart from the direct use banks may make of them' (page 304). In their model, Morrison and O'Brien assume that banks will base their branch closure decisions on current transaction levels alone. The absence of social considerations from the parameters of such models means that the closure of branches can have regressive effects on levels of access to bank branches. However, Morrison and O'Brien recognise it 'would take an ideological shift for banks in New Zealand (either singly or jointly) to take into consideration these distributional impacts just for the sake of being socially responsible' (ibid.), even though they would be of interest to public bodies and agencies concerned with issues of financial and social exclusion. They conclude by arguing that the closure of branches, on the grounds of transactions at least, has the capacity to exacerbate financial exclusion.

control.

A second example of this kind of study also transfers techniques more usually applied to analysis of store location to a study of the financial services sector (Birkin et al., 2002). This model, developed as part of a study to optimise the efficiencies of mergers and acquisitions within the UK retail financial services sector, also includes an analysis of the distribution of bank branches and the geography of bank branch closures. A key argument running through their analysis is that the decisions made by banks and other financial institutions in planning closures, after mergers and acquisitions where institutions close branches to realise efficiency savings, are rather crude and simplistic. Like Morrison and O'Brien, Birkin et al. consider work on financial exclusion in their analysis, which they see as bringing a regulatory context into focus that retail financial institutions, at least in the UK, have to take into account in the restructuring of their branch networks, due to the government's interest in social and financial exclusion since 1997. However, they point out that evidence to support the argument frequently made in the financial exclusion literature that the propensity for bank branch closures is highest in low income areas and lowest in high income areas is equivocal at best. Thus, at a national level, they find no correlation between the patterns of existing branches and the socio-demographic characteristics of the population, although at a less aggregated spatial scale – derived from a study of Sheffield – there was evidence of lower levels of provision within less affluent areas, but this was counterbalanced by evidence of low provision in some affluent areas too. Similarly, they argue, the relationship between social status and branch closure is equally equivocal. An analysis of branch closures between 1998 and 2000 revealed that while evidence can be found for high rates of branch closures in the poorest of areas, 'there are [also] localities where the same rate of reduction has occurred, but in areas where almost 80% of the population are in the higher social groups' (Birkin et al., 2002, page 309). However, Birkin et al were able to point to a marked urban-rural divide both in branch provision with the 'urban residential

population ... twice as well served as their rural counterparts' (page 305), although the rate of closure between the two areas was almost identical between 1998 and 2000.

Therefore, work on the geography of bank branch closures has argued that the process has significant impacts, not least because branch closure is a physical manifestation of financial exclusion that draws attention to its uneven geographical incidence. As such, and as Marshal (2004) has argued, it reveals the 'interlocking nature of financial exclusion where many of the factors associated with exclusion are intimately tied up with the dynamics of the local economy, and the ways in which local labour and housing markets work to segregate the disadvantaged spatially' (page 244). However, despite its geographical lineage academic work on financial exclusion has more recently downplayed the importance of space and place. For example, in a review of the financial exclusion literature, Devlin (2005) goes so far as to argue that it 'is apparent that the debate surrounding financial exclusion has moved on markedly from its initial focus on location-based exclusion' (page 77). In turn, the dilution of concern with geography in such debates has taken place against the background of the gradual erasure of the problem of physical access to financial services as a political issue (French et al, 2008) and an increase in the volume and diversity of work in the field of financial exclusion.

There has indeed been a significant growth in work on financial exclusion since the mid 1990s, much of it from non-geographers. One of the most important sites for the production of such work has been the Personal Finance Research Centre (PFRC) at the University of Bristol. The work undertaken by the PFRC has produced a large number of studies of the social consequences of financial exclusion in recent years, and this output is significant for at least three reasons. First, for its close attention to the processes of financial exclusion, which has been revealed as more nuanced and variegated than hitherto believed. While the earliest geographical studies were concerned

in the main which what might be described as ‘access exclusion’, it is now recognised that to this must be added at least four additional forms of financial exclusion: ‘condition exclusion’, ‘price exclusion’, ‘marketing exclusion’, and ‘self-exclusion’ (Kempson and Whyley, 1999). Secondly, this body of research is significant because it has suggested that the impact of branch closure on financial exclusion is, at best, negligible. In particular, Kempson and Jones (2000, page 46) estimated ‘that only 1.5 to 2 per cent of the total population in Britain lives so far from a bank branch that it poses them real difficulties’. (We shall return to this important intervention later in the paper). Third, and finally, this research is significant because not only is it policy-focused but it has also become influential within the process of making policy on financial exclusion. And in doing so, the limited consideration of space and place within such reports has been echoed within government policy towards financial exclusion more generally; that is, branch closure and the form of access exclusion that accompanies it is not a subject that policy should primarily address.

However, as has been argued elsewhere (French et al, 2008), the erasure of bank and building society closure from UK financial exclusion policy is a classic example of regulatory capture, whereby the industry has been able to bend policy objectives to its own interests so that branch closure has been written out as a legitimate policy concern. Moreover, as we shall illustrate in the next part of the paper, the geography of bank and building society branches still matters, notwithstanding the arguments that have been made elsewhere, because there is a link between rate of closure and the socio-economic characteristics of areas; branches are being closed at a faster rate in poorer areas than they are in more affluent areas.

III. The Changing Geography of British Bank and Building Society

Branch Networks, 1995-2003

This part of the paper presents the findings of research which updated to 2003 an earlier study which mapped the changing geography of bank and building society branches between 1989 and 1995. The data confirmed that the branch networks of both banks and building societies had been in a continuous process of decline since at least the late 1980s. This decade and a half of branch network shrinkage was initially triggered by problems sown by financial services firms during the mid- to late-1980s as they adjusted to increased levels of competition following the re-regulation of the sector. But it has also been a product of the growth of new distribution methods which now supplement the branch as a channel for the sale and purchase of retail financial products and services, and subsequent changes in the ways in which many customers access retail financial services.

Despite the relative decline in the strategic importance of the branch to banks and building societies, and the marginalisation of the branch within financial exclusion policy within the UK, the branch has been identified as an important bulwark against financial exclusion within policy documents by the government itself (PAT 14/HM Treasury, 1999). Initiatives such as the basic bank account and the decision to pay social benefits into bank accounts have confronted banks with a significant dilemma. That is, how to address the Government's insistence that low income customers (who rely upon branch networks) are served while at the same time seeking to adjust to a changing competitive landscape, which is driving branch closure and relocation?

Intended to enable the 'unbanked' to take a first step into the mainstream retail financial system, 'Basic bank accounts [were designed to] allow the same banking transactions that are available to current account holders (deposits can be made and

direct debits instructed) but other services are restricted, so withdrawals are only permitted if enough funds are available, debit card availability is limited and chequebooks are never offered' (Midgley, 2005, page 278). However, as the government admits in a recent policy document on financial exclusion,

the basic transaction costs for low-income customers are higher *because they are heavier users of branches*, making them even less likely to generate profits for the bank.

Therefore, most banks do not see basic bank accounts as a commercial opportunity (HM Treasury, 2004, page 29, emphasis added).

This dilemma also confronts building societies, because some of the largest societies are also involved in the delivery of basic bank accounts and even those societies not offering basic bank accounts will be affected because of the potential for additional enquiries at branches and call centres. Moreover, the pressure to close branches is particularly problematic for building societies because, by their very nature, they are organizations that 'have long taken the challenges of financial exclusion very seriously; most societies began in response to their members being excluded from affordable housing finance' (Dayson, 2004, page 8).

The changing size of bank and building society branch networks between 1989-1995 and 1995-2003 is illustrated in Table 1. During the period 1989-2003 banks closed 36% of their branches. In comparison, the closure rate for building societies was less than half that of banks, with 17% of branches closed, while the top ten converted building societies closed 22% of their branches over the same period. And between 1995-2003, banks closed 22% of their branches, compared to 19% of converted building societies and 5% of building societies branches. Comparison of yearly average closure rates for the period 1989-1995 and 1995-2003 reveals further marked institutional differences. Whereas the average yearly rate of closure for former building societies

quadrupled from 0.6% per annum between 1989-1995 to 2.4% per annum between 1995-2003, and decreased only marginally for banks from 3.0% per annum between 1989-1995 to 2.8% between 1995-2003, the closure rates for building societies more than halved during the same period, falling from 2.1% per annum between 1989-1995 to just 0.6% between 1995 to 2003. As we shall discuss later, an important explanation for such unevenness in branch rationalisation is corporate governance: public limited companies are under greater external financial pressures to reduce costs and improve profits.

*** Tables 1, 2 and 3 about here ***

However, during our interviews, several senior managers in banks suggested that since 2000-2001 large scale bank branch rationalisation had effectively been put on hold. Although closures have continued to take place since 2000-2001, respondents suggested that they were mostly the result of ‘natural wastage’, citing the end of property leases, problems with making individual branches compliant with the Disability Discrimination Act and other procedural reasons for closure, rather than formal rationalisation programmes. Nevertheless, evidence also emerged during the research that from 2005 onwards some banks began to introduce small-scale, phased closure programmes which went beyond natural wastage. Branch rationalisation emerged as an important contemporary concern for building societies which, in comparison to banks, had generally made smaller reductions in their branch networks.

The changing geography of bank and building society branches can be assessed in a number of ways. For example, it is possible to analyse the rate of closure between 1995 and 2003 by Standard Region for Great Britain (Table 2). It reveals that higher than average rates of closure were experienced in the South West, North West, Yorkshire and Humberside, and Northern regions. Thus, while the majority of regions with higher than average rates of branch closure are outside the more prosperous Southern economy of

Britain, regions such as Scotland and Wales experienced lower than average rates of closure, while the South West – for the most part an economically buoyant regional economy, if one excludes the extreme South West of the region – has one of the highest rates of closure. While the regional context is important, analyses at this scale are too sweeping and fail to take account of sub-regional geographical differences that influence decisions about the viability of branches.

An alternative measure is to analyse bank branch closure against a metric of social wellbeing, such as the Index of Multiple Deprivation. This data, collected at ward level, is a composite index based on levels of: income; employment; health deprivation and disability; education, skills and training; housing, and; geographical access to services. An analysis of bank and building society branch closure by wards classified into deciles of the Index of Multiple Deprivation is presented in Table 3. It reveals that there is a broad relationship between branch closure and the relative deprivation of wards, with the highest rate of branch rate closure experienced in the most deprived wards decile, while the lowest rate of closure was experienced in the third least deprived wards decile. The average rate of closure in the five most deprived ward deciles was 21%, compared to only 16.8% in the five least deprived ward deciles. While this analysis draws attention to a potential relationship between levels of deprivation and branch closure it strips out all other geographical context that might explain the process.

For this reason we will now focus on an analysis of bank and building society branch closure measured against the geodemographic characteristics of census wards. Wards were classified using the Office of National Statistics (ONS) 2001 Area Classification of ‘supergroups’ (see Table 4 for a definition of supergroups; (to see a map of all UK wards by ONS supergroups go to:

http://www.statistics.gov.uk/about/methodology_by_theme/area_classification/wards/

[downloads/wards_supergroups.pdf](#)) see also Vickers and Rees, 2007, for a review of the methodology used to create the output area classification). We adopted this form of geographical aggregation for the following reasons. First, the project was in part longitudinal, and utilised data originally collected during the 1990s which considered the changing geography of bank and building society branches between 1989 and 1995 (Leyshon and Thrift, 1997). This project had also used geodemographic classifications as the spatial index of branch network change consistent with an attempt to develop a reverse location model that would be able to predict future branch closures by attempting to simulate the branch location decisions being taken by banks and building societies. This was predicated upon at least three factors: proximity to that institution's own branches; proximity to competitor institutions' branches, and; the geodemographic characteristics of the local area. Clearly, such a model is not without its limitations, given that financial institutions enrich geodemographic data with their own proprietary customer and product data. However, the fact that geodemographic understandings of space are prevalent within contemporary business location decisions provides a justification for their use in this analysis.

*** Tables 4 about here ***

Table 5 shows the rate of branch closure by ONS supergroup. The mean rate of branch closure across all areas between 1995 and 2003 was 20%. However, rates of net closure varied between the supergroups, with five supergroups having closure rates higher than average, while three experienced below average closure rates. The areas with branch closure rates *higher than average* were 'urban' in type. The highest rate of branch closure (-23.6%) was experienced in *Multicultural metropolitan* areas, and above average rates of branch closure were also found in the following supergroup categories: *Prospering*

metropolitan (-22.4%), *Traditional manufacturing* (-22.3%), *Built up areas* (-22.3%) and *Student communities* (21.2%).³

Multicultural metropolitan areas – mainly located in Greater London and Lancashire – , *traditional manufacturing* areas, and *built-up* areas all share higher than average levels of unemployment. *Prospering metropolitan* areas, mainly to be found in London and other major cities, and *student communities*, spread throughout England and Wales, and the south west of Scotland, are characterised by a high proportion of one person households.

*** Table 5 about here ***

*** Table 6 about here ***

Multicultural metropolitan areas are characterised by, amongst other things, higher than average levels of unemployment rates and a far higher than average proportion of people identifying themselves as Black, Indian, Pakistani or Bangladeshi. *Prospering metropolitan* areas are concentrated in London, and include wards located in other large cities such as Manchester and Glasgow. Defining characteristics of these areas compared to the national average include a high population density, plus a high proportion of one person households, flats, residents born outside the UK, people with a higher education qualification and, ironically, people who work in the finance industry. *Traditional manufacturing* areas are concentrated in the traditional manufacturing belt of Britain, the south of Scotland, northern England and parts of Wales. A typical area is the Longbridge ward in Birmingham. As in the case of multicultural metropolitan areas, traditional manufacturing wards are characterised by unemployment rates far above the

³ Due to the low numbers of branch openings in the *Accessible Countryside* supergroup the margin of error was such that these data were considered to be insufficiently robust for analysis. Therefore, *Accessible Countryside* areas have not been considered in this paper. The data is presented in Table 3 for information purposes only.

national average, but also an unusually high proportion of people working in routine occupations, rented public and terraced housing. *Built-up Areas*, as defined by the ONS, are mainly concentrated in Scotland, but also includes areas in parts of Wales and England. These are areas of relative poverty, with the following variables being far higher than the national average: (non-pensioner) one-person households; unemployed people; household spaces rented from the public sector; people of a working age suffering from limiting long-term illness; and people who are separated or divorced. Finally, *student communities* are distributed throughout England, parts of Wales, and the south west of Scotland. Places such as Fishergate in York, Westgate in Canterbury are the most typical wards in this supergroup. Variables with a proportion far above the national average include: households with one person (who is not a pensioner); people with a higher education qualification; people who are students; household spaces rented from the private sector.

At the opposite end of the spectrum were areas which had lower than average rates of branch closure between 1995 and 2003: these areas were *suburbs and small towns* (-16.9 per cent), *coastal and countryside* (-17.0 per cent) and *industrial hinterlands* (-18.6 per cent). Thus, in contrast to those areas that suffered higher than average, which were urban in character, the areas that experienced lower than average rates of closure were mainly small towns, suburban and rural areas. Moreover, the three geodemographic areas with closure rates below the national average have no socioeconomic variables that are far below, or indeed far above the national average. They can, therefore, be considered for all intents and purposes to be ‘Middle England’; that is, archetypical middle class areas, albeit ones that extend beyond England into Scotland, Wales and Northern Ireland. The *suburbs and small towns* supergroup is comprised of three sub-

groups: suburbs, prospering suburbs and commuter suburbs, and is widely distributed throughout England and Scotland (see Figure 3). Places such as Wootton in Bedford, Bishop's Stortford All Saints and Sawbridgeworth in East Hertfordshire are typical wards in this supergroup. *Coastal and countryside* wards are evenly located throughout the UK, apart from the south east of England, where they are mainly absent. The third and final supergroup with a lower than average closure rate was *industrial hinterlands*, comprising two sub-groups, 'out of town housing' and 'industrial' areas. Industrial hinterland wards are concentrated in south Wales, southern Scotland and northern England, are again characterised by a large number of socioeconomic variables close to the national average. Industrial hinterland areas were probably less affected by branch closure it due to the fact that these areas had already been pruned of most of their branches during the first wave of closure in the period 1989 to 1995.

How do these findings compare with the research that has previously been conducted on branch closure? While it is difficult to make exact comparisons, it is clear that bank branch closure rates in Britain during the 1990s have been at least comparable to those of Australia (Argent, 2002) and New Zealand (Morrison and O'Brien, 2001); that is, similar Anglo-American, neo-liberalised economies. However, the one notable exception in this regard, at least since 2000, appears to be the United States itself. As we shall discuss in more detail later, a growing body of anecdotal evidence suggests that US banks have been opening branches at a growing rate throughout the 2000s, although it is not clear whether such openings have led to an increase in the net stock of branches.

While the contraction of branch networks of bank and building societies in Britain in the face of aggressive rationalisation programmes since the late 1980s is accepted by researchers and policymakers alike, the assumption that branch closure programmes are disproportionately concentrated in deprived areas has been more

recently questioned. As we have seen, Birkin et al. (2002) failed to find a clear link between closure and low income, while the findings of Kempson and Jones (2000) have been widely used to question the correlation between financial exclusion and branch closure in deprived areas. In contrast, our findings provide stronger evidence to support the contention that net change in branch networks has generally been greatest in more deprived and ethnically diverse areas, and lowest in more affluent ones. With regard to the impact of branch closure on the communities in question, our research suggests that on the whole it is indeed the most vulnerable communities that bear the brunt of branch rationalisation programmes and as such we would argue that at the very least there is a need to look again at current conventions which assume a weak link between closure and financial exclusion. This reconsideration is all the more urgent given that our research also found that competitive pressures in retail financial services, in the wake of neo-liberal regulatory reform and deepening financialization, continue to drive banks, and to a lesser extent building societies, to ever more actively reposition their branch assets away from underperforming toward more lucrative geographical markets. It also urgent for two further reasons. First, and as we shall make clear later, the role of the Post Office as a cornerstone of financial exclusion policy is increasingly open to question. This is due not only to growing contradictions within its assigned role in the wake of the contraction of branch networks as a solution to the problem of geographical access, but also in terms of underwriting what Midgley (2004) has argued are constrained and particularistic forms of inclusion. Second, and equally important, the assumption that financial exclusion is only weakly related to branch closure is also contestable. While the research of Kempson and Jones (2000) has been mobilised to help erase branch closure as political problem, a closer reading of their work reveals that is more equivocal than has hitherto been acknowledged in policy circles. The detail of the *Banking Without Branches* report highlights the very real problems that emerge in the wake of financial services

infrastructure withdrawal (French et al. 2008). In particular, attention to the findings of the eight in-depth case studies Kempson and Jones conducted – rather than merely the findings of the large scale questionnaire survey, which was widely reported at the time – reveals evidence of significant problems of access in the three most deprived areas, “with about a quarter of the people interviewed saying that the bank branch was difficult to use or they relied on someone else to do their banking for them” (Kempson and Jones, 2000, page 51). Similarly, a more recent comprehensive study of the processes and effects of financial exclusion in the deprived, West End area of Newcastle-upon-Tyne discovered that a majority of the multiple money problems identified by local people “related to issues concerning bank and building society provision in the study area” (Fuller et al. 2006, page 265). More specifically, these problems reflected the fact that “large scale withdrawal of (primarily) bank branch infrastructure ... has occurred since 1983 in areas of [the] West End, amounting to a 69 per cent loss in bank and building society branch provision” (Fuller et al., 2006, page 265).

In contrast to the received position on the impact of branch closure, the work of Fuller et al. (2006) and a more considered reading of Kempson and Jones (2000) provides evidence to suggest that branch closure is indeed a significant issue for vulnerable communities in precisely the kinds of areas we identify as experiencing the highest rates of net closure. Moreover, the case of the closure of the HSBC branch in Ogmores Vale, with which we introduced the paper, highlights the disjuncture that now exists between dominant understandings of financial exclusion in industry and policy circles, and the realities of branch closure as experienced on the ground. This disjuncture has much to do with the way in which financial inclusion policy - as currently scripted - serves to underplay local effects by setting space (financial exclusion measured in terms of absolute distance from the nearest branch) against place (local accounts and material

experiences of financial exclusion). In so doing not only does financial exclusion policy serve to de-legitimise the sorts of local problems that are made visible by in-depth, case study research, but more generally it serves to neutralise the problem of location based exclusion and the legitimacy of thinking about financial exclusion geographically (French et al. 2008). However, as Marshall (2004) has stressed and Fuller et al. (2006) make clear the relationship between branch closure and financial exclusion cannot simply be read off from the measurement of absolute distance to the next or nearest remaining branch; rather, it will depend on the interlocking of local economic, social, and political geographies. The local dynamics of physical topography, road network and limited public transport provision have conspired in the case of Ogmore Vale to greatly exacerbate the detrimental impact of branch closure for a community already struggling to cope with economic decline. Similarly, in offering an explanation of the much higher incidence of problems of access in the three most deprived areas studied, Kempson and Jones (2000) also cite the problems of local public transport and the make up of the populations of the areas in question, in particular, a high concentration of people who find travel difficult – the elderly, women with young children, and those with disabilities, etc.. Critically then, not only does it appear that the poorest and most vulnerable communities are experiencing the highest rates of net branch closure, but these studies provide evidence to suggest that it is these very same communities for which the impact of branch closure is most severe.

IV. Explaining branch closure.

An analysis of the findings of the second strand of our research, semi-structured interviews with leading representatives of financial services firms, industry bodies and consumer organizations, makes it possible to identify at least four inter-related processes that have an influence on the changing geography of bank and building society branches

in Britain. These are: corporate governance; branch closure policy; new socio-economic geographies, and; new distribution channels. We will now discuss each factor in turn.

Corporate governance: As we have seen, rates of branch closure are, on average, higher for public limited companies than for mutually owned organisations. A good illustration of the impact that governance has upon branch networks are those former building societies that gave up mutuality during the mid-1990s and/or were taken over by public companies. Between 1989 and 1995, as building societies, these organisations closed on average less than 4% of their branch offices. However, between 1995 and 2003, the period during which demutuality was at its peak, these organisations closed over 20% of their branches⁴. Overall, the rate of closure among converted building societies approached that of traditional retail banks. Conversely, the rate of branch closure among building societies slowed over the period; the 10 largest building societies closed almost 20% of their branches between 1989 and 1995, the rate of closure falling to below 7% between 1995 and 2003 (Table 1). One interpretation of the faster rate of closure – frequently put forward by opponents of branch closure such as the Campaign for Community Banking Services (CCBS) – is that public companies are under more pressure to make the costs savings that branch closures can deliver as they are driven by the necessity of producing value for shareholders.

[Bank A has]... thrown a lot of money at technology in branches, ... [and] when I go and speak to them they say, 'Well we're giving it ... 18 months; if it doesn't work, we might have to do something different, because the analysts and the media crawling all over our figures and saying you've got to get a bigger performance'.

[Bank B] are ... a global bank, but the UK's cost income ratio is totally out of sync' with the rest of the group. They say they pick up 33% of the costs in the UK, but

only deliver 25% of the profit ... they've got to do something about it, which is why they have embarked on a [new] branch closure programme. (Derek French, Chair, Campaign for Community Banking Services, Interview, 2005)

Such pressures, some of our respondents argued, led to banks closing not merely branches that were losing money, but also profitable branches although, crucially, not sufficiently profitable for them to remain open. For example: consider this exchange with an executive of a UK bank:

Interviewee: Every branch that we closed was actually making money, but wasn't making enough money, so your return on your investment wasn't high enough

Interviewer: ... so they were all profitable then?

Interviewee: They were all profitable, there wasn't any that were losing any money. But you may only make ... a couple of hundred thousand pounds a year on one of those units whereas really you should be talking about making a couple of million pounds a year. So we closed down a unit where we were making £200,000 and we opened a unit where we're making £2 million and you do 10 of them and you're increasing your profit by £80 million in a year.

(Converted Building Society A, Interview, 2005)

Many Building Societies, meanwhile, are seeking to exploit their organisational structure by revaluing their branches and even using them as part of a marketing strategy that enables them to be differentiated from banks. As one respondent put it:

Building societies are closing branches at a much slower rate than banks. [T]he general view amongst building societies is that the branch network is valuable for

⁴ Only two of these organisations increased the size of the branch networks over the period, although in the case of the at least one of these this was mainly due to the incorporation of the branches of a smaller organisation

member relations ... customers value the personal contact. That's not universally so but it tends to be the case that building societies ... keep their branches open for both financial and non-financial reasons. There are some societies who say ... it's a sort of badge of honour that they would not close a branch, particularly if it's the last branch in a community ... (Industry Organisation B, Interview, 2005).

However, as the figures illustrate, building societies have been engaged in a long run process of branch reduction, albeit at a slower rate, as they struggle to reconcile being mutually owned organisations within a highly competitive market for retail financial services. Moreover, we recognise that there are significant variations within each of these categories, and that some banks, for example, have closed relatively few branches in the 2000s (see below).

Branch closure policies: There exists a more or less general convention of evaluation that banks and building societies use to assess the performance of their branches. Branch performance is continuously assessed, usually as part of a formal annual review. The failure of a branch to meet its targets initiates a series of interventions. These range from discussions with branch management about such failures, through new investments and/or the installation of a new management team, to the closure of the branch. The level of intervention will depend on two main factors: first, the perceived nature of the local market – that is, its prospect of supporting a successful branch – which is assessed with the help of what are known as 'branch planning services', which are provided by market research companies such as CACI, and GIS tools, which are provided by a range of consultancies, and; second, the perceived deficiencies of the branch in question. However, the vigour with which such interventions are pursued varies markedly from institution to institution. As indicated above, the likelihood of closure is on average greater for public limited companies than for building societies. However, as alluded to

below, there was evidence from interviews that, despite the accelerating rate of branch closure since 1995, many banks are also now beginning to reconsider the value of their branches. Such reconsideration can be partially explained by the very fact that banks, in particular, have been able to shed the rump of their worst performing branches. However, two other factors emerged which help to explain the relative renaissance of the branch. The first is a belated recognition of its continued importance, not only in spite of, but *because* of the growth of at-a-distance forms of delivery and the consequent commoditisation of simple retail financial products, particularly as part of a competitive strategy for maximising the cross-selling of high value products (see, for example, KPMG, 2006):

branches [are] an opportunity for cross-selling other products and certainly if you go into bank branches they're quite different to how they use to be and they are very much more a sort of financial services supermarket rather than somewhere you just get your money out or whatever ... But I think the customer service element and the competition now is such that ... [banks] can not afford to tell their customers, 'Sorry we're closing your branch', you know, 'Like it or lump it' ... they have to offer ... multi-channel delivery. (Industry Organisation A, Interview, 2005)

Thus, there is a belated recognition of the opportunities branches offer for the creation of 'sticky places' (Markusen, 1996) in increasingly 'slippery' retail financial space. The ability of branches to anchor financial institutions to geographically rooted assets was graphically illustrated by the catastrophic failure of Northern Rock in 2007. The former Building Society turned 'mortgage bank' sought to grow its retail business despite its relatively limited branch network by accessing funds available on wholesale banking markets which were transformed into mortgages and their repayments securitized and

sold off to investors. When the inter-bank market all but ground to halt in the summer of 2007 as the full consequences of the US sub-prime mortgage crisis became clear, the bank's principal mode of funding dried up, causing it to fail and being nationalized by the UK government. Northern Rock had grown rapidly since its conversion to a bank in the late 1990s, and made much of its innovative business model, which enabled it to capture a share of the UK mortgage market that was much larger than would have been possible through the recycling of its branch-based retail deposits alone. However, as liquidity evaporated from the inter-bank market, its retail base was unable to support the bank's commitments (which was of course exacerbated by the first run on a UK bank since the 19th century, as the remaining branches that it did have were besieged by customers looking to withdraw cash as the news of the bank's insolvency were made public).

The second and related factor is the powerful discursive influence of an ongoing branch renaissance in the United States (The Economist, 2004). Just as previous innovations in retail financial services have rapidly migrated across the Atlantic (Leyshon and Pollard, 2000) so the *de novo* branch phenomena in the US (Council on Financial Competition, 2007) has influenced thinking on branches in Britain:

Interviewee: The States are opening branches at a phenomenal level ... 2,000 over the last three or four years ... I don't think we'll get to that [level] but they're just opening branches ... you know, these prefab things.

Interviewer: So why are they doing that?

Interviewee: Because ... compared to the UK, I think they're underbanked. But I think banking – it's like sheep really – everybody followed each other on the Internet banking, closed branches, the Internet coming in, 'Oh shit we're wrong there!' Now we're concentrating on branches again and I think in the [United]

States it's, 'God they're opening branches! So we'll [British banks] open branches!'

(Bank C, Interview, 2005)

While it would be naïve to think that the large scale branch closure programmes that characterised the late 1990s and early 2000s are now entirely a thing of the past – the announcement of large scale closures by the Clydesdale in 2005, for example, cautions against reaching such a conclusion – previous predictions of the imminent demise of the branch should be considered as somewhat premature.

New socio-economic geographies: Many financial institutions are dealing with the legacy effects of earlier rounds of branch network construction. Most of Britain's leading financial institutions have regional origins (Pratt, 1998), which means that many still have branch networks which are heavily skewed towards their region of origin. Therefore, over the past 10-15 years or so banks, but especially building societies, have been faced with the uncomfortable task of closing numerous branches within regions with which they are, or have traditionally been, associated. This has produced significant negative reputational effects in some cases. A number of building society representatives admitted to being reluctant to close unprofitable 'local' branches as the negative publicity they would generate, especially given the perceived conflicts with mutuality status, would more than outweigh the potential economic savings:

As a building society we have some emotional-type issues and some mutuality-type issues about how aggressive you can be in driving down costs through the branch network, because we rely on our membership to support us ... In [Society's home City] ... we have 14 branch offices ... which is a pretty impressive offering of branch representation ... And you go back to the mutuality debate and the conversions [building society de-mutualisations] and one of our lines, which is absolutely true, is that if we were a bank we'd be closing

all these branches, *there's no way that we'd have 14 branches in [home City] as a bank.*

And [banks have] demonstrated it that they are closing branches where we are maintaining our presence (Building Society C, Interview, 2005, emphasis added).

It was clear that this Chief Executive would have liked to rationalise the number of local branches, but did not want to incur the local reputational damage such a closure programme would generate. Nevertheless, changes in the social and economic geographies of British society have meant that for many financial institutions, a significant number of their branches are 'in the wrong place'. For them, closure programmes are part of a geographical restructuring exercise that seeks to ensure that their branch networks reflect these new social and economic geographies. This involves redirecting their assets away from economically struggling communities, where aggregate demand is falling, and towards new, more prosperous communities, where market opportunities are greater. As one senior manager responsible for his bank's branch networks put it,

... the social and economic geography of [some places have] changed absolutely fundamentally, and yet as a bank one is expected still to be there because it's actually always been there ... it's a bit like a Post Office ... people are very emotionally attached to it. And certainly sometimes when we ... have [undertaken] closures ... people living in particular places can see ... life kind of ebbing away from their town, and almost when the bank goes that's the final [straw]. And it isn't the bank that's killed the town, the town is actually now fulfilling a different function, and activity is now elsewhere. And so to me it would seem absolutely perverse to expect that 1,500 plus branches would always stay in exactly the same place because life, the community, the geography, is changing so rapidly ... In

many respects ... we're so far behind this curve that actually there's some catching up to do. (Bank B, Interview, 2005)

There is some evidence to back up claims that the geography of branches lags behind that of population. For example, Table 4 compares the share of population and branches by geodemographic supergroup. Significantly, the areas that experienced below average rates of branch closure – that is, *Suburbs and small towns*, *Coastal and countryside* and *Industrial hinterlands* – remained underrepresented in their share of branches given their share of the population as a whole. Meanwhile, many of the more urban areas that experienced higher than average rates of bank branch closure between 1995 and 2003 had a much larger than expected share of total branch networks given their share of the total population. However, it is important to note that this over-representation in urban areas is to some extent explained by the proximity of these areas to city centres which contain many branches that also serve geographically distributed populations, rather than just the populations that live closest to them. A further reason why *Suburbs and small towns* remain underrepresented in their share of branches is the inability of financial services firms to open in these locations due to planning restrictions. As a representative a leading building society pointed out:

At the moment we're looking at certain locations where we'd love to ... open a branch, if we could actually find a location that we could buy. There are certain areas [where] we've been banging our heads trying to find suitable sites ... So it's not a case of not wanting to be in those places ... [we can't open a branch] unless another financial institution closes in that area; the zoning and the local council don't want too many financial [branches] in the streets, so [if] a café or a restaurant [closes], you've got to get it reclassified to be able to open it as a financial

institution, which means physically there's a limit to where you can go (Building Society E, Interview, 2005)

Therefore, although the geography of net branch closures was uneven between 1995-2003, these differences may have been even greater had not local planning regulations prevented financial services firms from opening branches in many small towns and suburban locations.

*** Table 4 about here ***

Use of branches and new distribution channels: The accelerating rate of branch closure after 1995 was influenced by the normalisation of new distribution channels introduced to the retail financial services sector and changes in the ways in which customers used branches. The use of the telephone as a distribution channel was developed within the British retail financial services industry during the 1980s and became common-place during the 1990s. From the late 1990s onwards, the Internet became an additional distribution channel for retail financial products (French et al. 2004). Both these developments were frequently cited in interviews with key informants in bank and building societies as factors which not only mitigated any negative social and economic consequences of branch closures, but also partly contributed to closures in that it took business away from the branch. Indeed, some institutions reported a steady fall in the volume of business through branches, with one even issuing a 'use or lose it' challenge to its customers in regards to some of its branches. But the ability to use the telephone and Internet to mitigate the impact of branch closure is highly uneven across the population as a whole, as there are cost and cultural barriers to the use of these media among many financial services customers; for such people, they are not a direct substitute for face-to-face contact with staff in a branch.

Perhaps the most significant new distribution channel for financial services has been neither the telephone nor the Internet but the partial integration of the Post Office into the British financial services industry. As part of a campaign against financial exclusion, the government marshalled the Universal Banking Agreement with the 16 largest banks and the largest building society, which required these institutions to introduce Basic Bank Accounts for low income customers (French et al, 2008; Midgley, 2005). To facilitate the availability of such accounts to poorer communities, particularly those that might have been affected by earlier rounds of bank branch closures, such services were made available at Post Offices. Moreover, under further government pressure, some leading retail banks and building societies – have signed distribution deals with the Post Office to provide counter services for their regular personal customers.

However, during interviews, the growing integration of the Post Office with the retail financial system was identified as problematic, in at least two regards. Firstly, it was cited by some respondents as a potential factor in driving further bank branch closures. As one respondent argued:

It does cost the banks significant amounts of money to make an arrangement with the Post Office and so they do it on a competitive basis, where they think their customers will really value it. But, you know, if I were a bank who had made that investment ... I'd be looking at my branch network [because] there is an obvious read-across there [for potential closures]. (Industry Organisation A, Interview, 2005).

That is, banks could see Post Office branches as effective substitutes for their own branches, which could be taken into account in future rounds of branch closure. This might not matter if such services were universally available at Post Offices, given their current geographical distribution and the fact that the Post Office network is made up of

approximately 14,500 outlets. However, the Post Office is itself undergoing a radical branch closure programme, a programme that has reduced its network down from 18,400 branches in 1999 (Midgley, 2005), with a further loss of 2,500 branches by 2009 announced in May 2007. Moreover, some banks and building societies refuse to allow the Post Office to distribute their products on competition grounds.

The reason for this is the second problem, which is the emergence of the Post Office as a direct competitor to banks and building societies following the introduction of Post Office-branded financial products as part of a joint venture with the Bank of Ireland. Our research suggests that this development has deterred some banks and building societies from signing full distribution deals with the Post Office:

... the Post Office is another area where we take grief because we haven't entered into agreement and again, you know, why should we allow our customers to go into Post Offices? Yes it might be convenient for some people but we've got a large network, but also now you expose customers to Bank of Ireland products! ... [Bank C] customer go[es] in, does a transaction, [then is asked] would you like a Bank of Ireland savings product? (Bank C, Interview, 2005)

This form of opposition to sharing counter services with competitors is pervasive within the retail financial services sector, due to the strong commitment to branches as expressions of their brand and service culture. It was echoed by the almost universal hostility expressed in interviews to the idea of the 'white label', or shared, branch which has been proposed by the Campaign for Community Banking Services (CCBS). The CCBS have proposed that, following the closure of the last branch within a community, a white label branch be established to act as a transaction agent for banks and building societies, in much the way that the Post Office acts currently for those financial institutions with which it has a distribution deal (see

http://www.communitybanking.org.uk/report_whitelabel.htm). However, during our discussions, it emerged that banks and building societies were uneasy with such a proposal as it would represent a loss of control over their products at the point of distribution. The strength of this opposition suggests that both the idea of the white label branch and the extension of the Post Office's role as a transaction agent is likely to be highly problematic and not entered into voluntarily by the banking and building society industries.

V Conclusions

One of the defining features of academic and policy debate on financial exclusion over the past few years has been the relative absence of considerations of space and place, despite the fact that such considerations underpinned the development of the concept in the mid 1990s. Understanding the geography of access to mainstream retail financial services within contemporary societies remains as essential as ever, not least because many economic exchanges are now mediated via financial institutions through direct transfers between accounts. Without access to the financial system, individuals and households may find it more difficult and expensive to pay bills, while the lack of access to products such as insurance denies them the opportunity to shield against risk. In this sense, having access to a full range of financial services at a competitive price may be taken to indicate 'financial citizenship' (Dymski, 2005). And having local physical access to a financial institution remains important here because not only are the populations of the most vulnerable communities some of the least mobile and most reliant on the vagaries of local public transport systems (Kempson and Jones, 2000), but they are also likely to experience much greater money problems than 'prime' customers which are best rectified by direct engagement with financial services providers, and include: problems with direct debits and bank charges; problems with the availability or

otherwise of credit; problems with the cost of credit; and repayment problems (Fuller et al. 2006). Branches also remain important because, as is implicitly recognised by the decision to re-evaluate the role of the branch by banks and building societies alike, face-to-face contact remains significant for providing advice. Moreover, physical access to a local branch remains important not least because of the problems associated with alternative distribution channels and these include: the problem of getting physical access to free, as opposed to fee-charging, ATMs; the costs and limitations of Internet and telephone banking, and; the problem of Post Office rationalization, concern over the impact of which is such that, at the time of writing, Essex County Council have announced their intention to consider taking over the running of fifteen Post Office branches in the county earmarked for closure, for example (BBC News, 2008).

Findings from the research reported in this paper has keenly illustrated how the branch networks of bank and building societies in Britain have been in decline since at least the late 1980s. In this regard Britain is not alone, for studies of bank branch closure in similar neo-liberalised economies, in particular Australia and New Zealand, have shown comparable rates of decline. However, there is some evidence to suggest that in contrast to these countries the US has undergone a surprising process of recent bank branch expansion. Moreover, the US *de novo* branch phenomenon has, together with efforts to increase revenue from cross-selling, helped to kindle a re-evaluation of the strategic role of branches in Britain. While in the early 21st century there has been a recent respite in branch rationalisation programmes, building society and especially bank branch networks are likely to continue to shrink over the medium term as a result of continued competition and pressures to lower costs and increase revenues.

Our research also found that the geography of closures has been uneven, with higher than average net closures taking place in predominantly less affluent urban areas. More affluent non-urban locations have, for the most part experienced lower than

average closure rates. The difference in closure rates would have been greater if not for the proximity of many poor urban areas to city centres where bank and building society branches serving wider populations are located and the impact of local planning regulations which have acted to restrict the number of financial services branches on the high streets of more affluent suburbs and small towns. Against a background of overall decline, we anticipate a further reduction in the share of bank and building society branches located within less affluent urban areas and a relative increase in the proportion within suburban areas and small towns. Thus, while we found evidence to partly support Birkin et al.'s (2002) findings that many affluent areas are underrepresented in their relative share of overall branches, our study also identified a clear relationship between branch closure and the socio-economic makeup of geographical areas.

In spite of the disappearance of considerations of space and place, and of branch closure from contemporary debates around financial exclusion, we argue that the equity effects of branch rationalisation programmes are indeed socially and geographically uneven. As such, the assumption that only a weak relationship exists between branch rationalisation and processes of financial exclusion should, at the very least, be re-evaluated. The process of financial exclusion is a product of a broader bifurcation of the market for retail financial services. Socio-technologies such as credit scoring systems sort 'prime' from 'sub-prime' customers on behalf of financial institutions. Prime customers – mainly, middle and high income individuals – are actively pursued by retail financial services firms, and may be described as financially 'super-included', benefiting from intense competition between institutions for their business. Sub-prime customers, meanwhile, have low to moderate incomes and/or financial assets and are either excluded from mainstream financial marketing campaigns for new products or are denied access to services if they apply. In turn, the geography of prime and sub-prime financial markets follows established geographies of income and wealth, which we have shown is

also broadly reflected in the changing geography of bank and building society branch networks. For the most part prime retail financial customers may be found in affluent urban and suburban areas, whereas sub-prime markets are concentrated in areas of low and moderate income, typically in inner-city areas (and in Britain, at least, on public sector housing estates). In the absence of mainstream financial services, which continue to close branches in such areas, a host of specialist sub-prime or 'fringe' retail financial institutions ply their trade (Burton et al. 2004; Leyshon et al. 2004, 2006).

Not only are the effects of branch rationalisation uneven, but we found that rates of branch network decline also differ markedly with respect to banks and building societies. An important causal factor in producing such a marked difference are different regimes of corporate governance and the fact that, in contrast to mutually owned institutions, public limited companies are under greater pressure from shareholders to reduce costs and improve profits. The dramatic increase in net rates of closure characteristic of former building societies that have converted to plc status provides striking evidence of the impact of corporate governance. While building societies do not have to deal with shareholder pressure, mutuality does confer a need for greater sensitivity to the demands of members, thus making it more difficult for building societies to reconfigure their branch networks in response to socio-economic geographical change.

As well as new socio-economic geographies and corporate governance, two other factors help explain branch rationalisation. First, organisational policy toward closure, which has ebbed and flowed over time. Second, the emergence of new distribution channels and, in particular, the unintended consequences of the enrolment of the Post Office as a cornerstone of financial exclusion policy. While the development and delivery of Universal Banking Services through the Post Office helped serve to successfully offset political and public disquiet over branch closure in the late 1990s and

early 2000s, the extension of the neo-liberal logic of competition to the Post Office has starkly revealed the contradictions of financial exclusion policy. On the one hand, we suggest that the Post Office may drive further branch cuts as it becomes considered an effective substitute for permanent branch provision. On the other hand, the Post Office network is itself increasingly subject to far reaching processes of rationalisation. Its attempt to raise revenue through the introduction of its own branded financial services in 2005 has deterred some banks and building societies from entering into a third party distribution agreement, as well as alienating those institutions that are already signed up to the deal.

We wish to conclude by returning again briefly to the story of bank branch closure in Ogmore Vale. The decision by HSBC to close its branch in the village can now be better understood in the context of the changing socio-economic geography of South Wales and pressure from shareholders to maximise returns and cut costs. It can also be understood as the desire to reposition the bank's assets in pursuit of the most lucrative 'prime' customers in order to maximise the opportunities to cross-sell higher margin financial services; it was a branch in the 'wrong place'. In turn, the decision is likely to have been influenced by considerations of current organisational and industry thinking on the strategic role of the branch, socio-technologies of branch performance, and by HSBC's attitude toward the Post Office and its decision to offer only limited access to its services at Post Offices, unlike its competitors such as Barclays and Lloyds TSB. However, the long term impact on local communities like Ogmore Vale is harder to gauge. Our research suggests that it is less affluent areas that are shouldering a disproportionate share of net branch closure. Moreover, these are communities for whom branch closure can have a much more detrimental impact than has to date been presumed by financial exclusion policymakers (Fuller et al., 2006), and that are already marked by constrained opportunity and choice and more likely to be exposed to the

purveyors of more expensive financial services. The case of Ogmore Vale also reveals some of the limitations of the spatial imaginary currently deployed within the industry and among policy makers in seeking to understand the impact of branch closure and of processes of financial exclusion. While the debate around financial exclusion over the past decade or so has led to a grudging recognition among practitioners and policymakers of the relationship between financial exclusion and geographical *space*, it is now imperative that the relationship between financial exclusion and *place* is properly recognised. Ogmore Vale, and the hundreds of other communities like it that have lost financial representation may no longer register as important places to the mainstream financial services industry, but their populations still have to negotiate their lives through financial intermediation of one kind or another. An understanding of the financial dynamics of marginal financial ecologies, and in particular how they reproduce themselves, is clearly a matter of pressing concern.

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Table 1: Branch networks of top six bank groups, top 10 ‘converted building societies and top 10 building societies, and, Great Britain, 1989-2003* (Source: Authors’ research)

	Branches			Change (%)		
	1989	1995	2003	1989-1995	1995-2003	1989-2003
Top 6 Bank Groups***	12,659	10,406	8,077	-17.8	-22.4	-36.2
Top 10 converted building societies****	3,473	3,348	2,702	-3.6	-19.3	-22.2
Top 10 Building Societies**	1,699	1,478	1,403	-13.0	-5.1	-17.42
Total	17,831	15,232	12,185	-14.5	-20.0	-31.7

* Note that the figures for converted building societies include branches also included as part of the larger banking groups above of which they are a part: thus, Cheltenham & Gloucester are owned by Lloyds-TSB, Halifax and Birmingham Midshires are owned by HBOS, Woolwich Equitable is owned by Barclays

** Nationwide, Britannia, Yorkshire, Portman, Skipton, Leeds & Holbeck, Derbyshire, Coventry, West Bromwich and Chelsea. (Source: Building Societies Yearbook 2002-03)

*** Barclays, HBOS, HSBC, Lloyds-TSB, and RBS-Natwest (Source: Authors’ research)

**** Abbey National (converted to public limited company in 1989), Alliance & Leicester (1997), Birmingham Midshires (1999), Bradford & Bingley (2000), Bristol & West (1997), Cheltenham & Gloucester (1995), Halifax (1997), National Provincial (1996), Northern Rock (1997) and Woolwich Equitable (1997). (Source: Experian. Note that his section of the database was updated to 2004)

Table 2: Bank and building society closures by standard region, 1995-2003
Source: Authors' research)

Region	Total branches 1995	Net change 1995-2003	Net change (%)
South East	4937	-945	-19.14
East Anglia	536	-100	-18.66
South West	1631	-373	-22.87
West Midlands	1268	-230	-18.14
East Midlands	920	-176	-19.13
North West	1517	-359	-23.67
Yorkshire and Humberside	1138	-238	-20.91
North	726	-166	-22.87
Scotland	1271	-214	-16.84
Wales	894	-166	-18.57
Total	14838	-2967	-20.00

Table 3: Branch closures and openings by banks, converted building societies and building societies, by Index of Multiple Deprivation, England, 1995-2003 (source: Authors' research)⁵

IMD 2000 – Deciles	Total branches 1995	Net change	Net change (%)
Not assigned	2	0	0
10% most deprived wards	2308	-576	-25.0
Second most deprived	1663	-336	-20.2
Third most deprived	1526	-320	-21.0
Forth most deprived	1168	-250	-21.4
Fifth most deprived	1403	-278	-19.8
Fifth least deprived	1072	-218	-20.3
Forth least deprived	926	-168	-18.1
Third least deprived	729	-108	-14.8
Second least deprived	865	-164	-19.0
10% least deprived wards	1011	-183	-18.1
	12673	-2601	-20.5

⁵ The Index of Multiple Deprivation 2000 (IMD 2000) is a ward level Index, made up of six ward level domain Indices (www.statistics.gov.uk) namely:

- Income,
- Employment,
- Health Deprivation and disability,
- Education, Skills and training,
- Housing
- Geographical Access to Services

The overall IMD 2000 has two strands of data:

- The Index of Multiple Deprivation Score;
- The Rank of the Index of Multiple Deprivation.

The bigger the IMD 2000 score, the more deprived the ward is. However, caution should be used when interpreting the results. Due to the exponential distribution, a ward with a score of 60 is not twice as deprived as a ward with a score of 30. The 8414 wards in England are ranked: a rank of 1 identifies the most deprived ward and a rank of 8414 the least deprived. Ranks rather than scores should be used to compare the position of a ward in the national (England) context.

For the present analysis the Rank of the Index of Multiple Deprivation by ward was used because the aim was to identify the most deprived wards in GB and the use of the rank rather than the domain score made this possible. The IMD2000 was preferred for the present analysis for two main reasons. The first is that the index is available at the ward level. This makes the analysis of deprivation comparable with the analysis of closure even if the IMD 2000 is based on the 1998 boundaries. The second reason is that the IMD2000 better captures the social changes which took place between 1995 and 2003, the period of interest for the branch closure analysis

Table 4: Definitions of ONS geo-demographic area classification ‘supergroups’ (source: http://www.statistics.gov.uk/about/methodology_by_theme/area_classification/wards/cluster_summaries.asp)

‘Supergroup’	‘Supergroup’ number	Groups	Subgroup	% of UK Population
Industrial Hinterlands	1	Industrial Areas	Industrial Areas A	4.7%
			Industrial Areas B	6.2%
			Out of Town Housing A	4%
			Out of Town Housing B	4.6%
Traditional Manufacturing	2	Built-up Manufacturing	Built-up Manufacturing	4%
			Transitional Economies A	4.3%
			Transitional Economies B	3.3%
Built-up Areas	3	Built-up Areas	Built-up Areas A	1.7%
			Built-up Areas B	1.6%
Prospering Metropolitan	4	Prospering Metropolitan	Prospering Metropolitan A	2.8%
			Prospering Metropolitan B	0.91%
Student Communities	5	Student Communities	Student Communities A	1.1%
			Student Communities B	3.4%
			Student Communities C	0.4%
Multicultural Metropolitan	6	Multicultural Areas	Multicultural Areas	3.1%
			Inner City Multicultural	3.6%
Suburbs and Small Towns	7	Suburbs	Suburbs A	7.8%
			Suburbs B	6.4%
		Prospering Suburbs	Prospering Suburbs	3.5%
		Commuter Suburbs	Commuter Suburbs A	5.5%
			Commuter Suburbs B	4.4%
Coastal and Countryside	8	Countryside	Countryside A	2.5%
			Countryside B	4.5%
		Senior Communities	Senior Communities	2.7%
		Out of Town Manufacturing	Out of Town Manufacturing	6.8%
		Northern Ireland Countryside	Northern Ireland Countryside	0.91%
Accessible Countryside	9	Accessible Countryside	Accessible Countryside	5.1%

Table 5: Branch closures and openings by banks, converted building societies and building societies, by Supergroup area, Great Britain, 1995-2003 (source: Authors' research)

'Supergroup'	Total branches 1995	Net change 1995-2003	Net change (%)
Industrial Hinterlands	1873	-349	-18.6
Traditional Manufacturing	1677	-374	-22.3
Built-up Areas	1832	-408	-22.3
Prospering Metropolitan	1431	-321	-22.4
Student Communities	1829	-387	-21.2
Multicultural Metropolitan	1040	-245	-23.6
Suburbs and Small Towns	2651	-448	-16.9
Coastal and Countryside	2341	-399	-17.0
Accessible Countryside*	164	-36	-22.0
Total	14838	-2967	-20.0

Note: This analysis includes 97.5 per cent of total branches open in 1995, and 93 per cent of openings between 1995 and 2003. Branches which could not be geocoded, that is given a location, were excluded from the analysis.

* Due to the low numbers of openings branches in this Supergroup, the margin of error was such that these data were considered insufficiently robust for analysis and so Accessible Countryside areas have not been considered in this paper. The data is presented here for information purposes only.

Table 6: Share of population and branches by supergroup, Great Britain, 1995 and 2003 (per cent)

'Supergroup'	Share of population 2001	Share of branches 1995	Share of branches 2003
Industrial Hinterlands	19.6	12.6	12.8
Traditional Manufacturing	11.7	11.3	11.0
Built-up Areas	3.3	12.3	12.0
Prospering Metropolitan	3.7	9.6	9.4
Student Communities	5.0	12.3	12.1
Multicultural Metropolitan	6.7	7.0	6.7
Suburbs and Small Towns	27.7	17.9	18.6
Coastal and Countryside	17.3	15.8	16.4
Accessible Countryside	5.1	1.1	1.1
Total	100	100	100

Figure 1: The last branch in the village: HSBC branch, Ogmore Vale, 2005 (Source: A Leyshon))

Figure 2: Ogmore Vale, Pontycymer and Treorchy