

Spatial Unbundling of Basic Banking Services

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Abstract—This paper¹ proposes the consideration of spatial unbundling of basic banking services, one of the three types of unbundling of basic banking processes at play in the UK along unbundling of banking, payments, and money and technology driven unbundling or modularisation. *Spatial unbundling* is new as a concept and follows field observation triangulated with computational spatial analysis of access to banking. The unbundling of banking, payments, and money and technology driven unbundling are intermingling with spatial unbundling but are not discussed in this paper. The unbundling is expected to be followed by re-bundling of components and services in new forms in terms of firms, business models and ways of consuming the resulting services.

Keywords—access to banking; spatial unbundling; financial exclusion

I. BACKGROUND

By basic banking services I refer here to the following services: access to one's *current account* for the purpose of checking the balances, withdrawing, and depositing funds and/or making domestic payments in cash or digitally. The mainstream banking channels for delivering these services in the UK² are bank branches, post offices, ATMs and digital channels of the banks and of other regulated players.

While the unbundling of banking, payments, and money and the technology driven unbundling were concepts observed or developed theoretically the spatial unbundling of basic banking services was an unexpected result of triangulating the results of spatial analysis of access to basic banking in the UK [1], [2] with focused field observation and go-alongs [3] in South Wales (June 2023) [4]. The triangulation was not aimed at the validation of quantitative findings but rather at deepening the understanding of how basic banking activities are performed in areas which lost recently lost a significant capacity of basic banking services.

South Wales was selected for field observation because it is a relatively small area containing large towns, rural, agricultural and touristic areas and a wide variation in terms of deprivation and socio-economic characteristics. The region experienced a relatively large loss of capacity of basic banking services for the period studied (July 2019

– July 2023). Out of the 104 bank branches closed in Wales in this period, 71 were in South Wales representing a loss of services of 1547 hours/week calculated based on the opening hours per week of these closed points, the equivalent of 18% of the capacity of the banks' branches network in South Wales in July 2019. For the same period South Wales lost 4400 hours/week of services in post office locations, the equivalent of an approximately 15% loss compared to 2019 levels.

Field observations revealed that apart from this loss of service which coming from a combination of closures and reduction of opening hours the spatial unbundling and the way it is felt by the population is due to two hidden processes: a) a new typology of points of service b) a lack of complete, dynamic system for providing accurate information about the points of services and their attributes.

Barclays now has '*local*' branches where you can find 'a friendly face to come and talk to us', but you cannot do basic banking. They do not have a permanent location but are also not mobile vans. HSBC has three types of branches: full-service branches, digital service branches and cash service branches with support by appointment. Natwest has *pop-up* branches. Lloyds ceased to run mobile branches from May 2024 and brought in some places a *community banker*. None of these types of branches are reflected in the output of the Branch Locator Open Banking API even though these APIs are the only source of dynamic information for branch locations and characteristics. Even more, the API output is not in line with the information offered on the respective banks' website about the same points.

Post offices suffer continuous changes too mainly driven by an asymmetric power relationship between banks, the Government as the sole shareholder of POL, the Post Office Ltd (POL) itself and the sub-masters running the post offices usually within a convenience shop. For example, Barclays announced unilaterally in 2019 that they want to withdraw from the Post Office Banking Framework which would have meant that their customers would no longer be able to use a post office for basic banking services. In another example, the Financial Conduct Authority (FCA), a UK industry regulator, put banks on alert in 'the fight against money laundering via the Post Office' and requested banks to reduce cash deposit limits at the Post Office. Although this might seem like a reasonable measure, in practice it was not well

¹ The findings and observations which sit at the basis of this proposition are the result of research for my PhD thesis "Everyday Banking as a Critical National Infrastructure", submitted in August 2024.

² There is also a flourishing set of entities grouped under the label of "fringe banking" and delivering basic banking services mainly to the unbanked or to those underserved by the mainstream banking. I do not include these services here but I acknowledge that they play a role especially in communities where mainstream basic banking services are not accessible physically or financially.



Figure 1: The entrance sign of a Barclays Local Branch in a generic office building. Aberdare. Photo: A.Sonea

thought through and as a result the sub-postmasters, their clerks as well as small business owners go through a trial-and-error process in order to execute a deposit for which the acceptable limits changed continuously without any of them being informed.

II. DISCUSSION

The change in the typology of points of service as explained above hides a spatial separation of the basic banking services that I labelled spatial unbundling. In practice the spatial unbundling is felt mostly by a person who cannot do digital banking and has to go, for example, to the post office van on a Tuesday morning to get the pension in cash; go again the following week to pay the utilities bills; look for a mobile branch in case somehow they missed the post office van; still drive or ask to be driven to town to pay the credit card in a larger bank branch. People and businesses don't know anymore where to go for a particular basic banking service. Their previous cognitive spatial maps [5] for basic banking do not hold and the information required is not available in a way that they can easily access and consume.

The continuous change in branch typology does not help these people; on the contrary, it exacerbates their confusion. These points of service are not equivalent, and their new format communicates little to the user about the real functionality they can provide. As such, this process forces an increased monetary, physical, and cognitive cost onto the most vulnerable individuals in society. This aspect of basic banking unbundling is absent from the Fintech discourse of the past decade, which mostly praise the process of unbundling of banking services which for decades were delivered only by incumbent banks. The unbundling of digital services implies an increased choice and personal control through the re-bundling of selected services on your phone. In the

physical space, however, the unbundling of the basic banking services is exactly the opposite - it is the removal of control and choice.

We are now in the middle of unbundling/re-bundling processes and the implications of this transformation are quite complex. In my view, the multiple unbundling and rebundling of financial functions across so many dimensions amplify the urgency of treating this sector as part of the *critical national infrastructure*. There are many Fintech solutions promoted as solving the problems of financial inclusion if only they could be magically adopted at scale, such as open banking, open finance, DeFi, crypto-currencies, stablecoins, CBDC - to name just a few. However, 'infrastructure does not grow *de novo*'; it wrestles with the inertia of the installed base and inherits strengths and limitations from that base' [6]. That is to say, the adoption of any novel Fintech model does not replace the existing financial and social model but is simply another layer inheriting the limitation of the proceeding mechanisms and institutions. Basic banking services are essential services for people and the economy. The aforementioned options are interesting to consider in regard to the problems they resolve and for whom. Although they embolden a great diversity of options for the financially and digitally competent, none of these impact in any meaningful way those who are already underserved, such as the people I encountered in the Valleys of South Wales. What we see is a strengthening of financial options for those who already have options and a race to the bottom for those who do not. Without modelling and monitoring of the entire system, the shifts in roles, responsibilities, services, coverage, and regulation would leave certain populations or areas behind and without access, while the system as a whole will become more vulnerable to failures and attacks.

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