

PROPOSED ST ANDREW'S DAY BANK HOLIDAY (SCOTLAND) BILL

Scottish Financial Enterprise Evidence to the Scottish Parliament Enterprise and Environment committee

Scottish Financial Enterprise (SFE) is the independent organisation, formed in 1986, that supports and represents the interests of Scotland's financial services industry. Our members encompass all sectors of the industry including banks and building societies, general insurance, life assurance and pensions, investment managers, asset servicing, corporate finance and broking services, professional advisors and support services.

By any measure the financial services industry is of major importance to the Scottish economy. The industry accounts for £5bn (nearly 6%) of Scotland's GDP (measured as Gross Value Added). It includes both Scottish companies that are leaders in global markets and international companies that are investing in bases in Scotland. In the last five years (1999 Q3 to 2004 Q3) financial services in Scotland grew by 36.5% while the overall Scottish economy grew by 9.5% and the whole of the UK financial services industry grew by 17.5% in the same period. The financial services industry accounts for one in 10 Scottish jobs, with over 108,000 people directly employed in the industry and over 100,000 more employed in support services.

It is reasonable that the Scottish Executive is giving due consideration to the potential for a Scotland-wide holiday on St Andrew's day. However, following consultation with our members, we believe that an additional bank holiday would not achieve the proposed objective of ensuring a public day of celebration in Scotland and may have negative consequences for financial services companies, particularly banks, and the wider business community in Scotland.

Implications to banking activity

Bank holidays are not public holidays, as many people assume. Several businesses and schools remain open on bank holidays and banks, if they so choose, are free to trade on bank holidays under the Banking and Financial Dealings Act 1971. The Scottish banks agreed in 1996 that they would conform to bank holidays observed by the banks based in England. This decision enables customers to access banking services across the UK without any complications of delayed transaction flows or potential overdraft situations that had previously occurred on days that banks in Scotland were closed when banks in the rest of the UK were functioning as usual.

Creating a new bank holiday that applies only to Scotland could cause public confusion that would be detrimental to banks and their customers. It is uncertain whether any bank operating from Scotland would formally adopt an additional bank holiday since such a move would be contrary to the banking community's established aim of having a uniform approach to banking practice across the UK.

Were banks in Scotland to close for another Scottish bank holiday, there are many potentially negative implications for banking customers, including the following:

- 1 Transactions between banks would be delayed. This would mean that businesses would have to pay in salaries and other payments at an earlier date.
- 2 Cheque clearing would be delayed, thus potentially delaying when customers could access their funds.
- 3 Retail customers who became overdrawn and were unable to pay in cash to a branch could be faced with overdraft charges.
- 4 Credit card customers whose payments were delayed by a St. Andrew's day bank holiday could face late payment charges.

Potential impact on Scotland's competitiveness as a business location and Scotland's productivity

Our labour market flexibility is an asset to Scotland and one of the reasons why major financial services companies and other businesses choose to invest here. There is an increasing trend among businesses not to take set local public holidays since observing these undermines smooth international business operations – an important issue for our financial services industry which operates around the world. Any attempts to force businesses in Scotland to close on a particular day would reduce business flexibility and competitiveness. These factors should be carefully considered before any steps are taken that could potentially undermine Scotland's competitiveness as a business location and Scotland's productivity.

If businesses chose not to close on an additional bank holiday, the likelihood is that most of the public sector would implement the holiday closure. Therefore in order to compete effectively in the labour market, companies could be forced to increase holiday entitlement to employees, which would also have a detrimental impact on their competitiveness. SMEs in the financial services industry and other industry sectors could be particularly affected as they would find it harder to attract staff without providing the same holiday entitlement as larger organisations and would be likely to suffer a proportionally greater impact on their cost base.

Implementing an additional public holiday would add further to public sector costs and place increased demands on taxpayers and the wealth-creating sectors of the economy.

In summary we therefore advise that the negatives outweigh the possible gains from the proposal and the Scottish Executive should not be taking any action that could undermine its stated priority of growing the Scottish economy.

Further comment and information

Scottish Financial Enterprise would be very pleased to provide further comment on any of the issues we raise in this response. Please contact Amanda Harvie, Chief Executive, Scottish Financial Enterprise, 91 George Street, Edinburgh EH2 3ES, Scotland, U.K. Tel: +44 (0)131 247 7700; Fax: +44 (0)131 247 7709 E-mail: info@sfe.org.uk.

For more information about SFE and Scotland's financial services industry, please visit our website at www.sfe.org.uk.