ACCESS TO CASH REVIEW – CALL FOR EVIDENCE

Introduction

There is major change underway in consumer use of cash for payments. The scale of this change has promoted significant debate as to how the UK as a whole, government, and commercial organisations should respond.

The independent Access to Cash Review has been commissioned to examine the matter. The Review will work during the rest of 2018 and early 2019 to assess the trends, to understand the perspectives and needs of different groups, and to make recommendations on the best way forward. The Review is public and independent. The independent Chair is Natalie Ceeney CBE supported by an independent Panel of consumer representatives and other experts. LINK (which runs the UK ATM network, connecting the cards and ATMs of different organisations) will fund the Review, but the Review is completely independent of LINK.

This document sets out a Call for Evidence to support the Review. It is an invitation to all stakeholders to give their input. The questions that the Review Panel are interested in hearing answers to are set out below, together with some of the existing evidence. However, stakeholders should feel free to offer views on any matter that they consider relevant, or to only answer in areas where they feel they have expertise. Further details of the Review can be found at www.accesstocash.org.uk.

Objectives of the Access to Cash Review

The Access to Cash Review's main objective is to ensure that there remains an effective and inclusive cash access service that meets the needs of all consumers, regardless of their personal circumstances, for as long as necessary.

Consumer requirements for cash over the next five to fifteen years, the long-term sustainability of the payment system to address this, and alternative methods of cash acquisition, are important matters of public policy, as many consumers rely on cash and this is expected to continue long into the future. The Review will therefore be broad, transparent, open, and independent.

The Access to Cash Review will:

- Understand consumer needs and implications for cash access requirements over the next five to fifteen years.
- Review the evidence on future trends in cash usage and ATM coverage.
- Identify and analyse options for retaining nationwide access to cash.
- Propose a way forward.

Wider Interest in this Topic

Cash and payments are the subject of wide consumer, media, and political interest, including the Treasury's call for evidence, Cash and Digital Payments in the New Economy[1], and the FCA's Strategic Review of Retail Banking Business Models[2]. This Call for Evidence is seeking not to duplicate, but complement this work. Respondents are however welcome to include any of their own responses to other reviews if they believe this would be of value.

Completing this Call for Evidence – Timetable and Administration

This Call for Evidence contains background information to help respondents, however the independent Access to Cash Review is interested in the widest possible range of responses and anyone is welcome to answer all sections, in part, or only in reference to a group or segment of society that they have insight into.

The closing date for responses to this Call for Evidence is **30th September 2018**.

Please respond directly by e-mail to callforevidence@accesstocash.org.uk.

Or alternatively in writing to:

The Access to Cash Review
c/o Link Scheme
Suite 2B
Central House
Otley Road
Harrogate, HG3 1UF

All replies will be acknowledged. They will also be made available in due course on the Access to Cash website; www.accesstocash.org.uk, unless noted as confidential.

[1] https://www.gov.uk/government/consultations/cash-and-digital-payments-in-the-new-economy.
[2] https://www.fca.org.uk/publications/multi-firm-reviews/strategic-review-retail-banking-business-models.

CALL FOR EVIDENCE QUESTIONS

Question 1:	**What do you think could happen to cash demand in the UK over the next fifteen years?**
Question 2:	**What are consumers' needs for cash and digital payments and how can they be best met in the future?**
Question 3:	**What digital or other innovations are likely to affect those who currently are using cash?**
Question 4:	**Does access to cash require regulation or central co-ordination that goes beyond the current framework? If so, what should this involve?**
Question 5:	**How should access to cash be paid for?**

1. Changes in Cash Demand

In the UK, demand for cash for payments has been in decline since the early 1990s.

In 2007 cash accounted for 61% of all payments. Ten years later, in 2017, 34% (13.1 billion) of the 38.8 billion consumer payments were made in cash, and debit card payments exceeded cash for the first time. These figures show that usage of cash for payments by consumers has dropped by well over a third over the last ten years. This trend is likely to continue, with cash usage forecast to halve over the next decade, to account for only 16% (6.4 billion) of all consumer payments by 2027[3].

If these forecasts are right, these are substantial shifts in consumer behaviour that will require change in how cash is distributed and managed. And these changes in cash usage are not happening in isolation. Our society is facing huge digital disruption across many sectors, affecting many aspects of our lives, and at an unprecedented pace. Going back to 1998, just 20 years ago, it would have been hard then for most of us to conceive of the changes that would happen to our lives through the internet, mobile, and digital. Back then, only 20% of UK households owned a mobile phone and yet now the number is 95%.[4] 1998 was also the year in which Google was founded. If we are to look 20 years ahead, it is extremely likely that the changes we will see in technology and society will be just as profound as over the past 20 years.

The driving force behind this change in cash usage is the rise of digital technology. The number of electronic transactions more than doubled from 2012 to 2016 (+133%) to close to 380 electronic payments per person per year. With 244 card transactions per person per year, the UK is one of the leading countries in the world when it comes to the adoption of electronic

[3] UK Finance, UK Payment Markets 2018
[4] https://www.statista.com/statistics/289167/mobile-phone-penetration-in-the-uk/.

payments.[5] The increased use of contactless cards in particular has made a big impact on the payments landscape over the past few years, and the trend is likely to continue over the next decade. £23.23 billion was spent using contactless between January and June 2017, close to the total for the whole of 2016.[6] This represents more than double the spending in the previous eight years combined (£11 billion) and has been facilitated by a 45% growth in the number of merchant[7] owned terminals accepting contactless.[8]

As well as the terminals themselves, one of the key elements behind consumers' card usage is the extent of shops', merchants', sole traders' (such as window cleaners) or taxis' acceptance of cards for low value payments. Individual merchants have views on the costs of cash vs card, including the difficulty or costs of eventually depositing the cash, the convenience/speed for them, or even whether card payments may encourage consumers towards higher value purchases.[9] Merchants' approaches to cash or digital will affect customer behaviour, even if the merchant accepts both digital and cash payment. A customer who gets a negative reaction when using a card for a low value may be put off and avoid using it in future. However, if the merchant is positive (or at least neutral), and the transaction is easy, consumers may be more likely to be inclined to use a card again, and perhaps move to ever lower value transactions being done by card. Although difficult to quantify, there seems to have been a shift over the last few years towards low value purchases by card being increasingly socially acceptable. In the past, using a card in a pub, for example, may have involved an embarrassed enquiry of "can I use a card if I am getting food?". Now, in many locations, a card can be used for any value with no reaction from the staff[10], and, instead, handing over cash can result in a more irritated response. In some shops, we now see hand-written notes saying either "sorry, we don't take cards" or, increasingly frequently, "sorry, we don't take cash" to manage an otherwise negative consumer reaction.

All of these factors are leading to consumers using cards for lower value transactions. However, overall data suggests we are making fewer lower value transitions, regardless of the payment method. The total number of payments for less than £1 has more than halved in the last ten years as consumers have moved away from using telephone boxes and buying daily newspapers. As a result of this, the average value of cash payments has actually increased over the last 10 years from £11.58 in 2006 to £15.80 in 2016.[11]

In the UK, at retail locations, consumer choice still largely reigns. Card-only stores are still rare and an ever-wider range of locations which were cash only, such as markets or local service providers, are now accepting cards through new portable card systems like i-Zettle or Square. Locations which *are* card-only are currently usually those where the consumer has little or no

[5] G4S World Cash Report 2018 http://www.g4scashreport.com/.
[6] £25 billion was spent using contactless cards in the whole of 2016.
[7] The term "merchant" is used to mean any business which takes payments – e.g. from high street retailers, gyms, coffee shops etc. through to energy companies or HMRC when collecting taxes.
[8] UK Finance, *'Contactless 10 year report',* 2017 https://www.ukfinance.org.uk/wp-content/uploads/2017/09/UK-FINANCE_Contactless-10-year-report-September-2017.pdf.
[9] http://www.news.com.au/finance/money/costs/scientists-prove-paying-with-plastic-is-more-dangerous-for-your-budget/news-story/15222db4af403b8c5410b1582b9c349d.
[10] 57% of payments in pubs and bars are now reported as contactless http://paymentsjournal.com/future-high-street-cash-no-longer-king/.
[11] UK Finance, Cash and Cash Machines 2017.

choice, and where the merchant seems to have decided that the cost and efficiency benefits to them outweigh the potential negative reaction from some users. In some cases, significant discounts can be offered for card payments to encourage their use, for example Transport for London giving discounts for Oyster cards when compared with individual ticket cash purchases. Car parking is another area which is increasingly cashless, allowing operators to avoid the costs and risks of cash acceptance.[12] It is possible these locations are acting as a catalyst for card or contactless payments as they force people to use cards who would otherwise not have done so. However, such developments are not without their critics, citing the difficulties some consumers may have when they cannot use cash, and the general erosion of choice.[13] Indeed, consumer choice and privacy are some of the main arguments for proponents of continued cash usage and acceptance.

Societal drivers to use of cash are not just about day-to-day transactions, but also about our wider views about society, and our confidence in financial institutions. For example, cash has a role as a store of value, and in this area cash usage appears to be growing. Figures from the Bank of England show that the total number and value of notes in circulation which are being used to store value rather than being used for payments has been growing in recent years.[14] There will be a range of sources for this cash from cash payments, bank branch counters and ATMs, to notes and coins which are received in change simply being stored in a jar. Another example is cash's role as a contingency. Digital systems can go down, but when we have cash in our hands, we need no infrastructure to use it. For increasing numbers of consumers, cash is seen as a payment method of last resort when systems failures may prevent consumers or merchants from accessing online or card-based payment systems. And finally, the recent publicity around use of consumer data for purposes we had not signed up for – and increasing consumer awareness of the value and importance of their personal data – has also led some to be wary of the digital footprint that digital payments leave.

The factors which affect consumer cash access are not unique to the UK. Many other countries are seeing significant changes to how consumers use cash and digital payments. Developments in other countries may therefore provide insight; from countries with similar levels of cash use, such as The Netherlands, countries with low cash use, such as Norway, Denmark and Sweden, and high cash usage countries such as Germany. In each case there are significant differences from the UK in terms of size, diversity, banking culture (for example the cost of payments and cash access). However, lessons and parallels may be of interest.[15]

In addition, how countries provide access to cash varies significantly, from diverse multiple ATM networks in the USA, to Portugal with a single integrated ATM network, to Sweden and the Netherlands where the ATM networks are being consolidated, such that they will be run as a single entity rather than the competitive market with multiple suppliers as there is in the UK.

[12] https://www.standard.co.uk/news/crime/restaurant-worker-stuffed-parking-meters-with-paper-in-scam-that-cost-council-250000-10145514.html.
[13] War Against Cash: The Plot to Empty Your Wallet and Own Your Financial Future and Why You Must Fight It – Ross Clark. Harriman-House 2017.
[14] https://www.bankofengland.co.uk/statistics/banknote .
[15] Some European countries, notably the Nordics see low cash usage while other countries, such as Germany remain high users of cash. https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op201.en.pdf.

There seems to be strong agreement emerging that the decline of cash in favour of digital is a trend that will continue. However, there also seems to be an emerging consensus that it is unlikely that digital payments will completely replace cash – the recent UK Finance report concluded that cash, although falling to only 16% of payments in 2027, would still be a core part of our UK economy and still be the second most frequently used payment method.[16] The pace of change is also widely debated, with some believing that the pace will accelerate (as it has on many other forms of digital adoption), while others suggest that factors such as privacy concerns, concerns about resilience and limitations in the UK infrastructure (such as broadband and mobile connectivity) will start putting a brake on the pace as the remaining cash users are less likely to switch to digital payments. Therefore, cash only making up 16% payments in 2027, which is approaching what Sweden is experiencing now[17], could be a "floor" beyond which cash usage will not fall, or merely a point in time and UK cash use may fall further still. Drivers of change such as generational change, enabling technologies, economic events and conscious "push" factors from banks, retailers and government will all affect the pace and nature of this change.

We would therefore welcome challenge to our conclusions so far, including whether there are factors we have failed to consider, or whether we have misjudged the evidence. Looking forward, we are keen to seek views on the pace and nature of change to cash demand in the UK over the next 5-15 years.

Question 1: What do you think could happen to cash demand in the UK over the next fifteen years?

2. Changes in Consumer Need

For UK consumers, the "push" factors (i.e. how people are paid, what payment methods retailers accept, and how easy it is to access cash) are huge drivers of whether consumers use cash or digital payment methods. However, the "push" factors differ by different societal segments and by demographics, and there are consumers who choose cash as a matter of personal preference. For those who use cash as a matter of choice there may be a wide range of drivers such as privacy, security, budgeting, or a seeking of "authenticity" away from technology-based solutions.[18] Concern about the reliability or trustworthiness of digital solutions can also be a reason for why some consumers chose to use cash over digital.

One of the charges made of cash usage is also that it facilitates tax avoidance or even crime. This is a complex area and in general is not one this review will seek to address.[19]

But there is also evidence that access to cash is currently a necessity for a number of consumers and that cash fulfils specific consumer needs which other payments methods cannot

[16] UK Finance – UK Payments Summary 2018
[17] https://www.riksbank.se/globalassets/media/statistik/betalningsstatistik/2018/payments-patterns-in-sweden-2018.pdf
[18] For example, the recent growth in sales of products as diverse as craft beers, artisanal gin, vinyl records or traditional style board games.
[19] https://www.europol.europa.eu/newsroom/news/cash-still-king-criminals-prefer-cash-for-money-laundering.

satisfy. There is evidence that many consumers using cash are, at least right now, from more vulnerable groups.

There were 2.2 million consumers (4% of UK adults) who relied on cash payments almost entirely in 2017.[20] These consumers may pay their bills using Direct Debit or standing order, and may have access to a bank account and debit card, but they are predominantly users of cash and do not regularly use non-cash methods for their day-to-day payments.

At the other end of the scale, there were 3.4 million consumers who rarely used cash in 2017, representing 6% of the UK's adult population. These consumers make a cash payment once per month or less frequently. An additional 3.2 million consumers make a cash payment once a fortnight or less frequently. Combined, 12% of the adult population make a cash payment once a fortnight or less frequently.[21]

Despite a number of recent technical innovations, people paying each other directly ("peer-to-peer" transactions) are still predominantly using cash. Whilst these sorts of payments only account for around 3% of the total use of cash, cash dominates peer-to-peer transactions, accounting for 71% of payments to another individual over £1.00.[22]

Unsurprisingly, cash and digital usage varies by age. Younger age groups are more likely to use cash rarely than people in older age groups, with more than one in ten of those aged 25-34 making just one cash payment each month or no cash payments at all. Perhaps more surprisingly, those that rely on cash are evenly-spread across different age groups. However, people with lower household incomes were far more likely to rely mainly on cash when compared with their more affluent counterparts. In fact, over half of all consumers who relied predominantly on cash during 2016 had total household incomes of less than £15,000 per year.[23]

Employment patterns, which are changing significantly in today's society, can have an effect on the use of cash and adoption of digital payments. For example, the self-employed now represent a growing share of the UK workforce, up from around 12% of the total workforce force in 2001 to around 15.1% in 2016. Around 26% of all UK employment is part-time work, and 4% of employment (1.3 million people) is in the "gig economy", which is expected to grow.[24] Traditional full-time employment, with salaries paid regularly and directly into a bank account, remains the UK's dominant employment method, but even this is changing, with increasingly varied working patterns. For these staff, getting paid can be irregular and cash can be a more convenient way both for employers to pay staff and for staff to be paid. In 2016, the value of cash paid as wages increased by 10% on the previous year, a change attributed to high levels of self-employment.

Cash usage also varies significantly by retail sector. Newsagents, pubs and convenience stores see 85%, 79% and 78% of their payments in cash respectively, although they form a relatively

[20] The UK Payment Markets Report 2018.
[21] UK Finance, Payments Market Report 2018.
[22] UK Finance, UK Consumer Payments 2017.
[23] UK Finance, Cash and Cash Machines 2017.
[24] Office for National Statistics, Statistical bulletin: UK labour market: March 2018 21/03/2018 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/march2018.

small percentage of total retail spending while supermarkets (which dominate spending by total value), petrol stations and electrical-goods only see 44%, 27% and 26% paying in cash respectively. Some non-financial regular bills are also paid in cash, for example, nursery and childcare 15%, housing rent 17%, and savings clubs 26%.[25] There are also reports from charities that the shift away from consumers carrying cash is reducing the amount being given to charities in donations.[26]

These statistics all suggest an even distribution of approaches across the UK, but we know from experience that the likelihood of cash vs digital being the most acceptable way to pay – or even whether options are offered – will vary from region to region, and possibly between rural and urban locations.

This Review will explore not only the preferences that consumers have (and how these preferences might change as technology also changes) but also wider financial inclusion challenges, including both the problems or detriments that some consumers may face when using cash and the difficulties they may have in accessing or using digital payments.

To illustrate this, some of the financial inclusion challenges around both cash and digital payments include:

- The challenge of actually accessing cash – whether around the accessibility of cash access (usually through ATMs) and/or the cost of this access (such as transport costs or any fees).
- The potential financial penalties of using cash over other payment methods - such as lack of access to more attractive tariffs, online-only deals, etc.
- The requirements around "know your customer", which can be a barrier to using digital payment services for those without suitable I.D. or with a poor credit history or criminal record.
- There is evidence that some digital services and even payment systems like Direct Debits can lead to or even encourage debt, and that for many who are heavy users of cash, one of their reasons is to retain control of their finances and avoid the risk of debt. Evidence also exists that consumer spending patterns can be very different digitally than using cash, with more likelihood for some consumers to spend more freely or incur more debt digitally. For example, a recent study reported that 59% of 5,500 people interviewed with mental health problems reported that they had taken out credit during a period of poor mental health, when they would not otherwise have done so.[27] This same study found that an increasing amount of this credit was taken out online, where it's harder to put checks and balances in place.
- Protection and control over finances and payments. Cash, when compared to other payment methods, gives people protection. For people on very low incomes and/or tight

[25] UK Finance, Cash and Cash Machines 2017.
[26] https://www.civilsociety.co.uk/news/donations-of-loose-change-worth-320m-a-year-for-charity-says-caf.html.
[27] https://www.moneyandmentalhealth.org/fintech-mental-health/. Full report at http://www.moneyandmentalhealth.org/wp-content/uploads/2017/07/Fintech-for-good-report.pdf.

margins, holding their money in cash (rather than in an account) reassures them that no one can take their money without their knowledge or permission (obviously excluding robbery) and this gives them a sense of security that, whilst their available money may be small, they have absolute control over it at all times, and can pay out exactly what they want, when they want[28]. For some cash users, no digital form of holding money appears to provide the same reassurance and relying on cash means they can avoid the risk having their money taken due to institutional agreements, decisions beyond their control, such as benefit repayments, credit repayments and/or the right to offset for banks[29].

However, this payments environment is changing quickly. There are emerging digital FinTech services which can potentially help people manage their finances better. Technology now exists to allow consumers to track their spending more effectively using apps and open banking, to give consumers alerts if they are overspending or their behavior is unusual, to put money aside through regular saving, and more.[30]

We also know that technology adoption is changing equally fast. The over 75s are the fastest growing group of internet users, and 78% of those 65-74 would be considered regular internet users.[31] In 20 years' time, most of those moving into retirement are today likely to be in jobs where they use technology on a daily basis. Some of the historical barriers to using digital are therefore changing, as are the potential needs of customers, and solutions available.

At present, there are a number of ways of providing a level of financial inclusion for the cash dependent, including standards for "basic bank accounts"[32] with no overdraft charges and low registration standards, and to ensure that everyone has easy access to a wider system of payments, and to receiving wages and benefits digitally. But many charities argue that we haven't done enough yet, and in an increasingly digital world, this can only be part of the solution. In addition, as cash usage declines, the infrastructure to manage cash will become increasingly costly per transaction, putting pressure on the existing model.

The Review's second question is therefore about who is using cash, what needs does it solve, and how we ensure that, as digital take-up continues, any benefits and detriments are not concentrated on certain people and that all parts of society are able to actively participate. The Review is interested in questions such as is the best way of doing this to focus on supporting those who rely on cash, ensuring they still have access to it and reducing the costs of doing so, or to take a different approach, whether to produce solutions to address the reasons for cash choice or dependency, or to address the wider issues around financial inclusion where cash is only part of the solution.

Question 2: What are consumers' needs for cash and digital payments and how can they best be met in the future?

28 https://www.jrf.org.uk/life-low-income-uk-today
29 http://www.toynbeehall.org.uk/data/files/Services/Financial_Inclusion/Access_to_cash_-_Qualitative_research.pdf
30 For example, Moneybox https://www.moneyboxapp.com/.
31 https://www.ons.gov.uk/businessindustryandtrade/itandinternetindustry/bulletins/internetusers/2017.
32 https://www.moneyadviceservice.org.uk/en/articles/basic-bank-accounts.

3. Innovation

Digital innovation has driven staggering change in the last few decades across large parts of society, from how we communicate through mobile phones and social media, to how we now shop, and to the nature of work and the gig economy and rising self- employment. As noted earlier, in 2007 cash accounted for 61% of all payments, but only 34% in 2017, and forecasts suggest that it could account for only 16% in 2027.

When we consider society in 20 years' time, we can see forecasts of profound changes as diverse as from self-driving cars to advanced artificial intelligence. Regular reports suggest that in 20 years, up to 50% of jobs will be different (or redundant), largely replaced by machine learning. It is entirely likely that financial services may be very different as well.[33]

Within financial services, "payments" is one of the fastest changing sectors, with new FinTech companies and established players alike developing digital services which look likely to change payments further. Over the last few years we have seen contactless, chip-and-pin, mobile wallets[34], person-to-person and retail payment apps[35], mobile merchant terminals, and the massive rise of online shopping which have all changed the way we buy products and services. Equally, we have seen things which whilst representing true innovation have arguably yet to achieve mainstream adoption in the UK such as pre-paid cards, electronic cash systems such as Mondex, wearable payment devices or distributed ledger currencies being used for payments. The technology underpinning the payments themselves could also change, and we do not yet know what role cryptocurrencies will play in the future of cash usage.

The regulatory environment is also changing to enable more radical change, with Open Banking and the Payment Services Directive II (PSD2) allowing a wider range of services to be provided using our transaction data (with consumers' permission).

To illustrate this FinTech revolution, below are just a few of the emerging services and use-cases which could support improved financial inclusion, and help people better manage, save and use their money and promote inclusion in an increasingly digital world.

Ability to get the benefit of digital payments without a bank account.[36] The "unbanked" (through choice or necessity) struggle to get access to the cheaper payments of a digital economy. Emerging FinTech solutions (such as Doreming, or Wagestream) help low income

[33] http://www.suncorp.com.au/super/grey/your-future/what-will-life-be-2035
https://www.theguardian.com/society/2011/jan/02/25-predictions-25-years.

[34] Figures for payments made using mobile devices such as phones or watches are difficult to measure as many are recorded against the underlying card, and the last set of data is from 2016 when the UK Finance Payment Diary research only showed 2% making such a payment. However, take up may have been increasing quickly and anecdotal observation on the London Underground suggests more and more people are using phones to pay to travel. Some people foresee mobiles as the future of payments[34] and in recent years the change in mobile technology has been profound. Over the past 10 years mobile data traffic has increased 6,000-fold, and over the past 15 years, it has increased 600-million-fold. The average smartphone owner today is carrying a computing device more powerful than 10 PCs from 2000.

[35] https://www.bp.com/en_gb/united-kingdom/products-services/bpme.html.

[36] https://assets.kpmg.com/content/dam/kpmg/uk/pdf/2017/10/value-of-fintech.pdf.

workers get access to their salary at a time which suits them, underpinned by their employer's payroll.

Different and cheaper finance. A number of FinTech providers specialise in providing more affordable finance to those who might otherwise struggle to secure low cost credit. These can be lower cost as a result of backing from an employer (e.g. Neyber and Salary Finance), Peer-to-Peer (e.g. Ratesetter), or just as a result of more specialist lending analysis (e.g. Account Technologies).

Credit history can be a significant road block for people that have never dealt with a financial institution before. Without one, many traditional institutions will not offer credit or even a bank account. FinTech makes it possible to harness data from alternative sources, such as mobile phone payment history, AI (e.g. Aire) or rent payments to secure a credit rating (e.g. Canopy).

Moving money "peer-to-peer". One area in which cash dominates over digital is "peer-to-peer" transactions – e.g. giving money to a relative for a birthday, paying someone back for petrol money, or in a local social club. Technology is fast catching up – Facebook now allow you to move money between friends digitally, mirroring how you might do it face-to-face, and services like Venmo can make it easy to share bills and move money between friends.

Improved budgeting. We know that financial literacy is low in the UK – and many people find managing money hard digitally. There are a number of services, such as LootBank and Chip[37] which can help nudge people into managing their money better by predicting spend and encouraging saving. With changes in financial services regulation (PSD2 and Open banking) these services are likely to become more prevalent, and offered not just by startups but also by mainstream banks.

Supporting dependents. One challenge for some groups of consumers, whether children or those who are vulnerable to being taken advantage of, is how to give "safe" digital access to cash. Osper, a money management app allows parents to track and control their children's spending, while still allowing the children some freedom with their pocket money, or allowance.

Innovation is not limited to purely digital channels and is also having a broader impact in shaping otherwise "traditional" or offline services. For example, on-line shopping (which also excludes cash payments) has led to huge changes in deliveries and collections. Deliveries to the home were formerly a matter primarily for Royal Mail, but new entrants with flexible working practices and business models are giving a wide range of delivery options (from partnerships with local retailers to even drones and robots). These new models are creating whole new industries focused on delivering things which were not delivered before such as food through companies like UberEats or Deliveroo.

Innovation in physical channels is a critical part of this analysis as, for as long as cash remains important to some consumers, even if concentrated in certain segments, they need to be able to

[37] https://www.theguardian.com/technology/2017/jul/06/chip-robot-banker-millennials-out-of-overdrafts-budget-responsibly-bank-account.

access it. At present, over 90% of cash withdrawn from accounts by consumers comes from ATMs, for which there currently exists a significant UK infrastructure to deliver £10 billion a month, from the almost 70,000 ATMs themselves, to bank branches, cash processing centres, and the secure delivery and transportation systems which connects these in a seamless and generally invisible way for consumers. However, at the current pace of technological change, it is reasonable to assume that there could be innovation in the way cash is accessed, just as there has been in most other parts of the financial services network.

The current alternatives to ATMs have generally been around for many years with little innovation or development, and they are relatively little used and often in decline[38].

But there is no reason why other channels could not be used to supplement or replace some ATM usage with the right commercial incentives. Innovation can often take unexpected paths and whilst contactless has been the main development in retail consumer payments in recent years it has taken many years to become established and it is only now beginning to have a real impact.

Most commentators would say that we are just at the start of this “FinTech revolution”. Certainly, adoption of innovative new digital payments technology is currently relatively low, and highest amongst millennials, but that has been true of past technology trends which are now mainstream, including the use of cards for payment. If we are to understand the future need for cash, we also need to understand what technology might do, and what problems it might solve, or indeed create.

The Review’s third question therefore seeks to gather views about what innovations will affect those using cash, whether these are digital alternatives to cash, or other ways in which cash can be delivered beyond the ATM network and the risks and opportunities that such an approach might bring.

Question 3:	**What digital or other innovations are likely to affect those who currently are using cash?**

[38] Note. Cashback, cheque encashment and passbooks are all seeing falls in use and, in some cases, are increasingly used by smaller and more discrete sections of society. In 2016, over £20 billion was withdrawn using methods other than ATMs (compared to £194 billion from ATMs) down from £32 billion on 2015. These alternatives therefore account for less than 10% of cash withdrawn by value. Both volumes and values of cashback fell by 15% during 2016 to 200 million withdrawals and there was a marginal decrease in the number of cash withdrawals over-the-counter to 42 million with the value falling. to £8.5 billion. Passbooks and cheques, predominantly used by older consumers, saw a total of 28 million withdrawals representing an annual decline of 40% over the past year.

In addition, Post Office counters, which have clear government defined access criteria, are also an alternative to ATMs, providing cash access to bank account customers at 11,600 Post Office branches right across the UK.

4. Market Forces, Regulation and Coordination

In the UK, moves to encourage the take-up of digital payments have been largely left to market forces. For example, for consumers, there is no legal obligation or right to use mobile, contactless, or online payments, although there may be economic benefits from doing so, even for government services[39]. Similarly, there is no legal right for consumers to be able to use cash in most shops, although this is much misunderstood, with many consumers assuming that the status of notes as "legal tender" requires shops to accept them as payment for goods[40].

This means businesses make their own propositions to customers, choosing themselves whether they accept both cash and digital payments, or just one. Any standards and training are part of this market-based approach.

Without doubt, there is a significant cost to running a cash economy. Some estimates put the cost of cash to an economy at about 0.5% of GDP per annum[41]. For the UK, that would be about £5 billion per annum. However, the costs of a purely digital payments economy are not well established (and are disputed), meaning that the available data is not consistent even on whether a cashless economy would cost the UK more or less than the costs of today's cash economy. The costs of cash vs digital will also vary for merchants, dependent on their merchant acquirer fees and the cost, time and effort of banking surplus cash. We do know, though, that for many merchants it can be lower cost to only take digital payments, and for this reason, it is entirely possible that, if market forces play out, increasing numbers of merchants may choose to only accept digital payments and this would prove to be a significant barrier to consumers who only use cash. And there are already arguments that, if cash is used by fewer and fewer people, it would make less and less sense to maintain a complete cash infrastructure. This can be taken down to individual store level where the costs of handling cash in terms of staff training, time and risk of loss/robbery is not insignificant and may become disproportionate if only a few customers are paying in cash. This scenario is far from being hypothetical – many of these issues are already present elsewhere, for example, in Sweden where only 13% of payments are now in cash, and many merchants or even banks do not accept cash.[42]

There are some significant structural issues that would need to be addressed in the UK were we to move to a purely digital payments economy. Take up of digital payments methods, whilst high, are not by any means universal. Some consumers may be reluctant to move from cash to digital from personal preference, or because there are perceived or real barriers to change. For example, 9% of the UK adult population is offline (c.5 million people)[43]. Although this has reduced from 11% in 2016, the remaining 9% are less engaged and less easily persuaded than ever before[44]. There are also 9.2 million adults with low digital capacity, meaning they are far less likely to access online information and services leaving them less able to benefit from

[39] For example; an online passport application is £75.50 but £85.00 by paper in a Post Office. https://www.gov.uk/passport-fees.
[40] http://edu.bankofengland.co.uk/knowledgebank/what-is-legal-tender/.
[41] http://www.ecb.europa.eu/pub/pdf/scpops/ecbocp137.pdf.
[42] https://www.riksbank.se/en-gb/statistics/payments-notes-and-coins/payment-statistics/.
[43] The Consumer Digital Index 2017.
[44] The Consumer Digital Index 2017.

online and digital discounts. While this may be improved through innovative solutions, this could hinder the progress of digital payments as there is a significant section of society that has yet to embrace digital technology and are unlikely to do so of their own accord.

There are also a range of practical barriers to take-up. Not all consumers could use digital payments even if they wanted to. For example, whilst superfast broadband availability across the population is currently at 91% this still means around 1.1 million UK premises (4%) cannot access high speed broadband – which covers shops as well as homes. This also varies by country and, whilst 92% of English premises have superfast broadband, the figures for Northern Ireland, Scotland and Wales vary from 85% to 89%. 4G coverage is also varied at 43% across the UK in 2017 (up from 21% in 2016) but varying from 61% in England to only 17% in Scotland.[45] Those of us who live in rural communities know from experience that digital payment terminals can be very unreliable as a result.

Regulation can also have an impact on consumers' payments choices. Know-Your-Customer (KYC), Anti-Money Laundering (AML) requirements, for example, are all key to keeping the digital economy safe and reducing fraud but for some consumers and particular market segments they can prove to be a barrier to digital payments and financial services in general.[46]

As noted previously, consumers may choose payments methods to solve their needs which appear initially to be sub-optimal (for example, paying for electricity through a cash pre-payment meter which has a more expensive tariff) to avoid other risks, such as to avoid the risk of bank charges should they go overdrawn because of an unexpected Direct Debit.

Despite the debate on the future of cash access and digital payments, the UK enjoys one of the best positions with regards to cash access of any country in the world, with free-to-use ATMs at near record numbers. It is also one of the most advanced in terms of digital payments with, for example, contactless cards and the Faster Payments System. And the UK is widely considered the FinTech capital of the world, leading the way in innovation within financial services.

The UK's financial infrastructure has been delivered through a mixture of cooperation, regulation and a competitive marketplace. Financial Services is a highly competitive sector - but the UK's financial services institutions also have a history of working together on key national issues, such as basic bank accounts and the ATM network. The UK also has a strong regulatory system in financial services, with strong policy oversight.

However, in the event of substantial falls in cash usage (and migration to alternatives) the end-to-end cash system, based as it is on a competitive market, private companies, extensive legacy investment and large fixed costs, may struggle to cope with the transition. There is a risk that, without intervention, the current model will be unable to deliver the change towards a low cash society in an ordered and effective manner, with managed and rational consumer outcomes.

There is ample precedent for regulatory coordination when systemic changes take place across the industry. Basic Bank Accounts have been heavily supported by regulators and by

[45] https://www.ofcom.org.uk/__data/assets/pdf_file/0024/108843/summary-report-connected-nations-2017.pdf.
[46] https://www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf.

government, and the changes to cheques and to the electronic payments infrastructure required collaborative interventions supported by regulators. A good example is the PSR's Payments Strategy Forum which successfully delivered the changes taking forward the New Payments System Operator and associated infrastructure.

However, the collaborative approach is not easy as it requires extensive coordination across competing organisations, causes challenges where changes cause uneven impact across commercial organisations, and attract all of the costs associated with centralised planning and oversight. It also requires policy makers and regulators to step into a competitive landscape, which is not always desired or popular.

If we are heading towards a primarily digital payments landscape, there are a variety of approaches that the UK could take, from simply allowing market forces to decide what happens (at the risk of leaving a segment excluded), to enshrining cash/digital choice (at the cost of maintaining a large cash infrastructure for declining usage), or potentially diverting some of the costs of maintaining a cash infrastructure into supporting consumers to "go digital" and consciously shifting to a future digital payments economy for the UK (a significant policy choice).

The Review is therefore keen to understand if the move to a digital payments economy should be left to market forces and the effects of regulation, or if there are parts of the cash value chain that cannot be adapted to falling cash usage through these effects and a more coordinated policy-driven approach is required.

Question 4:	**Does access to cash require regulation or central co-ordination that goes beyond the current framework? If so, what should this involve?**

5. Paying for Cash Access

The total costs of cash in the UK are not insignificant, estimated to be £5 billion per annum and even if the cash infrastructure is taken as a given, running the UK free-to-use ATM network[47] is around £1 billion[48] per year. Despite this, most UK consumers have little understanding of the real costs of cash as the vast majority of personal banking transactions are free and, since card issuer charges were abolished around the year 2000, consumers have got used to having access to "their cash" for free. This cost will however be paid through the products and services we buy and use, and through our bank accounts (the low or negligible interest on our current accounts generally subsidises a wide range of other services, including the costs of cash

[47] The ATM network is paid for by card issuers (mostly Banks), either as "interchange" when their customers use another LINK Member's ATMs or through their own internal costs in running an ATM network. From an international perspective, this situation is relatively unusual and in most other countries customers are charged to use ATMs in some way. In most cases banks will charge their own customers to use other banks' ATMs and, in some cases, even their own. This may be combined with charges from the ATM operator to create double charges (particularly for non-bank ATMs) although in some cases these charges may be deferred or avoided depending on the customer's account package.

[48] Source LINK, also note: pay-to-use withdrawals cover their costs through a direct charge.

access and ATMs). Indeed, consumers' awareness of card payment fees is probably equally opaque and recent changes to prevent separate credit card surcharge fees has probably only further obscured this issue.

This absence of any direct link for consumers between cost and usage is almost certainly one of the factors supporting cash usage in the UK and from a pure market perspective, a disconnect between price and usage creates distortions. The absence of a direct cost also makes it difficult for new solutions to create workable business models and this whole question has been raised over a number of years and is under review once again by the FCA[49].

For those using cash this has implications. Cash usage, and in particular cash reliance, is disproportionately weighted to lower income groups and when access to cash from an ATM is free to the consumer, whether you withdraw £200 in one transaction or in 10 transactions, £20 at a time, it is a matter of convenience and choice.

At present, the UK model is to have an ATM network which serves all parts of the UK. We already know that the least profitable ATMs are more likely to be in rural or remote areas because of higher costs and lower volumes and as cash usage declines, these ATMs may therefore be at higher risk of disappearing. In effect, we know that in time, a widely distributed free ATM network's costs will require an increasing social subsidy.

If there remains a consumer requirement for cash, and whether or not ATMs remain the principal means of access, there still needs to be a model for paying for the costs of that access. Several models for paying for cash access could be envisaged:

- **A social subsidy with cash access as a "right".** Consumers continue to pay nothing when they withdraw cash but through forgone interest and bank charges, paid for by all consumers of banking services, whether or not they use the service.
- **Consumer pays directly at the point of cash withdrawal**. This would provide a direct link between usage and cost but would likely mean disproportionate costs for high cash users, which may not be socially acceptable.
- **Consumer pays per transaction through their bank.** This again could mean disproportionate costs for high cash users although could be managed in such a way that the higher costs to high users were avoided or mitigated. However, such a cross-subsidy may be commercially unattractive.
- **Consumers pay a flat fee through their bank for "cash access".** This could avoid higher costs to high users but would again involve cross-subsidies between consumers

As noted, in a number of these systems "vulnerable" consumers could be subsidised and receive free or reduced-price cash withdrawal access while others paid.

The final question therefore asks how should the cost of cash access be paid for, and how should this be managed and coordinated.

Question 5: How should access to cash be paid for?

[49] https://www.fca.org.uk/publications/multi-firm-reviews/strategic-review-retail-banking-business-models.

About the Access to Cash Review

Chaired by Natalie Ceeney CBE, the independent Access to Cash Review has been established to gather evidence and understand the future needs for cash by consumers across the UK. Over the next few months, the independent Review will look at what the current trends of cash usage in the UK are, understanding the role cash plays amongst different groups of consumers, and the factors that impact the importance of cash to people (including those with disabilities, lower income levels, and the elderly), and by geography (including the likely differences between rural communities and cities).

Engaging with a wide range of stakeholders, the Review will put forward a final report next year, outlining what consumers are going to need over the next fifteen years in terms of cash access and what needs to happen to support meeting these needs.

An independent Panel will seek input to the Review from a wide audience, including consumer groups and industry. In addition, individuals and organisations will be able to submit their own evidence via the Review's website www.accesstocash.org.uk.

Access to Cash Review - Panel Members

- James Daley, (Managing Director, Fairer Finance)
- David Hensley (Director, Cash Services)
- Monica Kalia, (Co-founder, Neyber)
- Phil Kenworthy (Independent consultant, former CEO CHAPS)
- Richard Lloyd (Chair, Resolver, Vice-chair Money and Mental Health Institute)
- Lucy Malenczuk, (Senior Policy Manager, Age UK)
- Lady Margaret Bloom, (Economist, LINK Consumer Council)
- Sian Williams (Director, Financial Health Exchange, Toynbee Hall)

Website: www.accesstocash.org.uk

Direct line: 0207 297 5321

e-mail: contact-us@accesstocash.org.uk, media@accesstocash.org.uk