PayPoint

PayPoint
1 The Boulevard, Shire Park
Welwyn Garden City
Hertfordshire AL7 1EL, UK

Phone +44 (0)1707 600 300
enquiries@paypoint.com

paypoint.com

To:

The Access to Cash Review

Sent by e-mail to:
callforevidence@accesstocash.org.uk

30 September 2018

Dear Sirs,

Re: Access to Cash Review

This response to the Access to Cash Review's call for evidence is provided by the PayPoint plc.

PayPoint is a long-standing acquiring member of LINK, deploying over 4,000 ATMs. We also have a major role in the cash economy handling 360 million cash bill and prepayments a year through our 28,500-strong retail network. We also support the DWP in the distribution of benefits is cash. We are soon to pilot a new LINK scheme to support cash withdrawal across our retail counters, providing another option for sustaining cash access should ATMs become less uneconomic, given interchange cuts and likely volume falls. Overall, we handle 400 million cash payments annually to a value of £8 billion. Our retail network provides near total population coverage with 99% of consumers living within 1 mile urban or 5 miles rural of a PayPoint outlet.

PayPoint welcomes this opportunity to provide evidence to the review. Our responses to the questions are set out below.

PayPoint Plc No 3581541
PayPoint Network Limited No 2973115
PayPoint Collections Limited No 3581551
PayPoint Retail Solutions Limited No 4476269
PayPoint Payment Services Limited No 08633289

All registered in England office as above

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

We have no better view than the sources you quote. There is a general expectation that cash transaction volumes, if not values, will fall, potentially significantly. That said, cash has for many years proved more resilient than expected and is a major method of payment in all major economies, so it will need to be supported at scale for the foreseeable future.

In our view, the review needs to consider the sustainability of cash access across a wide range of potential scenarios including gradual decline as well as more significant reductions that might cause structural problems.

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

As one of the major servicers of the cash economy, our research supports the view that there is a higher propensity to prefer cash among those on lower incomes. There is strong demand for cash bill payment everywhere, especially in urban conurbations and in the regions. We also agree that younger people are more likely to be digitally savvy and to embrace non-cash methods.

There are two distinct uses of cash in society.

- Firstly, it was traditionally the dominant means of low value payment, with notes and coin being exceptionally flexible for purchasing small items without the inconvenience of presenting a card. This use of cash is being rapidly eroded by the simplicity of contactless card and mobile phone payments, among those who are comfortable with the technology and have sufficient financial knowledge and resources.
- Secondly, there are those who live in the cash economy with most of their spending in cash, even for larger amounts. These people generally prefer cash or some may have no choice through being excluded from the financial system, including the unbanked.

Those who use cash, often have a need for control that they cannot achieve using electronic methods, such as direct debit and payment cards. They have a need to avoid inadvertently going overdrawn leading to high bank charges, further increasing their indebtedness. Cash is their most visible tender and cannot be spent beyond the contents of the wallet, making it by far the easiest method to control. The ease of use of cards, often associated with credit and direct debits with their lack of control over timing and amount, create serious risks for those with limited money.

To the extent that using cash may limit access to better deals, this disadvantage is more than outweighed by avoiding problems with banks, or other lenders. These consumers may also feel uncomfortable with the official nature of banks or have had bad experiences with them through their distressed financial circumstances.

One benefit of new digital methods using the mobile phone, is that there is a ready source of balance information, enabling customers to know how much money they have left at any point in time, including at the point of purchase, so this compensates for the lack of control consumers may associate with electronic methods. It remains the case, though, that for many, card payment and automated banking payments are not associated with the same sense of control has handing over physical cash. The digital payments can be too easy and intangible to many people.

Many of those who are using cash and have low incomes are still paid in cash, but others who are obliged to receive payment into a bank account, will quickly withdraw the wages from cash machines and still live in the cash economy. Many self-employed tradespeople may also be earning and spending in cash. Cash is still a preferred option for individuals with certain types of disabilities where either dexterity or memory may be impacted.

Customer demands for digital payments are currently well served, but the initiatives sponsored by the payment strategy forum, to provide reassurance as to the payee and to introduce a 'request to pay' authorised push payment, are important to closing gaps in consumer confidence. Two other factors will be critical to consumer confidence – the reliability of the technology and the levels of financial crime. Cash has worked reliably for centuries and is the natural fall back when automated systems fail or are insecure.

A further factor affecting cash sustainability, is the relativity in pricing between cash and other payment methods. Cash has until recently, always been the most cost-effective method for retailers to accept but, in recent years, banks have multiplied the cost of cash banking to small retailers. The banks argue that this is cost reflective, but it seems more likely that it is to support their wish to force customers towards digital payments, countering the on-going popularity of cash by making it prohibitively expensive for businesses to accept. PayPoint used to be able to negotiate cash banking rates for our retail partners of only 10p per £100 banked. The same banks now quote up to 90p per £100 to these small businesses – a nine-fold increase and completely disproportionate to the charges bigger retailers pay. The same banks actively promote digital and contactless methods of payment, where they have made significant investments that underpin their future business model.

Banks and payment organisations have long been frustrated that cash circulates without them having a role between being it being withdrawn and then redeposited, thus denying them the opportunity to charge and/or acquire behavioural data that they can commercially exploit. These unfair small business bank charges attributed to cash are, therefore, as big a threat to the sustainability of cash, for consumers who need it, as the structural challenges faced by ATM deployers.

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The access to cash review, therefore, needs to consider the erosion of cash acceptance, not just the availability of cash to withdraw. If those in the cash economy are denied the ability to spend in cash, as well as being limited in where they can source cash, they could become even more financially excluded.

In terms of cash availability, ATMs have proved their worth as efficient solutions for cash distribution, but are high cost, so there needs to be a minimum volume to sustain them (at whatever interchange level is deemed appropriate). This is where trusted over the counter solutions such as the Post Office and PayPoint can play a role, allowing cash withdrawal to piggy back on existing technology with the support of local retailers with long opening hours, rather than requiring expensive dedicated machines. Most convenience retailers use suitable technology already for bill payments services which could be adapted to support CHIP and PIN cash withdrawal, at much lower cost than deploying ATMs. As a consequence, cash access can remain sustainable in many places that would not justify an ATM, even as volumes fall.

Lastly, whether over the counter, or through ATMs, the widespread availability of non-bank free-to-use cash access points has enabled banks to save hundreds of millions of pounds by rationalising their branch networks. Having gained the benefits of third party ATM provision, it has been disappointing that then banks have forced through cuts in the fees they pay for this infrastructure and this is inevitably destabilising the business models of ATM deployers. Volume decline will necessitate a rebalancing of ATM provision even without the additional distortion of interchange cuts, which risk accelerating ATM decline.

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

As mentioned above, the biggest 'new' benefit from digital methods is the ability for customers to keep a close track on balances and transaction activity whilst out and about through their mobile phone screens. This allows high levels of control for those who are disciplined and comfortable with the technology.

Digital technology is also exceptionally convenient for those who can control it, attracting conversion from cash, at least until it goes wrong. As recent online bank crashes have shown, technology failure can have disastrous consequences for consumers, businesses and even the financial system given the interdependence of banks.

Even without system outages, a consumer heading for a job interview whose card is blocked for a suspected third-party fraud and who cannot pay for parking or buy a travel ticket, is left exposed in a way that does not happen with cash (provided the car park still takes cash!).

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

PayPoint doubts whether further regulation is beneficial. Arguably, the regulatory interventions so far in ATMs have not been helpful as the enforced split of LINK from the banks has freed the banks to exercise their power to force through lower interchange rates, partly causing the current crisis. The current requirement to force a retendering of the LINK switch adds cost, risk and further monopoly power as the big card schemes square up for a fight in a zero sum tender, in which the schemes interests and the will of the banks are likely to win through rather than the needs of consumers and solution providers.

The need is for a safety-net, rather than for broad intervention in commercial markets – a mechanism that can sustain coverage in areas which would not otherwise economically justify an ATM. The safety net should operate down to a minimum volume level at which point it is accepted that can be no case for a machine being sustained. The LINK premiums and super-premiums are a valid way of trying to achieve this, at least for the time-being. The introduction of over the counter cash withdrawal alternatives is another sensible step to lower the volume level at which free cash access remains sustainable.

Ultimately, there must be a de-minimis level at which it is accepted that a location does not justify free cash access, but this will likely be only in places where it is already accepted that local people cannot sustain essential services on the doorstep, such as food, fuel, medicine and there will already be support networks in place to enable people to live so remotely.

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

Inevitably, the costs of cash must be met by its users or society to the extent that it becomes viewed as an essential social service. The current structure of using interchange to pay for cash provision has been very effective and should continue for the foreseeable future. The price per withdrawal is low and with the addition of lower cost over the counter methods should sustain access for many years to come, supplemented where necessary by super premiums. In practice, this means that banks absorb cost which they recover elsewhere and low income customers can receive free service so long as they remain in control.

Where there is financial hardship, it is a matter for government and society to address through the taxation and benefits system rather than for banks or commercial operators. Banks and other businesses in the supply chain must be socially responsible and contribute appropriately, but wealth distribution and countering inequality and exclusion are at the heart government's role in society.

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We are happy to discuss our response with you if you feel it will be helpful. We do not regard the content of this response as confidential.

Yours faithfully,

Tim Watkin-Rees
Founder