Access to Cash Review

The Royal Bank of Scotland (RBS) welcomes the opportunity to respond to this Call for Evidence. We are extremely supportive of the Review's objective to ensure access to cash is maintained and we believe an inclusive financial system is essential for anyone wanting to participate fairly and fully in society. In responding to this Review, it is our objective that cash remains sustainable and economic for the long term; while recognising that our customers are increasingly choosing to use digital payments, due to their convenience, speed and transparency. It is our belief that in order to ensure future access to cash is protected and equitable, this will be best achieved by all stakeholders working together in order to prevent financial exclusion and to find innovative and practical solutions to the challenges which exist in the payments system. RBS would be happy to provide any additional information the panel may find useful or to expand on any of the points raised in our submission.

Anticipated demand for cash in the UK

RBS is the only financial institution in the UK to operate its own banknote and coin processing centres, as well as run a branch and ATM network. This enables us to see first hand how cash trends are changing across different sectors. The value of cash (notes) processed by RBS cash centres, coin processed in RBS wholesale centres and the volume of withdrawals at its ATM estate have all declined in line with those experienced by the wider market. We believe this shift has been driven by both the emergence of new ways to transact (such as Paypal, Apple Pay and Contactless) and changes in consumer behaviour, where cash usage is being displaced by new payment methods.

Given the acceleration of technological advancement in all parts of day-to-day life, it's clear that the operational aspects of the financial world in 15 years time will look different to those of today. Basic financial needs will, however, remain unchanged and at its core banking will continue to focus on the need to lend, save, and transact.

In the context of cash, our overall expectation is that over a future 15 year time horizon, physical cash usage will continue to decline as consumers adopt current and new (unforeseen) technological solutions. We can see evidence of the types of technology that could find their way into the UK market in other countries. For example, in Sweden, the adoption of a peer-to-peer payment app by over 50% of the population has been a major contributor to cash payments now representing only 13% of all transactions (Source: The Riksbank). And in China, the emergence of payment transfers by QR codes is displacing the use of cash.

Against this backdrop, it's possible to imagine a world where the physical cash cycle itself is disrupted and where those with cash surpluses (businesses) are directly connected to those demanding cash (consumers) in a way that isn't possible in the UK today.

However, we don't expect all changes to impact or be adopted by all consumers in the same way, with social, economic, demographic and geographic factors playing a significant role in shaping these trends. The continued use of cheques within the UK is a good example of this. Also new challenges may emerge to extend a demand for cash, such as those presented by the era of "big data" and the drive for anonymity.

In the absence of a collaborative intervention instigated by the UK Government and Bank of England, we believe that the UK is unlikely to see the rapid rates of decline experienced in countries like Sweden where there is a supportive legal framework and a longstanding cultural mistrust of cash.

Therefore, the expectation is that although cash will see a significant decline over the next 15 years, there will not be a complete eradication in the UK. This does however, have implications for how cash is processed/distributed in the market and the associated costs.

Future use of cash and other payment methods

The need for cash differs when we consider our personal and business/corporate customers; although it is true that both these groups have seen widespread changes in behaviour and a reduction in their use of cash as new technologies have emerged.

We undertook some research into our customer's use of cash and found that the reasons both personal and business customers liked to use cash were broadly similar. These were:

- Speed: The speed of using cash at point of transaction vs Chip and Pin, Cheque etc;
- Acceptability: Cash is widely accepted across the UK;
- Accessibility: Cash is widely accessible to both withdraw and deposit;
- Secure: Cash is trusted and some were unsure or unfamiliar with digital payments.

Some of our personal customers chose to use cash as a social tool (i.e. to give as a gift or to tip) and to assist with household budgeting or to limit spending. And for business customers, cash continues to be attractive where it is convenient and follows demand from their customer base.

Our research also found that customers saw distinct benefits from using digital payments too, including the additional security that digital solutions provide and both in the speed and accuracy of payments.

RBS believes the biggest driver of change for those who currently use cash will be societal change. We have seen that where customers adopt new technologies or innovative solutions in their everyday lives, they are more likely to adopt these when managing their finances too. For example, where towns and cities offer contactless or cashless payment options for transport, consumers are more likely to use cash less. We saw this change amongst our own customers when TFL removed cash from (most of) their system, with contactless card payments increasing exponentially.

As consumers adopt alternative payment methods, such as Venmo, customers are more likely to use or even seek out cashless solutions. For example, a survey in April 2018 found that 50% of consumers would like car parks to provide a cashless payment solution (Source: Paymentsense).

The UK government will also play a decisive role in the future move towards greater digital adoption. Its Digital Strategy has seen a number of transactional services move to a 'Digital by Default' proposition; Universal Credit and premium bonds, are both examples where consumers are paid digitally by the government. And when buying a passport, UK citizens are incentivised to use digital payments, with a discount where they apply and pay online. The UK government's move to digital tax returns is also likely to contribute to an increase in digital payments, as well as ensuring more accurate tax collection by HMRC.

We believe that one of the factors determining future demand for cash will be the degree to which technological developments drive new payment methods which a) address the reasons that people use cash and b) the degree to which consumers can confidently access these alternatives. For example, where consumers use cash, digital innovations are likely to (and already do) fulfil each of these needs e.g. widely available digital budgeting tools.

As well as new technologies, underutilised existing technologies, such as PayM, could also provide increased opportunities for changes to payments. With wider industry support and effective consumer education, systems such as these, which have the ability to connect small businesses and consumers via alternative payment mechanisms, may lead to greater future democratisation of payments.

We know mobile payments are already increasing, largely due to their speed and convenience. They can be performed at any time, anywhere, with the transfer of funds usually taking only a few seconds to complete. Based on current trends, RBS expects its own customer's payments through mobile platforms to grow by c.20% in 2018 alone.

RBS welcomes the more competitive environment that PSD2 and Open Banking are fostering in payments. They will open up new opportunities for traditional payments providers to innovate as well as FinTechs. PSD2/Open Banking are likely to facilitate further growth in digital payments and increase digital tools, such as budgeting. If PSD2/Open Banking is to be successful the attitude of merchants will be crucial. Without merchant take-up in most instances there is no opportunity for consumer use.

A future framework for the cash cycle

Key stakeholders, policy makers and regulators in the cash cycle have a shared responsibility to make the continuing cash provision as efficient (and therefore as stable) as possible for the long-term. There are three key ways in which banks in particular can also support this, all of which RBS is already actively pursuing:

1. Education: Educating consumers on the wide range of payment alternatives available, the features of these and, importantly, how to use them.
2. Latest technology: Using the latest technology to deliver cash services as efficiently as possible through a variety of channels.
3. Cross-industry collaboration: Working together across the industry to share resources and expertise to gain economies of scale as the need for cash falls. Many of the costs within the cash cycle are fixed, irrespective of demand; RBS therefore believes a model in which all industry stakeholders participate and work together to drive efficiency, consumer education and application of the latest technological advancements is the most likely way to ensure the system maintains the inclusivity and the stability required to meet customer demand.

As part of central co-ordination RBS believes that in a changing and fast paced market, a closer link between Government, regulatory bodies and the cash industry will be required for keeping industry abreast and able to react to large regulatory changes. For example, in 2016 India removed, without warning, the 500 and 1000 rupee notes in order to prevent financial crime, which is widely acknowledged to have caused chaos for customers and the cash industry.

The model adopted and executed in Sweden could be regarded as a good case study of how a government framework, supported by cross market collaboration, assists in the execution of a strategy to create a sustainable long-term solution to declining cash usage.

Given the high costs of running the cash infrastructure, and declining volumes, a sustainable and cost effective industry model is required in the UK to support customer demand into the future.

RBS believes that in order to safeguard the future of cash, cross-industry engagement, with both regulatory and government support and importantly with a focus on the end consumer is required. This will ensure that all stakeholders involved in the cash cycle are fully considered. In order for this to be achieved, RBS believes that a future framework is required to ensure that as demand changes and payment solutions evolve, the emergent payments system is both responsible and sustainable.

Policy decisions will need to be made to ensure that cash remains a cost effective payment mechanism for all users in the cash cycle; ranging from processors, to retailers through to consumers. Our unique position has meant that we are able to consider the variable costs and demands that exist within the cash cycle. For example, the HMT call for evidence looking at the future use of 1p and 2p coins clearly showed that the cost of production and circulation within the cash system was not equitable to the value and demand for the coins themselves, with just 40% remaining in circulation after one use. It is estimated that the Royal Mint and the government would have to produce and issue over £500 million of these coins in order to replace those lost out of the system – clearly unnecessary costs. It could therefore be argued that taking these coins out of circulation would remove significant costs from the cash cycle supply chain, resulting in more efficient operating costs and therefore protecting the longevity of cash and consumers' access to it.

As we noted in our response to HMT's 'call for evidence', RBS also believes consideration must be given to a wider reform of the coin industry to ensure its wholesale market does not collapse. As volumes decline costs increase which will make coin processing economically unsustainable. Change is required in the very short term to ensure a longer term sustainable coin circulation model. RBS would support a formal, regulated circulation scheme with clear roles and responsibilities of all participants including policy owners, enforcers with consequences for non-compliance.

Given these increasing pressures on the cash system, we would suggest that in order for any future framework to protect financial inclusion and access to cash, it must be built on the following principles:

- That cash coverage for deposit and withdrawal requirements is evenly accessible to all and aligned to population and usage. It is important that access to cash is preserved for consumers, and the mechanism in which this is achieved is fair and reasonable to all participants within the market.
- That LINK's Financial Inclusion Programme should continue to play a key role in supporting the geographic spread of ATMs; and it is continuously reviewed to ensure it achieves its objectives, and remains relevant as the distribution model evolves.
- That where competition allows, innovative cross-industry solutions are found to the challenge of maintaining universal access to cash, in order to optimise resource (e.g. through a shared utility model such as Bankomat in Sweden).
- That there continues to be accessible face to face channels, for those who are unable or unwilling to use self service options, as the bulk of withdrawals/deposits become more automated.

The cost of cash

RBS believes that banks have a joint social responsibility, along with other organisations and regulators to ensure widespread and fair access to cash at the point of withdrawal for consumers.

It is important that any scheme provides the correct economic incentives to all participants, and that these are aligned to the underlying customer demand for cash. In any such scheme, it is also important to note that access to cash is not free but instead borne by those through which the infrastructure, organisations and systems operate to provide it.

Any pricing model that underpins such a scheme should be as transparent as possible; creating a scheme that is sustainable and viable for the medium-long term. For instance, the current LINK interchange model arguably incentivises ATM operators to encourage customers to take balance enquiries even when these are not needed (and most customers have easy access their balance digitally); therefore pricing mechanisms should align with customer need, rather than unnecessarily driving up total cost in the system, without correlated consumer demand or benefit.

We continue to work with LINK to improve the sustainability of their current scheme and remain committed to its focus on Financial Inclusion. Given the predicted decline in ATM withdrawals and increasing range of alternatives available, however, we are concerned about the sustainability of the current model. We recognise that LINK does not control the supply of ATMs, nor the locations in which the various suppliers chose to locate their machines. It is clear that in order to futureproof the ATM network across the UK, further consideration of how to balance over-supply in some areas (which drives up the cost of the network), existing provider coverage and the need to ensure sustainable coverage across the system. In the long term it may be that a shared ATM utility model could become be a more viable mechanism to protect the geographical spread of the network, to meet UK demand, and to ultimately, support the principles of financial and social inclusion.