EMERGING PAYMENTS ASSOCIATION

About the Emerging Payments Association

The Emerging Payments Association (EPA) is a thriving community of payments professionals to strengthen and expand the payments industry to the benefit of all stakeholders.

Since 2004 the EPA has been instrumental in helping to connect the ecosystem, encourage innovation and promote competition in this market.

We achieve this by delivering a comprehensive programme of activities for over 130-member companies, with the help of our independent Advisory Board, which address issues affecting the payments industry and its users.

This include events, conferences, award ceremonies, research, projects and campaigning activities.

The Emerging Payment Association's response

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

The next 15 years will see a steady move towards digital lifestyles, whereby people across society consume a wider range of services through digital devices and channels. As part of this we expect that digital payments will become more prevalent across most, if not all, groups of payment user in the UK. The penetration of smartphones across the adult population is estimated to have reached 93% in 2015, up from 52% in the five years since 2012, and this penetration is likely to edge up further as more well-targeted or compelling apps come to market, and as today's 'silver surfers' move into older age but maintain a level of smartphone usage.

Coupled with smartphone penetration, we will see an increase in other, less conspicuous device form factors, including wearables. Payments innovation will continue apace, with wider deployment of 'in-app' payments that are embedded within the app's core customer experience, making the point of payment less explicit for the customer. Closely related, we expect significant innovation in digital identity solutions as a means for secure identification between the service provider and the user both at account opening (on-boarding) and for identity authorisation on a recurring basis to initiate payments.

However, the Emerging Payments Association (EPA) believes that cash will continue to perform an important role within the payments ecosystem. While the strategic trend will be for a rise in digital payments at the expense of cash over the long term, there is an opportunity for new tech-enabled, competitive access-to-cash solutions to be adopted over the next 5 years. Commercial providers are active in the market with technically innovative methods for providing vouchers/cards which can be converted into cash at local retail outlets. These services should be considered as a part of the answer in the industry's current access-to-cash discussions centred on the convenience and cost of access to cash via ATMs at the margins. It is noted that the Department for Work & Pensions are encouraging customers to find alternative solutions to the Post Office Card Account (POCA). The users, which presently number 1.3 million UK citizens, are heavily cash-centric at present and will adopt alternate products and solutions offered within the market.

Changes in policy and government may result in an increased demand for cash among consumers; whether due to a lack of confidence within government or due to major political changes as a result of Brexit.

Consumer choice is the key element in how payments behaviour in the UK is rapidly changing. The economic utility of digital payments – convenience, security, flexibility and integration - will bring many users to choose digital payments over cash. While cash will still be needed over the long term, due to user choice, although the volume of cash transactions will decline steadily. The industry will need to adapt cash handling and distribution to maintain an effective and economic service.

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

We have already seen that the debit card transactions have already overtaken cash transactions within the retail sector (British Retail Consortium, 2016). Merchant adoption of new, convenient payment technologies have led to consumers having a great choice of payment methods. As more and more retailers – of all shapes and sizes – have shown an increasing acceptance of cards, contactless payments, and new payment applications (both online and in store), we have increasingly seen a year-on-year reduction in the use of cash by consumers. Furthermore, increasing adoption and investment by merchants of digital ecommerce channels has led to a rise in online purchases and a shift in how consumers approach shopping – and therefore cash usage.

The importance of an ATM is changing. Most customers have access to their up-to-date account balance on mobile banking apps. This means that 'Balance Enquiries' at an ATM are becoming less relevant. Services such as 'PIN change' are also used infrequently. ATMs also take up retailers' selling space and pose a potential security risk.

Given the primary purpose of an ATM is to allow customers to access to cash, complementary services that give access to cash will evolve (for example, LocalCASH and LINK's card-based ATM replacement pilot scheme with PayPoint), with the additional benefit that they re-circulate cash held in retailers' tills.

Digital payments must be inclusive across all segments of society, across age groups, income brackets, and educational levels. In the UK there are 1.5 million unbanked adults and a further 3.5 million who are under-served and not actively using bank their accounts. It is estimated that 15% of new bank accounts are abandoned. Innovation in digital payments will target all areas of current cash usage, addressing the needs of different user groups who today predominantly use cash.

There are a number of important user groups that would need to be fully engaged in understanding the opportunities and benefits of moving more to digital payments in order for ongoing cash reduction to be achieved. Small merchants, trades-people, taxis, street vendors (among others) tend to use cash for a variety of reasons, including the (real or perceived) higher costs of accepting card payments, the lack of awareness of the availability and comparative cost of digital payment services that could meet their needs.

Cash usage remains more prevalent in rural communities, in pubs and local stores, whereas the availability of digital payment terminals is more widespread in cities. Such communities need to be digitally integrated and educated on the benefits of digital payments, to ensure that these communities are not financially excluded, should it no longer be economic to operate ATMs within these areas.

Low income groups tend to use cash more heavily, valuing the direct control that cash offers, allowing funds to be allocated to different weekly requirements (so-called ‘jam-jarring’), and due to lower levels of trust in banks and payments providers. New providers are increasingly adopting ‘jam jar’ facilities among their digital payment services. As these jam jar facilities become more widely known and become available in account products offered by larger incumbents, consumer behaviour is likely to switch from being cash-focussed to digitally-focused.

We believe that both the payments industry and government must drive a concerted effort to educate consumers on managing their finances using the new array of digital payment services. Government could establish principles or a programme of activity to equip young people to manage their future finances, building confidence and capability in digital payments. Having the ability to engage with financial services is an important life skill and will help people avoid being financially excluded and in problem debt.

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

The payments industry has recognised that there is a very real opportunity to offer innovative new products to demographics not best served by the current array of mainstream payments products.

EPA members, such as Monese, The Change Account, and Arro Money, are providing new services that provide financial access to demographics that have been historically excluded or have had limited access to payment services. The EPA believes that the payments industry has a role to play in raising awareness of products and that the industry needs to work to engage customers who are not using digital payments today to ensure that the benefits of digital payments are spread fairly across society.

One innovation driving a reduction in the use of cash is cashless transport ticketing: it is important to note the success of cashless ticketing for London’s public transport, and also the initiatives under way to develop cashless ticketing in other UK cities.

In 2019, the payments industry will launch the ‘Inclusion Signpost’, an accreditation service that will recognise ‘best in class’ digital payments products that are financially inclusive. The accreditation will provide financial account product providers with a way to compare themselves to a best practice standard and each other, so they can become increasingly financially inclusive.

Further to this, the accreditation will also provide consumers with a way to compare different financial account products online. They can use the service to find out which would be most suitable for them, and see which are rated highest by industry leaders.

This independent and industry-endorsed accreditation will drive the payments industry to become more financially inclusive by recognising best practice, and to improve the product offerings that meet the needs of financially excluded citizens.

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

The EPA does not believe that there is a need to create regulation regarding access to cash, but believes that access to cash should be an area of policy and a driver of industry coordination. The EPA does believe that regulatory bodies and government should work closely with the payments industry to understand the activities and initiatives of industry to enable access to cash and to drive digital inclusion.

In the main our view is that competition will deliver a wide range of services that are targeted to customer groups across the spectrum, and that the need for regulated or industry-co-ordinated approaches is limited, beyond the measures already under development in the industry such as:

- The new payments architecture that facilitates competitive payments services ('overlay' services) running
- Improved access for small and non-bank payment providers to central payments systems (including Faster Payments, and the Bank of England's Real Time Gross Settlement (RTGS))
- Improved access for payments providers to commercial banking services

Ministers should be mindful of the important role played by payments in solving financial exclusion problems. There are opportunities for government to highlight where digital payment technology can solve societal issues and to identify where it can facilitate wider usage. As highlighted in the response to question two, the EPA notes that government should consider the opportunities to incentivise cashless transport ticketing in other cities, outside London, to drive a culture of digital payments. A related consideration is to set a requirement for licensed cab services nationwide to accept digital payments.

The EPA believes that there is a need to discuss the concept of adding stronger checks and friction into the payment process for cash-based payments – akin to those that have been introduced to the digital payments process. In doing so, this can be a key factor in tackling the usage of cash as a vehicle for tax evasion and money laundering.

In their activities to tackle fraud and financial crime in payments, government, regulators and industry should deliver a balanced approach across all payment types which includes appropriate security measures for cash payments as well as for digital payments

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

The EPA notes that the cash handling infrastructure is expensive, such as logistics centres, high-quality costly equipment, high levels of security for staff and external threats, and with significant fixed cost elements. As the volumes of cash handling fall slowly over time, the average cost per unit of handling cash will slowly rise. These infrastructural costs will therefore need to be managed smartly by industry, and potentially with government/ regulatory involvement around collaboration or consolidation between operators to maintain a viable economic model. Cash processing is too important for operators to fail outright.

The cost of cash also includes the costs of providing access to cash through ATMs, branches and other channels.

The EPA believes that the funding behind how cash is managed and coordinated should be a decision made by the market, rather than by legislation or regulation. There is a likelihood that some banks may want to bundle ATM access into an account package or subsidise the transactions from their own income. Similarly, banks may anticipate that there is a market for 'cashless accounts' and can offer a more competitive package to their customers who don't need cash. Ultimately, it will come down to a consumer decision as to how they would best like to engage with cash and to select the account that best meets their needs.

The EPA also highlights that the roles of certain market players, such as the Post Office, are likely to adapt to an alternate role in providing cash in the economy. Retail banking customers can currently perform cash withdrawals and deposits for the majority of high street banks in Post Office branches and these branches provide cash services to many small businesses who need to deposit their earnings at the end of the day. This would drive a fundamental change to the cost of distributing cash across the country through Post Office branches rather than banks or ATM providers implementing and delivering their own logistics operations – an element particularly acute in rural communities where banks have closed and in which Post Office branches are the last remaining place that citizens can perform cash withdrawals or deposits.