UK Finance response to the Access to Cash Review

Introduction to UK Finance

UK Finance is a trade association representing nearly 300 of the leading firms providing finance, banking, markets and payments-related services in or from the UK. UK Finance has been created by combining the activities of the Asset Based Finance Association, the British Bankers' Association, the Council of Mortgage Lenders, Financial Fraud Action UK, Payments UK and the UK Cards Association.

Our members are large and small, national and regional, domestic and international, corporate and mutual, retail and wholesale, physical and virtual, banks and non-banks. Our members' customers are individuals, corporates, charities, clubs, associations and government bodies, based in the UK and overseas, served domestically and cross-border. These customers access a wide range of financial and advisory products and services, essential to their day-to-day activities, from our members. The interests of our members' customers are at the heart of our work.

We are grateful for the opportunity to submit evidence to the Access to Cash Review and very supportive of the objective to ensure that there remains an effective and inclusive cash access service that meets the needs of all consumers (and indeed others including businesses that need cash), for as long as necessary.

Given the decline in cash usage, the Review is timely and will help encourage a wide, open and evidence-based national debate about how to secure that objective in the most efficient way learning the lessons from the experience and innovation in those economies where cash is a less prevalent payment mechanism.

Summary

- The UK's payments landscape has changed enormously over the past ten years. Consumers and businesses alike are taking advantage of the ever-widening choice of payment methods available to them and choosing the options that suit them best in any given situation. All the indications are that the next ten years will bring even more choice of payment methods and ever-improving services for the UK. However, it will be up to consumers and businesses to decide which of these services work best for them.

- Cash payments continued to decline in 2017 falling by 15%, compared to 2016, to 13.1 billion payments. Despite this decline, cash was still used for over a third (34%) of all payments in 2017 and was the second most frequently used payment method, just behind debit cards.

- It is forecast that even in 2027, cash is expected to remain the second most frequently used payment method in the UK. It would therefore not be accurate to talk of the UK becoming a cash-free society over the next decade. Rather, the UK is transforming to an economy where cash is now less utilised than in previous decades. Nevertheless it remains a payment method that continues to be valued and preferred by many.

- The Access to Cash Review's Call for Evidence draws heavily on UK Finance data and analysis on the future of cash – which it widely quotes. Clearly the Review will interpret that evidence in its own way. So for example, we do not have a view on whether there could be a floor limit beyond which cash usage will not fall.

- Our members are supportive of a market led, viable and sustainable approach to payment mechanisms that supports and enables customer choice, rather than one in which legal obligations or rights are created on the use or acceptance of particular payment mechanisms. There are significant sections of society who do not use digital technology and experience barriers to doing so. It is important that we continue to provide the services that these groups rely on.

- We agree that the fall in cash usage poses challenges for the supply chain that services the ATM and cash distribution network. Given that the change is incremental, and that there are still significant volumes of cash payments, this risk to the wholesale supply chain should not be overstated.

- Access to cash is however an issue that industry need to consider carefully and explore the potential for collaborative and where appropriate innovative and creative solutions. UK Finance is therefore working with members to develop an industry view on how to ensure that a secure, resilient and cost-effective supply chain, provided by a competitive market, remains in place.

- At this stage, we have not reached any conclusions including what, if any, changes might be needed, including the role regulators might play in the cash supply chain. The provision of ATMs and other forms of cash distribution is not however the focus of this work which is looking at the wholesale supply chain. We will want to ensure that the Access to Cash Review is kept abreast of this work. We note too that the outcome of the HM Treasury consultation on cash and digital payments has not been published.

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

The number of cash payments in the UK is expected to continue to fall over the next decade, as consumers continue to turn to alternative payment methods. There are expected to be 6.4 billion cash payments in the UK in 2027, accounting for 16% of all payments. Despite this fall, in 10 years' time cash is expected to remain the second most frequently used payment method in the UK. It would therefore not be accurate to talk of the UK becoming a cash-free society over the next decade. Rather, the UK is transforming to an economy where cash is less important than it once was, but it remains a payment method that continues to be valued and preferred by many.

UK Finance is forecasting a continued increase in interbank payments, particularly as an alternative to cards[1]. The implementation of the second Payment Services Directive (PSD2) is already seeing adaptive business models develop, with card and interbank payment models converging and becoming more closely aligned. As more interbank solutions (such as payment initiation services and mobile payments providers) reach the market, it becomes more likely that consumers will engage with a new model.

Digital payments in general, including e-commerce and technologies such as contactless and paying by device, will continue to increase in usage, reflecting not only the wider availability of these methods but also increasing acceptance from merchants. However, it is unlikely that digital payments will entirely replace cash use, due to merchant resistance (especially for small transactions) and personal choice; an individual who is currently not comfortable with fully changing to digital payments is less likely to change their behaviour due to the development of an innovative new payment method.

A core driver of the move to digital payments is consumer behaviour. Consumers are likely to continue buying more items online, and purchasing more digital subscriptions; accordingly, these behavioural

[1] UK Finance forecasts over the next 10 years

changes will likely increase the number of digital payments and direct debits. Such developments will face friction from security concerns, so these purchases will likely be made with increased levels of security measures such as biometrics, and possibly eID [electronic ID as a digital solution for proof of identity], as merchants and suppliers seek to reassure consumers.

Digitalisation is encouraging both existing market players and new innovative providers to be able to respond more readily to customer demands. While technology clearly offers an opportunity to provide flexible, tailored financial services it is clear that customers are generally considered more financially included, and more confident, when they have more ‘cash-like’ control over their finances.

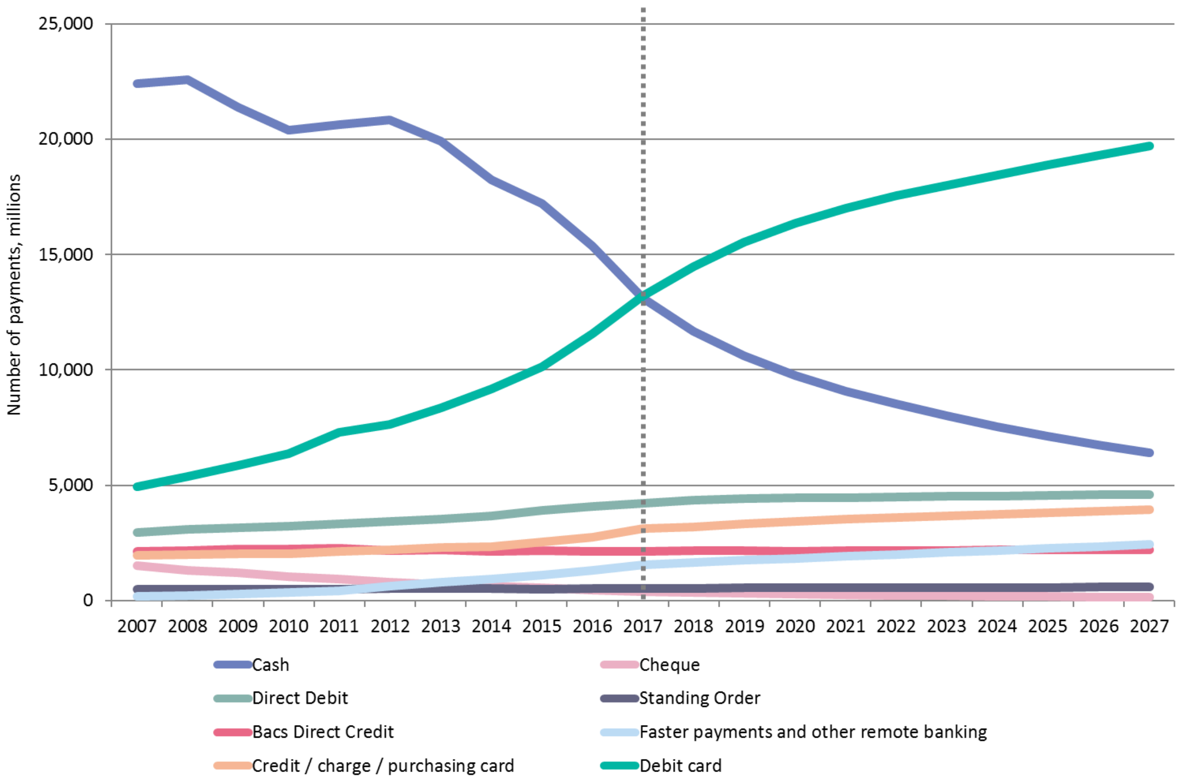
Alternative payment methods may also contribute to the decline in the use of cash. Mobile payment services such as Paym provide an alternative for consumers to make small value payments that were previously made using cash. Moreover, there are a number of developments that will impact the payments space and could have an impact on the payment method consumers choose (e.g. PSD2 and Open Banking). We envisage that this could provide the impetus for the development of products and services that offer new, alternative ways of, for example, making customer-to-merchant and P2P payments.

UK Finance’s latest analysis of payments in the UK, “UK Payment Markets 2018” published recently, included revised forecasts for payments over the next 10 years. The following presents a summary of the key findings of that report. More information can be found at https://www.ukfinance.org.uk/statistics/payments/.

In total, 38.8 billion payments were made in the UK in 2017. The majority of payments were made by consumers, accounting for nine out of ten of all payments. Nearly 85% of payments made by consumers were to pay for spontaneous purchases, with the other 15% of payments for regular bills and commitments.

The remaining payments were made by commercial organisations, Government and not-for-profit organisations. Payments to individuals accounted for just over half (52%) of all payments made by organisations, with the remainder being payments made to other organisations.

Chart: Payment volumes (millions) 2007 to 2027



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

Cash is highly valued by consumers from all walks of life for its familiarity, wide acceptance and speed of transaction. Until 2017, cash was the most frequently-used payment method in the UK. Even though this position has just been taken over by debit cards, cash remains a very popular payment method.

On average, adults in the UK made 20 cash payments per month during 2017 (down from 24 payments per month in 2016). However, this average figure does not reflect the fact that there is huge variation between different people in the way that they use cash. Over the past few years, a new type of consumer has been observed in the UK: people who use cash only rarely, if at all. The increasing popularity of card payments, contactless technology, online banking and mobile banking have led to increasing numbers of adults in the UK managing their lives without using cash.

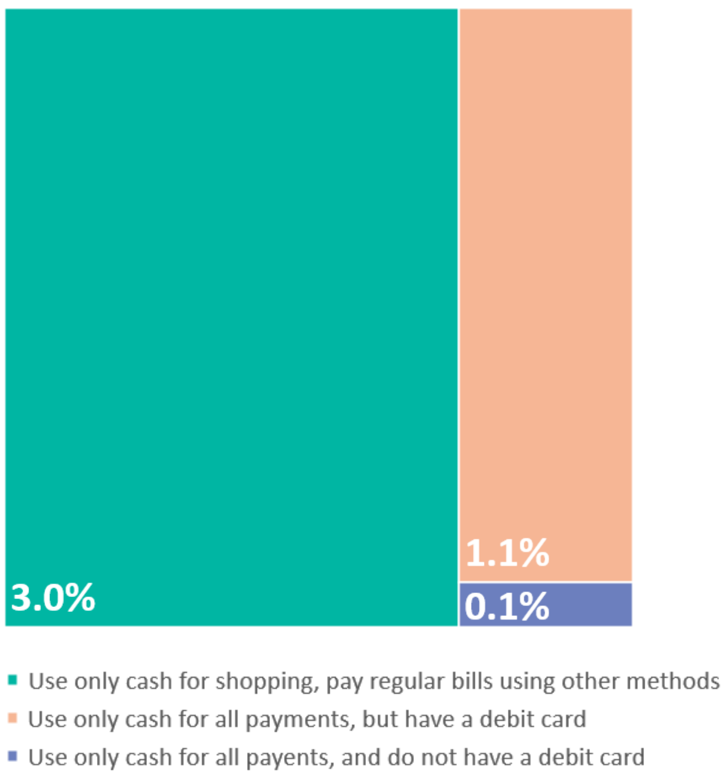
At the same time, there remain a significant number of people who mainly use cash to conduct their day-to-day spending. These people usually have access to other methods of payment such as debit cards, and many of them use other methods to pay their regular bills (for example, Direct Debits or standing orders). However, when it comes to their everyday shopping and making person-to-person payments, these people prefer to use cash. UK Finance's National Payments Study provides insights into who these different groups of people are.

People who mainly use cash

During 2017, there were 2.2 million adults in the UK who mainly used cash for their day-to-day spending, representing just over 4% of adults. Nearly three-quarters of these people used non-cash methods of payment to pay their regular bills each month (such as household utility bills, mobile phone bills or insurance premiums), but they used cash when paying for their everyday shopping. Nine out of ten of these people have their own debit card, but while they may use this card to pay their regular bills, they usually choose not to use it to pay for their day-to-day shopping, preferring instead to use cash.

Just over 1% of adults in the UK used only cash for all of their shopping and for their regular bill payments in 2017, representing around 622,000 people. The vast majority of these people had a debit card that they could use if they chose to. Just 45,000 people, or less than 0.1% of all UK adults, used only cash during 2017 and did not have a debit card that they could use.

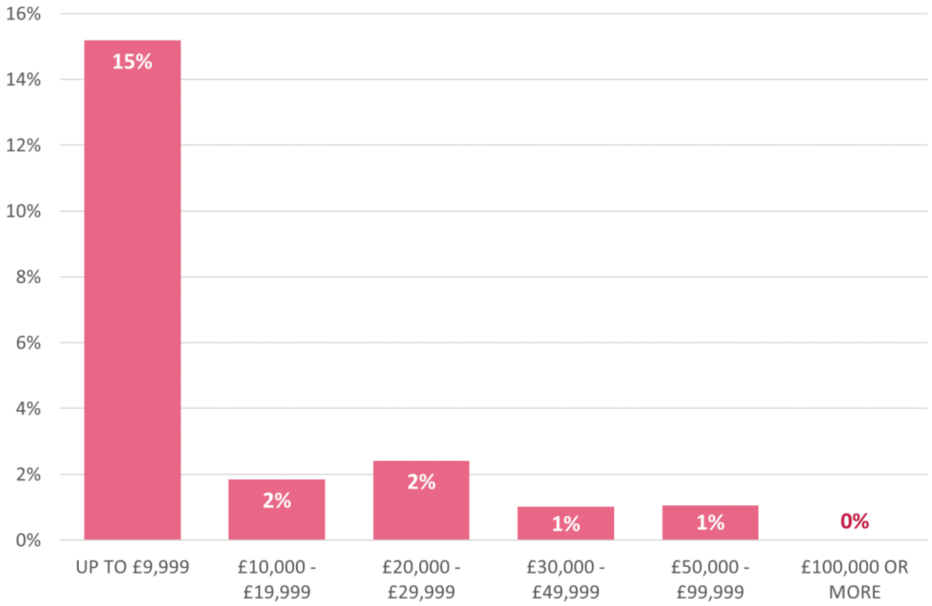
Of the 4.2% of UK adults who mainly used cash in 2017:



Income appears to have a strong role to play in determining peoples' preference for using cash. Of the 4% of adults who used mainly cash for their day-to-day shopping during 2017, people with an income of less than £10,000 a year are far more likely to mainly use cash than people with higher incomes. This perhaps reflects the fact that cash provides a simple and tangible method for managing a limited budget, with people withdrawing a sum of money and using only that cash to last them for a certain period of time (for example to the end of the week or until the next time that they receive their income).

Chart

Proportion of adults in each income group who mainly use cash for day-to-day shopping

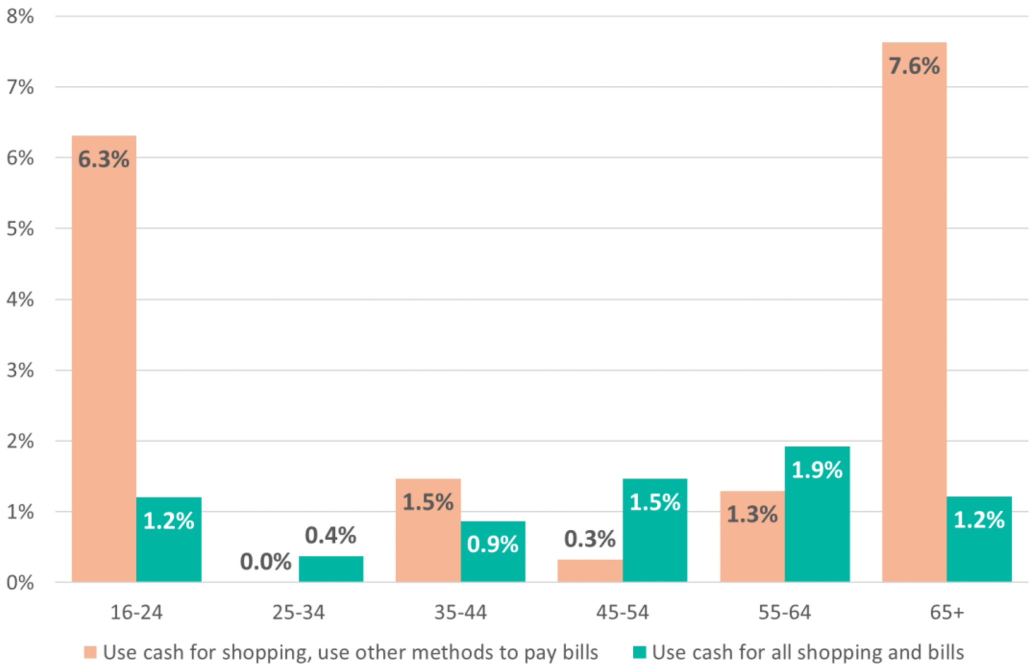


Budgeting using cash also helps to avoid the potential pitfall of going overdrawn on a current account, a fear that some of those on low incomes associate with using electronic payment methods. Using cash to manage payments avoids inadvertently becoming overdrawn and hence any associated penalty fees and charges that may be incurred.

The age profile of adults who mainly used cash during 2017 is as follows:

Chart

Proportion of adults in each age group who mainly use cash



Younger and older people are slightly more likely to use cash for their day-to-day shopping but pay their regular bills using other payment methods. For those who use cash for all of their payments (both shopping and bill payments), there is not a strong age-related impact on behaviour.

People who rarely use cash

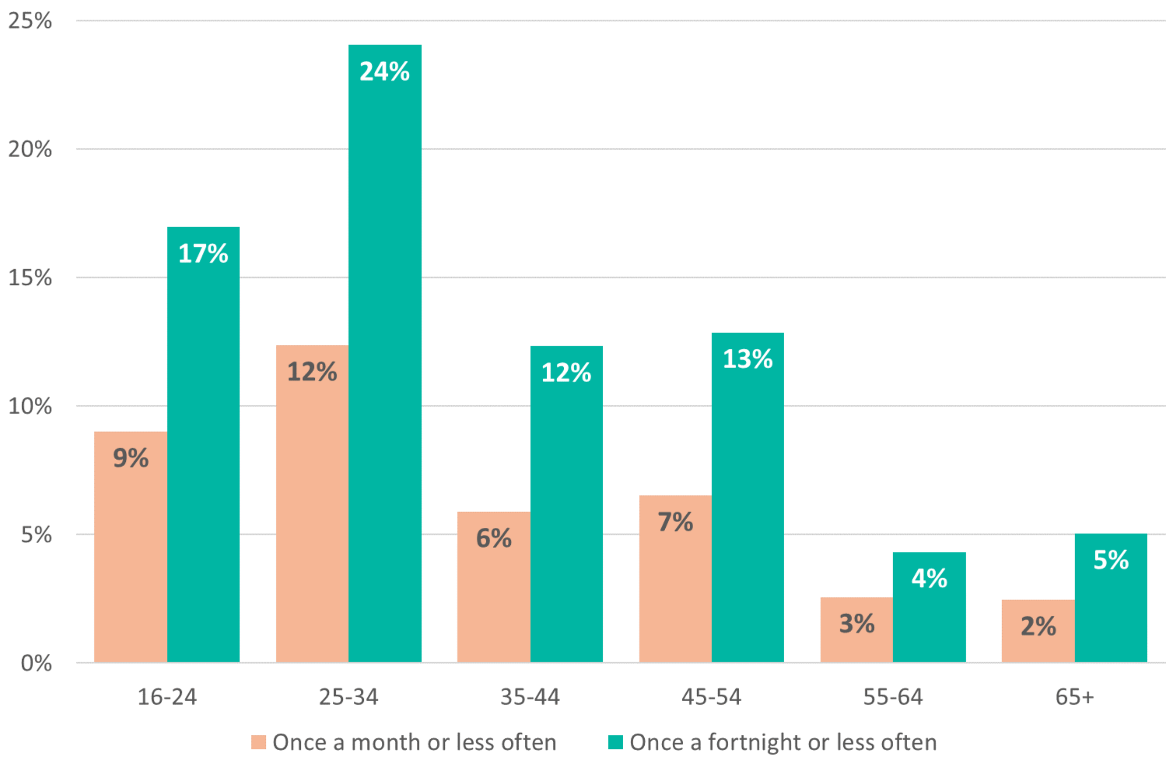
In the UK during 2017, there were 3.4 million people who used cash once a month or not at all, representing over 6% of adults. Widening this analysis slightly, 6.6 million people used cash once a fortnight or less frequently, representing over 12% of adults. Moreover, the number of people who use cash once a month or not at all appears to be increasing over time.

	2015	**2016**	**2017**
Number of adults using cash once a month or not at all	2.7m	2.9m	3.4m

It does not seem as if there is a strong influence of income on the behaviour of those who are living most of their life without using cash. People with low incomes are just as likely to be rare users of cash as people with high incomes. However, age appears to have a stronger influence on this behaviour. Younger people are most likely to be rare users of cash. This peaks with those aged between 25 and 34, with 12% of this group using cash once a month or not at all, and almost a quarter using cash once a fortnight or less.

Chart

Proportion of adults in each age group who rarely use cash



Despite this apparent age-related effect, it is important to note that there are people of all ages who are now using cash relatively rarely. Even among those aged 65 and over, 5% are using cash once a fortnight or less frequently.

Financial Inclusion

The blind and visually impaired, the ageing, and those in care or receiving carer support (e.g. for the weekly shopping) are often cited as cohorts who are more likely to have a preference to using cash; reasons for this include retaining control or a sense of control. Some individuals on a low income argue that budgeting becomes easier when dealing with cash instead of accounting for non-tangible transaction monitoring. A shift to digital payments as the sole method of transacting could therefore have repercussions for the budgeting or even payment ability of the aforementioned groups they have the right understanding of and access to tools which can facilitate efficient and empowered money management.

UK Finance has taken action to reduce the risk of detriment from exclusion where customers need support in their day-to-day financial management and transactions, recently working with members and consumer groups to produce a third-party access framework including a minimum standard for a third party mandate which could apply across industry. The third party mandate would enable a family member, carer or friend (or other nominated representative) to help someone manage their finances alongside them. Principles to improve customer access where legal representation exists have also been agreed with members and can be read in full here.

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

Our responses to questions 1 and 2 also refer. There are other wider factors that will affect those who are currently using cash.

Digital payment use is lowest in older and less socially advantaged groups. A number of UK Finance members are leading initiatives to support customers (and non-customers) engage with digital innovations and acquire the necessary skills which will help them take advantage of the opportunities. Additionally, UK Finance is working closely with the Money Advice Service (MAS) to support the mapping of industry wide activity in support of financial capability, including awareness and understanding of the products and services available to consumers.

Security is also an important factor when consumers are considering using digital or alternative payment methods, with many concerned about perceived risks, including in relation to identity theft. Innovation in the fields of biometric identification and other online payment security may allay fears, and, in particular better assist some cohorts in vulnerable circumstances e.g. those with physical disabilities or trouble remembering passwords. For those who need assistance with making and receiving payments, technology should be inclusive of their needs. Innovation in this space is progressing, with a number of apps being introduced in the market to help a trusted friend or third party to monitor spending and support payment decisions.

New payments and data protection regulations and laws could provide opportunities to encourage digitalisation. With the General Data Protection Regulation having been implemented, all actors will need to take greater care with how they collect, process and share personal data; this includes in the context of payments and digital services.

There are also examples where electronic payments and account services are emulating the features of cash, for example through open banking that provide customers with new ways to maintain control of their budget.

Does access to cash require regulation or central co-ordination that goes beyond the current framework? If so what could this involve?

We do not have any comments to make at this stage. UK Finance is working with members to ensure that the UK cash supply chain model is secure, resilient and cost effective so that it meets future customer requirements ensuring that cash remains one of a suite of payment options for consumers and businesses that wish to continue to use cash to make and receive payments.

How should access to cash be paid for?

The ATM network in the UK is mainly free-to-use and the trend has been away from pay-to-use ATMs. This is not the position in other some other countries but clearly our domestic consumer expectation is that access to cash is free in common with many other personal banking payments.

There are however some cash providers who charge for their cash services. Providers in the market will make their own commercial decisions about how to charge both consumers and businesses for both the distribution and collection of cash.

As the Review acknowledges, the cost of access to cash is just one facet of the cost of using cash; others include the access to services or discounts that other payment mechanisms attract or the protections that are on offer (for example, Section 75 of the Consumer Credit Act) when cards are using to obtain goods and services. These wider cost factors, and the associated social norms, will be material factor in the individual's decision to use cash.

Annex – other payment mechanisms

Debit Cards

At the end of 2017, debit cards overtook cash for the first time as the most frequently used payment method in the UK.

A large majority of the population (98%) now hold a debit card and most people use them to make day-to-day payments. There were 13.2 billion debit card payments in 2017, an increase of 14% on the previous year. This growth was driven by a number of factors, including the growing popularity of contactless payments, increased card acceptance by smaller businesses and people becoming ever-more accustomed to making low-value payments using cards. Debit cards are also one of the main payment methods used to pay for online shopping, which continues to grow year on year.

Over the next decade, debit card payment volumes are forecast to grow by more than any other payment method, increasing by 49% to 19.7 billion payments in 2027. This growth will be driven by the continuing rise of contactless payments, the ongoing growth of online shopping and ever-increasing levels of card acceptance among businesses of all sizes but particularly smaller businesses.

Credit Cards

In 2017 there were 3.1 billion payments made using credit cards, an increase of 13% over the previous year. This reflects the more general growth of unsecured lending during 2017 (including lending via credit cards, personal loans and car loans). Increased spending on credit cards may be attributed to factors including strong competition in the credit card market and increased card acceptance by merchants.

Some growth can also be attributed to spending by 'transactors', that is, credit card holders who typically use their credit cards to gain value added benefits (such as rewards) and always pay off their bill in full every month.

By 2027 credit card payment volumes are forecast to reach 3.9 billion. Future growth will be closely tied to wider economic conditions which determine consumer appetite for taking on unsecured debt.

Contactless Payments

The number of contactless payments made in the UK increased by 97% during 2017 to 5.6 billion payments. This was driven by the continued roll-out of contactless cards, the continued roll-out of card acceptance devices and consumers becoming increasingly comfortable and familiar with making contactless payments.

By the end of 2017 there were nearly 119 million contactless cards in circulation with 78% of debit cards and 62% of credit cards in the UK having contactless functionality. The card industry has committed to ensuring that from January 2020 every bank-issued payment terminal in the UK will be able to accept contactless payments. This will further increase the number of locations where consumers can pay using contactless.

The most popular location to make contactless payments during 2017 was at the supermarket, with over a third (38%) of all contactless payments being made in these stores. In terms of differences between age groups, those between 25 and 34 were the most likely group to use contactless cards, with 77% of people in this age group making contactless payments during 2017. Having said this, while people aged 65 or older are less likely than younger people to make contactless payments, over half of them made contactless payments during 2017. Despite some differences by age group and region still existing, 63% of people in the UK now use contactless payments, and no age group or region falls below 50% usage.

Cash

Cash payments continued to decline in 2017, falling by 15% to 13.1 billion payments. Despite this decline, cash was still used for over a third (34%) of all payments in 2017 and was the second most frequently used payment method, just behind debit cards. The main cause of the decline in cash payments has been the increasing use of debit cards, and in particular the growing popularity of contactless payments. Consumers are increasingly turning to contactless payments in situations where previously they may have paid using cash.

Cash payment volumes also continued to decline during 2017. Indeed, there were 3.4 million consumers who almost never used cash at all, instead relying on cards and other payment methods to manage their spending. At the same time there were still 2.2 million consumers who predominantly used cash when shopping. Having said this, these people are not necessarily unwilling or unable to use other methods of payment; 92% of them have a debit card, and 72% of them use payment methods other than cash to pay their regular household bills.

The number of cash payments in the UK is expected to continue to fall over the next decade, as consumers continue to turn to alternative payment methods. There are expected to be 6.4 billion cash payments in the UK in 2027, accounting for 16% of all payments. Despite this fall, in 10 years' time cash will likely remain the second most frequently used payment method in the UK. It would therefore not be accurate to talk of the UK becoming a cash-free society over the next decade; rather, the UK is transforming to an economy where cash is less important than it once was, but remains a payment method that continues to be valued and preferred by many.

Direct Debit

Nine in ten UK consumers use Direct Debits to pay some or all of their regular bills. There were 4.2 billion payments made by Direct Debit in 2017, worth a total of £1.3 trillion.

Consumers are far more likely than businesses to use Direct Debit. Businesses tend to prefer to retain more direct control over the timing and amount of their outgoing payments, although some will still use Direct Debits to pay for business-critical services. Direct Debit payment volumes tend to be linked to some extent to the economic cycle and consumer confidence; for example, when times are tough, households may cut back on non-essential bills or be more reluctant to sign up to paying them by Direct Debit. In times of economic growth and/or increasing consumer confidence, households may feel more able to take on additional regular bills and therefore to pay those regular bills by Direct Debit, rather than controlling the timing of their bill payments more actively.

As a well-established method of payment, growth in Direct Debit payment volumes tends to reflect growth in population figures and household numbers. Any new subscription services, or major billers expanding the range of payment options that they accept to include Direct Debit may also increase volumes. Due to this established nature, there is expected to be limited growth in Direct Debit over the next decade, with 4.6 billion payments forecast in 2027.

Faster Payments and other remote banking

There was continued growth in the number of account holders using online banking (via a computer) or mobile banking (via an app on their smartphone or tablet) in 2017. Over two-thirds of UK adults (71%) used online banking and 41% used mobile banking. This saw the number of remote banking payments processed via the Faster Payments Service (or cleared in-house by banks) during 2017 increase to 1.6 billion. Both consumers and businesses are expected to increase their use of online and mobile banking in the next ten years. By 2027 remote banking payments processed via the Faster Payments Service or cleared in-house are forecast to rise to 2.4 billion payments.

There is also the possibility that both Open Banking and PSD2 may see increased volumes of Faster Payments over the next few years. Open Banking raises the potential for services to be launched that would allow consumers to pay for online shopping using account-to-account payments at the online checkout rather than using a card or PayPal (or similar service). It is possible that we could therefore see Faster Payments being used to pay for online shopping, with an associated reduction in online card payments (and/or PayPal payments).

Standing orders

Standing orders tend to be used in circumstances where a regular payment of a fixed amount must be made, for example, for paying rent or making regular transfer payments from current accounts to savings accounts. There is expected to be slow but steady growth of standing order payment volumes over the next decade, from 534 million payments in 2017 to 583 million payments in 2027.

Bacs Direct Credit

Bacs Direct Credit is a popular and cost-effective method for businesses and Government to make bulk payments, where both the value and timing of the payment are known in advance. As a result, Bacs Direct Credit overwhelmingly remained the most frequently used method for businesses to make payments during 2017. As an indication of the widespread use of this payment method, eight in ten employees in the UK are paid via Bacs Direct Credit, and the Government uses Bacs Direct Credit to pay nearly all state benefits and pensions in the UK.

Bacs Direct Credit is expected to remain the most popular method for businesses to make payments over the next decade. However, the total volume of payments is not expected to grow significantly. This is because, even though Government forecasts suggest steady economic growth, the roll-out of Universal Credit will reduce the total volume of benefit payments made by the Government. By 2027 there are forecast to be just over 2.2 billion Bacs Direct Credit payments made in the UK.

CHAPS

CHAPS is used primarily by financial institutions to make wholesale financial payments and by large corporates to make treasury payments. As a result, in 2017 CHAPS accounted for just 0.1% of the total volume of payments in the UK but 91% of the total value. There were 41.7 million CHAPS payments processed in 2017, worth a total of £84 trillion. By 2027 there are forecast to be 47.8 million CHAPS payments; however, as CHAPS payment volumes are closely related to the state of the UK economy, future changes to the UK economy could significantly impact the use of this payment method.

Other

Other payment methods include (but are not limited to) online and mobile payment methods such as PayPal, Apple Pay, Google Pay and Samsung Pay. This is a growing part of the payment market, with these methods collectively accounting for a greater volume of payments than either standing orders or cheques; there were 561 million payments made using one of these “other” payment methods during 2017. Over the next decade these payment methods are forecast to grow by 56% to 877 million payments, although there is potential for further growth should consumer appetite shift markedly toward mobile payment services.

Similar to most new technological innovations, UK Finance market research found that younger people are more likely than older people to use one of Apple Pay, Google Pay or Samsung Pay. This research also found that while a fifth of those who have registered for one of these mobile payment services have yet to make a payment using the service, of those that have already used them to make a payment, over a third (37%) make at least one mobile payment per week.

Cheques

Cheques used to make payments continued to decline over the past year, falling by 15% to 401 million. The number of cheques written declined among both businesses and consumers, as payers chose to use alternative payment methods instead. Cards and remote banking transfers particular are being increasingly used where previously a cheque may have been written. Despite this decline, cheques remain valued by those who choose to use them, as they provide a convenient and secure method of paying someone when you do not know the recipient's bank account details.

The Cheque and Credit Clearing Company introduced cheque imaging, a new way of clearing cheques in the UK, in October 2017. One of the main benefits will be that the cheque clearing process will now complete much faster, so cheque recipients will see the money appear in their account more quickly. It also opens the potential for new ways of depositing cheques to be introduced, such as via a mobile phone with a camera. The rollout of the new image clearing system is expected to be completed in the second half of 2018.

Despite the introduction of cheque imaging, both consumers and businesses are expected to continue to migrate away from cheques to alternative payment methods. It is forecast that there will be 147 million cheques used to make payments in 2027.