Response to HMT call for evidence – Access to Cash

To HM Treasury

We are pleased to provide a response to the government's call for evidence on Access to Cash legislation. The Access to Cash Review team is a non-affiliated, independent group of consumer, regulation and payments experts who have been monitoring and assessing consumer needs for cash and the supporting infrastructure. We published an independent review in 2019, the Access to Cash Review, which you have referenced in your call for evidence.

The Access to Cash Review concluded in 2019 that despite the growth of digital payments, there remained a sizable proportion of the UK population who needed cash and for who digital payments did not yet work sufficiently well. Further, we concluded that unless action was taken, the cash infrastructure could collapse, leaving those most in need of cash unable to get it or use it. We called for government and regulatory action to create a coherent strategy around cash access and acceptance which was likely to include the need for legislation.

We therefore welcome the government's commitment to bring forward legislation to protect access to cash, and to ensure that the UK's cash infrastructure is sustainable in the long term. Particularly in these times of pandemic, when people's financial and physical resilience is reduced, we need to ensure that no-one is left behind. We welcome the government's commitment to complement this cash work with policy initiatives to support digital and financial inclusion. We have responded to the consultation with practical suggestions as to legislative models and the regulatory framework which may be required.

We would be delighted to discuss any of our comments further if helpful.

Yours,

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Response to Questions:

1. How can the government ensure the UK maintains an appropriate network of cash withdrawal facilities over time, through legislation?

We have answered this question in stages, firstly focusing on the goals of legislation, then the potential framework for legislation, and then the supporting regulatory model.

A. What should the legislation set out to achieve?

We agree with the government that the focus should be on maintaining a sustainable cash infrastructure. The reality is that those who need cash live in all parts of the UK, and buy services across all retail and service sectors. People can also move in and out of needing cash – most obviously by geography, but also because being on a low income is one of the main reasons for cash dependence. Right now, as a result of Covid, there may be many people who were previously comfortable with digital who will now welcome the security in budgeting given by cash.

But 'sustainable' does also need to mean 'affordable', particularly as cash use declines and commercial margins of providers of the cash infrastructure are squeezed. As we have seen over recent years, if commercial cash-service providers cannot provide services profitably they are likely to either close services or turn them to fee-paid, often in locations where they are most needed. It is therefore essential that we encourage and support innovation in cash access, both to improve services and reduce costs. The UK's current model of cash access and deposits is far more expensive than in many other nations as a result of having a high dependence on physical branches for cash deposits, ATM infrastructure for cash access, and having a high degree of duplication in some areas, particularly city centres. If we are to keep cash sustainable, it needs to be through a more affordable and innovative infrastructure. We therefore support the government's criteria for legislation.

We are very aware that one of the current debates within the industry and regulators concerns whether the focus should be on those who 'need' cash or those who 'want' cash. We believe that this is an unhelpful distinction, not least because it doesn't materially affect what needs to be done. So long as a sizable proportion of people depend on cash (and 8 million[1] is sizeable), there needs to be a viable infrastructure up and down the UK. People living and working in all parts of the UK will need to be able to access cash. Retailers and small businesses up and down the UK will need to deposit cash easily. The focus therefore needs to be on creating a sustainable and viable cash

[1] The Access to Cash Review estimated that around 8m adults in the UK were "dependent on cash" – i.e. a need not a preference. In the government consultation UK Finance data is cited of 2.1million adults who "mainly use cash". We note that this 2.1m is a small subset of those who depend on cash (the 8m). For example, there are millions of adults who use direct debits and digital payments for household bills, but need cash for other transactions, for the reasons cited in our review. We therefore recommend that the 8m figure, and not 2.1m is used as the size of the population who "depend on cash" and as a proxy for need vs. preference.

infrastructure which meets the needs of those who want or need it, but one which also flexes as needs change, and innovates to constantly improve.

Your call for evidence very helpfully spells out the wide variety of ways that people can access and deposit cash. The media debate around cash often simplifies this to a debate about ATMs. That simplification is unhelpful. Complementing the ATM network with other methods for cash access, such as cashback, is essential to reduce costs and improve access. A multilateral approach to cash access is required. And furthermore, consumer and SME needs differ. For example, ATMs generally work well for those able-bodied and in a hurry– a population who would generally prefer the speed and convenience of an ATM to the friction of making an in-person transaction over a counter. By contrast, those who are physically frail often prefer that indoor counter, as it feels safer, and a human being can give them confidence that they are making a correct transaction better than a machine can. Diversity and innovation in cash access (and deposits) is likely to mean that more needs can be met.

Your call for evidence also summarises the extensive work currently being done by the FCA and PSR, supported by Bristol University, to map current cash access. Here, while welcoming the work, we want to flag a note of caution. However well mapped, data has its limitations, and there is a risk of over-reliance on this mapping to set the regulatory approach. To illustrate these limitations - a bank branch or Post Office may show up as providing excellent cash access on a map, but may, in practice, have stepped access and therefore not be accessible to those with mobility issues. Similarly, an ATM may be inaccessible to most if it's in an unsafe area, regularly out of order, or indoors in a shop which is closed when it is needed. Mapping provision, and setting rules around proximity of services to a population is important, but will only get us so far. As a result, there will be necessary judgement and subjectivity required in the provision of services and the associated regulation. In particular, the views of the communities concerned should be given heavy weighting in decisions about local need. This ambiguity is not new in financial services – the concept of suitability is well established in conduct regulation, and is designed to achieve good outcomes rather than a prescriptive rules-based approach. We believe that a similar approach to 'suitable' cash access and deposits is the way to approach this issue.

One of the core debates on cash access is free vs. fee provision. It is now widely agreed that the most vulnerable consumers – who are also the most cash dependent – need free cash access. For someone withdrawing £10 from an ATM, a £1.99 fee represents almost a 20% charge on withdrawing their own money. For these reasons, free cash access for the majority should be the goal, and the legislation and regulation relating to cash access should have a focus on free access. We do not, however, take the view that there should be legislation to ban pay-to-use services. In some areas, fee-paid services offer additional options and, if the choice was to turn them to free-to-use models or close them, most commercial operators would be likely to close them. However, we do believe that any pay-to-use service should highlight to consumers where the nearest free to use alternative is, so that consumers know that they have a choice. This should be a regulatory obligation, and could be done through an approved mechanism, such as clear stickers on pay-to-use ATMs, or with details of alternatives signposted on the initial ATM screen.

The focus of the government's legislation is, rightly, maintaining a sustainable cash infrastructure. However, it's worth noting that we do not believe the current infrastructure to be either optimum or sustainable. The legislative and regulatory model needs to allow the problems with the current infrastructure to be addressed, and new, more sustainable models to be developed. Amongst the strengths of the current model are the widespread ATM network, the coordination role played by LINK, and the extensive Post Office footprint in remote areas. However, amongst the weaknesses are the lack of a requirement on any providers to offer services in places where provision is not commercially attractive, a largely unregulated Post Office which plays an increasingly critical role in the provision of cash services and yet could stop doing so swiftly if one or more banks withdrew from an optional commercial framework; and poor facilities for cash deposits. Furthermore, the chain of control from retail banks to their customers has also been broken over recent years – retail banks currently have limited control over ATM deployment by third parties and over Post Office locations where significant numbers of transactions are undertaken. It will be critical to put some currently voluntary mechanisms on a firmer footing to create more sustainable models and to address some of the specific weaknesses in the current infrastructure.

One of the key questions in establishing legislation and the supporting regulatory infrastructure is that of 'can we get to the end goal incrementally, or does it need structural change?'. Our view is that, with the right legislation and tools, the transition to a more sustainable cash infrastructure can be achieved incrementally. Furthermore, an incremental approach is more likely to be community and place-based, with solutions designed for specific areas as gaps emerge. This therefore suggests a focus on giving the right obligations to key parties (the retail banks in particular) with a set of tools and supporting regulation that will enable them to make changes over time.

B. How best to legislate?

We strongly recommend that the legislative approach focuses on outcomes, and not inputs. The Swedish government has recently legislated to require retail banks to provide "an adequate level of cash services". This covers both cash access and SME cash deposit services. We believe that a legislative model with similar objectives is required here. This needs to be in the context of a flexible multilateral approach to access to cash involving a range of channels. It is important that the legislation codifies the need for cash access and cash deposits, but not the channel, as channels – such as ATMs, cashback and other innovative approaches – are likely to evolve over time. We note that this approach is very much in line with the principles outlined in another current government consultation – the Future Regulatory Framework consultation – which specifically states:

- "Government and Parliament will be responsible for setting the policy framework for financial services regulation. This will include new policy framework legislation for specific

areas of regulated activity which will give the government and Parliament the opportunity to set out the key public policy issues that must be considered when designing and implementing regulatory standards.
- The Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) will be responsible for designing and implementing the regulatory standards that apply to financial services firms and markets using their existing rule-making powers in FSMA. This approach will maximise the use of expertise in the design of regulatory standards and ensure those standards can be flexed and efficiently updated to address changing conditions and emerging risks. "

We agree with the suggestion in the government's Access to Cash consultation paper that the UK will need to move towards more of a 'utility' model for both cash provision and deposits. This, critically, needs to cover all channels, and not just ATMs – so it will need to include the services of the Post Offices, cashback etc. But moving from today's model to a more co-ordinated utility model won't be straightforward, and may not happen without support and intervention. Many of the 'tools' that will be needed are currently only voluntary (e.g. LINK), or too narrow in remit (e.g. payments regulation limited to ATMs at present). Other core parts of the infrastructure could disappear tomorrow if commercial goals changed (e.g. much of the ATM network and retail bank branches) and the Post Office is providing services under a banking framework which is also voluntary and timebound. Therefore, in addition to an obligation being put on banks to provide suitable cash access and deposit services to their customers, the legislation and supporting regulatory approach will need to widen some parts of the regulatory scope, and put some voluntary arrangements on a firmer and more stable footing.

Even with a legislative obligation on retail banks to ensure suitable cash access/ deposits for their customers, a degree of coordination will be needed between the banks which could present a challenge under current competition law without supporting legislation. Care needs to be taken to ensure that the banks have a clear set of tools and mechanisms with which they can discharge their legal responsibilities without falling foul of competition law. The banks currently have a degree of coordination of their ATM distribution through LINK, but it exists through the voluntary agreement of the banks and has limited powers. We would recommend that strengthening LINK, or creating an equivalent non-profit body, would be essential to enable coordination to take place, including giving it a wider remit (across all cash access mechanisms) and the power to directly deploy services. This body (LINK or equivalent) may not need to be placed on a statutory basis (although a statutory footing may be helpful) but the banks should be required to demonstrate how they will deliver their obligations (meaning that such an organisation becomes inevitable rather than voluntary). The banks should also be required to demonstrate the commercial as well as operational resilience of their proposals and this will lead to issues such as the reliance on a declining commercial deployment market needing to be addressed (for example, by LINK or an equivalent body also having a deployment capability that the banks can call on). This requirement should be extended to allow communities to request additional services where the current services don't meet needs, so that LINK's current voluntary community "request an ATM" initiative can be formalised and widened.

It will also be essential to clarify and secure the role of the Post Office. With around 11,500 outlets, offering banking and cash services on behalf of all major banks, and operating in some of the most deprived communities in the UK, it seems obvious that the Post Office needs to be part of the solution. There is currently concern by both banks and retailers about the cash and banking service standards offered by the Post Office, the consistency of the offering, and the longevity of the current arrangements. The Post Office is, we believe, a core part of 'the answer' but it's not the Post Office with its current proposition. Potential new models are emerging - the 'Post Office Banking Hubs' due to be piloted by the Community Access to Cash Pilot offer a glimpse of what a future Post Office proposition should be which could offer customers (consumers and SMEs) the services they need.

If the Post Office is to be a critical player in providing core banking services, it needs to be treated as such. The Post Office's core reporting relationship into government through BEIS also seems odd given the critical role it plays in the provision of financial services. We believe that it will be critical for the Post Office to have its financial services and cash services covered by conduct regulation, both for customer confidence and to ensure that the Post Office can truly discharge its responsibilities on behalf of the banks. We also believe that some form of oversight should be established to end the risk that the Post Office banking framework could collapse if a single bank withdraws, while recognising that the retail banks also need to be confident that they are securing value for money.

We would therefore suggest that the legislation:

- **Puts a legal obligation on retail banks[2] to provide suitable cash access/ deposit facilities for their customers**. This needs to include both notes and coins.
- **Obliges the banks to demonstrate their regulator that they can meet their obligations in a commercial and operationally sustainable way**.
- **Ensures that the banks are not breaching competition law** if they cooperate to provide a comprehensive service. Consideration should be given here as to whether LINK, or an equivalent body, needs to be given a different legal status or additional powers.
- **Brings the Post Office banking and cash services under the FCA's regulatory remit** for competition and innovation but not systemic risk.

[2] We recognise that there will be a debate about whether this is all retail banks, or only retail banks over a certain size. There will certainly be arguments that some very small retail banks don't cater for customers who need cash. However, as the population who need cash are not fixed, we would argue that any retail bank with a sufficiently substantive customer base should be included in this obligation, particularly if a mechanism is found to enable a more 'utility' model of procurement. We would also suggest that this obligation also extends to building societies who offer current accounts.

C. The supporting regulatory model

We welcome the decision to make the FCA the primary regulator under this legislation. As we highlighted in the Access to Cash Review, it has not been clear to date where responsibility for oversight of the cash infrastructure lies. If a legal obligation is put on retail banks for ensuring suitable cash access/ deposits, then it is clearly the right approach for the FCA to regulate this as a core banking activity. However, it will also be essential to ensure that the FCA has the resources to take on this additional work.

As highlighted earlier, while the work to map current provision is very welcome, mapping data will only get us so far. We understand that the Community Access to Cash Pilot work has come across examples of towns and villages which, on paper look 'fine', but actually have a real issue as a result of the siting of an ATM in a dark alley, or Post Offices with no disabled access, or no privacy for transactions. Therefore, while we welcome the work underway in the FCA to hone details of regulation, we strongly recommend that there will need to be a mechanism to allow communities to say that a solution which might look good on paper 'doesn't work for us'. We would recommend that thought is given to who can raise these 'requests' – e.g. a number of residents rather than just one, or requiring the support of a local elected official. There will also need to be a body which considers these 'requests for additional services'. We would recommend the appropriate body to take this on being LINK, as they have the expertise and experience of doing so through the 'request an ATM' scheme, and have relationships already with all of the key players required. Introducing this 'community request' process would keep regulation proportionate and not exhaustive, and give the retail banks a collective mechanism for dealing with gaps in provision.

Support to 'nudge' consumers towards offers which best meet their needs should also be part of the regulatory solution. In today's digital world, it should be relatively straightforward to enable an app to highlight where the nearest free-to-use cash access point it. Clear branding for cashback services should also be developed to raise awareness of cash access options, and providers offering pay-to-use cash access services should be obliged to signpost where the nearest free alternative is.

In line with the government's approach to future financial services legislation, as outlined in the 'Future of Financial Regulation' consultation, the legislation should stay necessarily broad, with much of the detail in the FCA rules, rather than in primary legislation.

Therefore, this would suggest that the FCA regulates to:

- **Set expectations for banks of what suitable cash access/ deposit facilities are,** in terms of proximity, types of access and free vs. fee. – but at the same time, relying heavily on 'suitability' to be responsive to local needs.
- **Oblige the banks to demonstrate how they will meet their obligations in a commercial and operationally sustainable way, which may be through an organisation such as LINK**. This to include proposals on how LINK can act as a

direct deployer for the banks to address consumer detriment when the commercial deployer market does not so.

- **Require the banks to task an organisation with running a 'community request' mechanism, with the powers of direct deployment,** to allow communities or businesses to raise concerns where facilities which appear 'suitable' on paper are not. The benefit of the doubt should be with communities, as with LINK's current 'request an ATM' programme.
- **Bring Post Office banking and cash services under their regulatory remit** for conduct, competition and innovation but not systemic risk.
- **Give more certainty to the Post Office Banking framework**, potentially overseeing and 'adjudicating' the Banking Framework negotiations
- **Design mechanisms to require that providers of fee-paid services signpost consumers to free services** so that they can make informed choices when faced with pay-to-use services
- **Encourage the development of new cash access channels** through a focus on innovation, and reducing barriers to entry
- **Ensure vulnerable customers are adequately supported** by cash services and relevant digital education

2. What is the potential for cashback to play a greater role in the provision of cash withdrawal facilities, and how can legislation facilitate further adoption of cashback?

We strongly believe that cashback can play a greater role in cash provision. Cashback is significantly less utilised in the UK than in other markets. It also offers a service which potentially meets the needs of many customer segments – being offered by a retailer, indoors, face-to-face means that it will meet the needs of many vulnerable customers. At the same time, if it is offered widely, it will also meet the needs of those who want easy and quick transactions. There are also many potential benefits to retailers, including increasingly local footfall, and reducing the costs associated with their own cash deposits. Cashback is a core part of the Community Access to Cash Pilots – which is trialling both cashback without purchase through the LINK/PayPoint pilot, and cashback with purchase used widely across many of the 9 pilot communities.

At the point of writing this response, the LINK/PayPoint trial has only been running for two weeks. We would, of course, urge caution in relying too much on very early data, However, the initial data does indicate that cashback is being used in different ways than ATM withdrawals, and may be disproportionately being used by the more vulnerable or those on lower incomes who typically withdraw lower sums of money. For example, 37% of withdrawals were for non-fixed denominations (i.e. £6.50 rather than £10), and the average amount withdrawn was around £24 which is around one third of the average value withdrawn at ATMs.

It is worth exploring what the current barriers are to cashback. We believe them to be the following:

1. **It costs retailers significant sums to offer cashback**. Retailers are bound by commercial agreements with their merchant acquirers, who rarely differentiate between types of purchase. Therefore, it is not uncommon for a retailer to pay 3-4% per transaction, which represents a 60p – 80p fee on a £20 withdrawal. Unsurprisingly, many retailers are unwilling to bear this cost.
2. **There is no standard consumer offer**. Unlike ATMs, where there is a LINK scheme and clear consistent standards, there is no ‘standard’ cashback offer. Some shops require a certain level of minimum purchase. Others have a maximum limit of withdrawal. Therefore, consumers don’t know what they can ask for, and what to expect. Unsurprisingly, this stops many consumers asking for cashback.
3. **The service is poorly advertised (if at all)**. Because of the cost to merchants, much cashback is informal in nature, with many retailers saying that they offer it if a regular customer asks, but not otherwise. Therefore, many consumers simply don’t know it is on offer.
4. **Some merchant acquirers prohibit cashback (even with purchase)**. We have asked some merchant acquirers why this is – and none have given a clear answer. However, if an agreement prohibits it, it is unlikely and unwise for a shop to offer it.

5. **Cashback without purchase currently comes with a significant set of risks**. This has been covered in your paper.

Legislation, as proposed in the government's consultation, would tackle the fifth and final issue here. Such legislation would be very welcome. However, to make cashback widely used we will need to tackle the other barriers. We therefore recommend that:

- **The FCA and/or PSR are asked to lead a review of charging/ permissions for cashback** with the aim of reaching agreement with industry that retailers wishing to offer the service should be suitably incentivised to do so. The scope should include the three card networks offering such services (LINK, Mastercard, and VISA).
- **The international card networks should agree a common code of practice for their members to adhere to for cashback services.** At present, Mastercard and VISA have different approaches to their cashback offers. In contrast, the approach used with ATMs ensures a clear and transparent consumer experience and also uses interchange to incentivise retailers to deploy the service. Supporting business processes manage issues such as disputes effectively. A similar approach should be followed with cashback.
- **A clear consumer proposition and branding should be developed for cashback,** akin to those used for other core services. This will help consumers understand what they can expect, and raise consumer awareness of where they can get free-of-fee cashback, which will be particularly important for lower income consumers.
- **Merchants should be supported to offer cashback safely**. We understand that the Community Access to Cash Pilots will explore what the challenges are for retailers and other merchants of offering cashback, so that models developed are manageable and sufficiently attractive to merchants. We would recommend that learnings from these pilots could help inform a new 'cashback code' (which should then be widely publicised and adoption encouraged) so that consumers understand what they can get, with retailers appropriately supported and their offer understood.

It should be noted that we believe it to be likely that automated deposit taking will run into similar challenges as cashback without purchase. The legislation to amend PSD2 is should therefore address this (see Question 3).

3. How can the government ensure that the UK maintains an appropriate network of cash deposit-taking facilities over time through legislation?

We are very pleased that your consultation explicitly addresses the issues of cash deposits. Without ensuring that there are appropriate deposit facilities it will be extremely hard to maintain cash acceptance, allowing those who need cash to use it. This has been seen in Sweden, where it was not the lack of access to cash which created a rapid demise of cash, but the lack of cash acceptance by retailers, driven in turn by retailers finding it harder and more inconvenient to bank cash. It is no surprise, therefore, that the Swedish legislation placed an obligation on the retail banks not just to provide their customers with cash access, but to also ensure that their SME customers had suitable deposit facilities. We would strongly urge you to include this in your legislative plans, as without it, any legislative solution could have a very limited effect on cash viability.

In your consultation you address the issue of both consumer cash deposit services and SME cash deposit services. We believe that SME deposit facilities are the most critical issue, given the role that SMEs play in cash circulation. By contrast, for most consumers, while deposit facilities are good to have, most consumers access cash to spend it, rather than deposit it.

Your consultation highlights that retail bank and building society branches remain a primary means for SMEs to deposit cash locally. As your consultation also highlights, many of these facilities have closed over recent years, necessitating longer journeys for businesses which may cause businesses to question whether they should still access cash. Furthermore, not all bank branches offer all services, particularly in relation to coins. While the Post Office does offer deposit facilities, we have found that many businesses are reluctant to use their services when operated in cramped facilities (such as at the back of a convenience store) where they can be overheard, raising security risks. We agree with your consultation conclusion that it will be important for financial services firms to provide their customers with suitable, secure and effective deposit-taking facilities.

The market for deposit facilities has some very different dynamics to cash access. First - it is not open to just anyone to take customer's deposits and bank them with their respective bank. The KYC ("Know your customer") and AML ("anti-money laundering") laws and regulations mean that there are strict controls on deposits to ensure that money is traceable back to individual customers, and does not represent the proceeds of crime. This means that retail banks need a clear approvals process for third parties who seek to collect and then deposit their customers' money. Second, unlike the ATM market, there is no interchange fee for cash deposits, meaning that there is no obvious commercial model for new entrants to offer new services. And third, the required back-office IT enablement within the individual retail banks to process deposits also mean that even if a new or existing provider wanted to offer deposits, at their own cost, and following clear KYC and AML protocols, they would find it hard to do so. As a consequence, as bank branches have closed, services have simply reduced, with little or no innovation jumping up to fill the gap. There is currently a significant barrier to entry for new providers in automated cash deposits which needs addressing, along with clearer mechanisms for ensuring that deposits are collected safely under KYC and AML rules.

Furthermore, the current facilities are widely considered inadequate. Even where bank branches are close to retailers, their opening hours often mean that retailers can only use them during their own opening hours, necessitating some to close their shop to deposit their cash. This is a market which needs innovation, and increased deposit services.

We note that the Community Access to Cash Pilots will be piloting three new services:

- **Automated SME deposits in new 'Post Office banking hubs'** – where SMEs who bank with any bank covered by the PO banking agreement can use an ATM-type deposit machine within a safe setting
- **'Bag drop' cash deposit services** in safe indoor spaces, offered out of hours
- **Quicker semi-automated cash deposit services** over a Post Office counter

We believe that the legislative approach should mirror that of cash access. Namely:

- **Legislation should put a legal obligation on retail banks** (and other deposit takers operating current accounts) **to provide suitable deposit services to their customers.** We would suggest that the standards for SME deposits should be different from consumer deposit services, as the two customer groups have very different needs.
- **The FCA should have responsibility for setting the regulatory framework** which, as for cash access, should consist of a set of expectations of provision on the banks, with a process for communities to request service changes, based on need.
- **The banks should be required to demonstrate how they could deploy automated deposit taking to deliver against the standards required**. It may be that this can be achieved through the Post Office, However, if not, the banks should develop a "LINK" type automated deposit facility based on an existing payment system (LINK, FPS, card schemes).
- **The FCA should consider the barriers to entry in this market**, so that if there are gaps, they can be filled. There is ample scope for innovation in this market. The issue of KYC and AML will need to be explicitly addressed.
- **Consideration should be given to how automated deposit taking is explicitly enabled in legislation.** It is likely that automated deposit taking will run into similar challenges as cashback without purchase. The legislation to amend PSD2 should therefore address this.

- **The FCA should review small business cash banking in a ‘thematic review’** so as to understand where the other issues are for small businesses in banking cash

4. What are the key factors and considerations for maintaining Cash Acceptance in the UK?

We agree with the government's view that the ability to transact with cash is essential to proper functioning of the cash system. We are very aware that in Sweden, one of the few markets which is further along the digital payments journey than the UK, it has been cash acceptance which has presented the biggest challenge to the ongoing viability of cash, rather than cash access. Concerning reports are starting to emerge here from consumer groups of vulnerable customers being left unable to buy essential goods and services. We agree too that the paucity of data on cash acceptance is problematic, and risks decision-makers having a poor understanding of what is actually happening.

We are taking as a given in our response that the issue of 'cash acceptance' in focus is where cash is appropriately accepted, and not in areas where it is not. The anti-money laundering regulations rightly prohibit large amount of cash being used without provenance.

Our research in the Access to Cash Review suggests that for small businesses the biggest reason for not accepting cash was the lack of suitable, safe, and close deposit facilities, coupled with the rising cost of banking cash. Therefore, if the issue of deposit facilities can be solved, and the issues around cash banking costs explored, we believe that most SMEs are likely to keep accepting cash – Covid aside. A common refrain from businesses we interviewed was 'we want to keep accepting cash if our customers want to use it'.

Covid has, of course, introduced new risks of any close contact between any humans, and of handling goods. It is understandable that many businesses have said that they prefer digital payments as they minimise contact. However, there remains a lack of clarity as to how much risk cash handling actually presents. Covid is likely to increase the proportion of the population who are vulnerable, and we need to ensure that they are not left behind. Despite Covid, we should encourage retailers to adopt safe cash handling approaches rather than leave the vulnerable behind.

The drivers of change are different for larger businesses, or more monopolistic providers (such as councils, car parking, utilities etc). Many making boardroom decisions have little understanding of the reasons why some customers still need to use cash, and for many businesses, cash handling is a clearly quantifiable cost. It is therefore unsurprising that some large businesses or services have declared their services 'cashless'. However, we know anecdotally that this has caused significant hardship to many, from the more vulnerable no longer being able to use council leisure facilities (causing exclusion) through to people relying on friends to pay their bills for them digitally (risking exposure to abuse or fraud).

It is worth noting that there are a number of services which operate to take cash and translate them into digital form to pay bills etc. Examples include PayPoint and PayZone (who operate in convenience stores and Post Offices across the UK), and point-of-sale technology developed to reduce cash handling during Covid. Therefore, businesses do need to directly handle cash themselves in order to enable their customers to pay with cash, and Covid should not be used as an excuse for businesses to stop accepting cash.

We note that the government does not wish to legislate to require cash acceptance. The other approaches we would strongly recommend are:

- **Ensure that there are sufficient, suitable cash deposit facilities for small businesses** (as in question 3)
- **The FCA should review small business cash banking in a 'thematic review'** so as to understand where the other issues are for small businesses in banking cash (as in question 3)
- **The government should ask all of its various regulators to ensure that regulated entities understand that 'going cashless' would be likely to disproportionately harm the vulnerable**. All regulators should factor the ability of customers to pay bills in cash into their assessments of how well their regulated entities are supporting their vulnerable customers.
- **Government, local authority and entities providing public services should similarly allow customers and taxpayers to pay their bills in cash**, whether directly or through a third party.
- **Data should be collected at a national level on the levels of cash acceptance by business, and by sector,** so that policy making is well informed.

5. **Should the government give a single regulator overall statutory responsibility for maintaining a well-functioning retail cash distribution network? If so, which regulator?**

   The Access to Cash Review concluded that lack of regulatory coordination on cash was an issue of key concern. It is therefore very positive to see how much has been done to coordinate work over the past year, and to see this proposal from the government for even stronger leadership of the issue.

   We agree that there should be a single regulator overseeing retail cash distribution (and deposits), and that this should be the FCA. We support this because:

   - This is a complex landscape which needs coordination as a system. Fragmentation of responsibilities will lead to suboptimal outcomes.
   - The FCA already has oversight of the retail banks and those deposit takers offering current account services
   - The FCA already has a statutory duty to maintain a degree of consumer protection
   - The FCA is used to working with 'suitability' at its core – using judgement as well as data to regulate
   - The FCA has a core focus on consumer vulnerability
   - It will be impossible to separate cash from other functions of banking when discussing the wider economics of the sector, and the wider responsibilities of the sector. Therefore, bringing all of this under the FCA allows a more strategic and intelligent conversation with key players
   - The FCA already has a strong focus on innovation, which is badly needed in this market.

However, we note that the FCA already has a large remit, and not unlimited resources. If the FCA is given the regulatory responsibilities for cash access and deposits, which we would support, it will be important to ensure that the FCA is also given the resources to give it focus and priority. We would also expect that, if the FCA is given this responsibility, HMT would ensure that cash sustainability was given suitable focus within the annual priorities which the government sets for each regulator.