

## Access to Cash Review – Post Office Response

### About the Post Office

Post Office is the UK's largest retail network. With over 11,500 branches, we are within 3 miles of 99.7% of the population. Our branches see 17 million customer visits, carrying out 47 million transactions every week across our 170 different products and services from mails to bill payments, government services and identity.

We are also the UK's largest branch-based access to cash network, with more branches than all the high street banks combined, as well as a network of 2,700 ATMs. In 2017/18 our branches performed over 120 million transactions on behalf of the 27 high street banks who participate in our Everyday Banking scheme covering 99% of personal customers and 95% of business customers in the UK.

In our wider business, we provide a range of products over the phone and through digital channels, many of which are also available in-branch. This includes our savings, loans and credit cards business (Post Office Money), our insurance business (Post Office Insurance) and our home phone and broadband products.

### Executive Summary

Post Office is an increasingly important part of the UK's access to cash infrastructure. As the bank branch network shrinks, the role of Post Office as a place for all bank customers to undertake their Everyday Banking transactions is becoming ever more relevant: withdrawing and depositing cash, depositing cheques, checking balances, and for businesses, getting change. These services are vital in supporting local economies and ensuring that cash is readily available for anyone who wants to use it. Awareness of these services is currently around 50% of the population, so we are working with the banking industry, through UK Finance, to roll out a pilot awareness raising programme so that people are aware of the Everyday Banking services on offer in our branches.

While we recognise that the usage of cash is falling, it still accounts for just under half of all payments in the UK and is disproportionately relied on by more vulnerable people and those suffering the difficulties and higher costs brought about by financial exclusion. Every one of those customers live near one of our branches and are increasingly reliant on us to help them manage their daily lives. While changes to the LINK network are causing concern, these do not affect Post Office counter transactions, and our 2,700 strong ATM fleet will remain free to use. Additionally, our branch network has been stable at c.11,500 for several years, reflecting our stated requirement to be within 3 miles of 99% of the population, ensuring that our branches are distributed in line with the population, not by demand.

While the Post Office network is stable, the remuneration we are able to pay to Postmasters for business deposits is not enough to cover the cost of the transaction – Postmasters often need to spend a great deal of time counting cash deposited by business customers while the partner bank typically charges around £6 per deposit, much more than Post Office receives and is then able to pass on to Postmasters. We are negotiating with the banks for a significant increase in the amount we receive for carrying out these transactions, particularly in light of the cost savings brought about through the bank branch closures which have meant that the burden has shifted to Post Offices.

### Full response

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

The volume of cash is expected to increase from £70 billion to £85 billion by 2025. However, overall demand for cash is due to fall over the next fifteen years, but the geography and demographics of the remaining cash transactions is very important.

## **Geography**

Rural and urban deprived locations are likely to continue to be more reliant on cash than other areas, while suffering decreased access to it. Cash is vital for supporting local economies – people are more likely to spend cash near to where it was withdrawn, as opposed to digital payments which do not have a central location. Post Office plays a vital role in this, our branches are within three miles of 98.7% of the rural population, above our requirement of 95% and within one mile 99.6% of the urban deprived population.

## **Demographics**

There are currently around 1.5 million adults without a bank account in the UK. While this level has historically reduced, it has now plateaued. In total, 2.7 million people rely almost entirely on cash. This means that a significant proportion of the country will require access to cash for the foreseeable future. A proportion of these people are likely to be vulnerable: they may have physical or mental health challenges which make managing finances difficult. The face-to-face service we provide over our counters is vital for these people, who may struggle to access conventional ATMs or might be more susceptible to fraud and financial crime.

Being reliant on cash can contribute to the ‘poverty premium’ which means lower income households have to spend more money than wealthier households to buy the same goods and services. This means they are unable to access discounts for things like payments by direct debit, having to use a pre-payment meter for energy etc. It is therefore crucial that the importance of access to cash is recognised and supported in order to ensure low income households don’t suffer further detriment.

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

Consumers use cash for a variety of reasons ranging from convenience to necessity. Post Office plays a vital role in this for a number of people and we see our role lasting long into the future, with increasing importance as other access to cash locations reduce.

## **Cash budgeting**

Some people rely on cash for budgeting and find it difficult to manage their budget in soft form. With 2.7 million people relying on cash, this means a lot of people use cash as a way of budgeting their spending, rather than bank accounts or digital tools. While people may move to using digital budgeting tools, cash will remain a very important part of household and personal budgeting for a significant proportion of the country, particularly for lower income and vulnerable people. A lot of our Post Office Card Account (POCA) customers (a card which is only able to receive funds from government sources for benefit or pension payments, and provide access to that cash) use this very basic functionality to help them budget and may visit our branches to draw out just the cash they need for the next few days, or they may withdraw the entire balance of their benefits or pensions and budget themselves by the cash they have available.

While POCA is seeing reduced volumes as people move to receive their state pensions and benefits into full or basic bank accounts, those accounts can also be accessed over the counter at our branches in the same way as POCA. This helps people move into the mainstream banking market and increases

financial inclusion – access to counter cash services is vital for a number of these people who may struggle to deal with changes to their financial routines. Again however, while these people are using a bank account, they may still be budgeting in cash terms and not baking full use of the services bank accounts provide. This means they may still suffer from the poverty premium or are unable or unwilling to engage in competitive markets.

### **Blended products**

Some people may use blended digital / cash products, for example, the Post Office Credit Card suite enables people to pay for goods digitally using their credit cards and then pay off their credit card debt in cash in our branches. This is a useful first step for people venturing into digital payments but who still want to deal in cash and it is important to recognise the role this type of product plays.

### **Access for businesses**

Most High St businesses in every community continue to accept cash from their customers. A number of small businesses are either unable to access digital payment technology to receive payments either due to prohibitive cost or lack of suitable access to the internet, or continue to receive large volumes of cash each week, and find the lack of local bank access impacts their ability to stay open fully through each week. These businesses need access to secure, local counter facilities, open outside traditional working hours, to both pay in and access cash. In fact, we are seeing increasing volumes of cash coming into our network as small businesses need a place to make deposits when bank branches close. Beyond simple geographic access, our branches are also often open outside traditional hours so businesses can deposit cash after the working day. Post Office is demonstrably playing an increasing role in the access to cash network: Our cash centres have seen a 15% increase in the per week value being returned from our branches since April 2017, this is largely driven by the business deposits we receive.

Post Office is very well placed to take on this increasing role in business deposits given our long history of handling cash in large volumes and by owning our own cash van fleet and infrastructure. For our Postmasters however, business deposits can be time-consuming and not financially viable – the staff time taken to count large quantities of cash may not be covered by the remuneration Postmasters receive for these transactions. Therefore, we are negotiating with the banking industry for a significant uplift in the remuneration paid for business deposits. With banks making cost savings by closing branches which were not commercially viable, it is important that our network is rewarded proportionately for doing this work to ensure that our branches can continue to meet the needs of business customers in the future.

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

Post Office is working on a range of innovations which will further support those who use cash, either directly or by facilitating the usage of cash by consumer businesses. We highlight two such examples below:

- Credit union counter access – by the end of 2018, we hope to be able to offer credit unions the opportunity to plug into our systems and enable their members to withdraw cash over the counter in any of our branches. This will be a significant change to the credit union movement as it will enable customers to access their accounts in a far wider range of locations, and with longer opening hours, as opposed to the limited or single local branches which credit unions are currently able to operate.

- Fast-drop cash services are likely to be trialled by different organisations over 2019, potentially including Post Office. This will enable people, particularly businesses, to drop-off cash in a secure self-service environment. This will support both business and consumer use of cash by making deposits much quicker.

One further innovation we would highlight is around developing credit ratings for people who are not users of traditional credit products. While Post Office is not directly working on this agenda, we do see that we may play a role in this market given the types of transactions, particularly bill payments, which people carry out in our branches:

- From a financial inclusion perspective, many people pay a vast range of important bills, such as rent and housing costs, utilities etc. in cash but as these are not credit arrangements, they are unable to build a credit history on this basis, despite the fact they might have never missed a payment. Innovations to bring these type of transactions within the bounds of the credit reference agencies are welcome and should be supported as an important type of innovation to bring more people within mainstream financial services.

There are of course a range of other innovations underway in the wider market, we always look to support these in our network where possible and encourage organisations looking to provide new cash-related to consider Post Office as a distribution partner.

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

There are a range of different layers of co-ordination which oversee the access to cash network, Post Office participates in a range of these but we take this opportunity to highlight three in particular:

**Post Office Banking Framework** – this is the agreement between Post Office Limited and the 27 participant banks to allow their customers to access Everyday Banking services at Post Offices. This agreement has a robust governance framework and we do not believe that formal external involvement is required.

**Note Circulation Scheme**

Post Office participates in the Bank of England's Note Circulation Scheme (NCS) which oversees movement of banknotes through the cash supply chain. This has worked well but with consolidation and changes to the cash supply chain, notably Post Office taking on an even more significant role, we are proposing that the Bank of England undertakes the following measures to ensure the NCS remains fit for purpose:

- Support local recycling of cash,
- Allow greater flexibility of vault opening hours within NCS cash centres,
- Change how the Note Recirculation Facility operates to enable members to more effectively recycle cash locally and fund their operations,
- Permit local NCS 'lite' centres with smaller cash capacities.

**Coin circulation**

In coin circulation, falls in volumes combined with high fixed costs have brought about, and will continue to bring, consolidation in the sector. This poses a significant risk to both the economy and remaining participants in the industry, particularly Post Office. The NCS enables participants to hold cash off balance sheet which provides access to cash at a much reduced cost when compared to the coin market where participants have to 'buy' coin to hold in their supply chain. The governance of

this scheme means that participants can provide banknotes to others when the need arises without this impacting their balance sheet, this is not the case for coin.

Post Office runs a deficit in coin in our cash in transit network as our branches give out much more than they receive. This means we are heavily reliant on the wholesale coin market, which is much less robust than the NCS. With demand moving towards notes, changes to consumer habits and market forces as well as other changes in the industry, it will be more important to ensure a robust governance regime exists in the circulation of coin to avoid failures in the market which leaves businesses, consumers and the economy as a whole, under-supplied with coin. We have seen a direct example of this recently with a tightening of the supply of £1 coin despite there being full volumes in circulation, a certain degree of ‘hoarding’ has brought about a squeeze on availability.

Without a formal process in place, there is no certainty over how any shortfall in coin would be handled, so all parties would reasonably expect the process to be resolved and full compensation for the services they provided to be paid. That includes Post Office, given our shared objective with government to operate sustainably without public subsidy.

We would welcome the government taking greater oversight of the coin circulation infrastructure, using the NCS as a model, to anticipate any issues and coordinate across the industry to mitigate risks to the sector and consumers.

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

Ensuring that there is a significant free-at-the-point-of-use cash withdrawal and deposit network is vitally important to facilitating economic growth. Post Office is a crucial part of this, we do not charge customers for over-the-counter transactions, or for using our ATM network operated by the Bank of Ireland. Some Post Offices may have a separate ATM agreement with a third party and this may include the provision of a fee-charging ATM – this is unrelated to the Post Office and they are all required to provide the full range of Post Office Everyday Banking services regardless of their Post Office or third-party ATM provision.

In the wider market, there is an increasingly diverse range of business models for paying for access to cash. The cost is ultimately born by consumers, either directly through a pay-per-withdrawal model levied by the ATM operator, or through direct or indirect bank charges. Post Office does not charge customers for our counter service or our ATM transactions through c.2700 established ATM units and recover our costs from banking providers in a similar way to the LINK network.

We are engaged with the changes happening to the LINK system for paying for the ATM network. This does not affect our ATM estate or our over-the-counter service.

In order for the Post Office’s role in access to cash to be sustainable, we are seeking a significant increase in the amount we are paid per transaction in order to increase the remuneration we can pay to Postmasters. This is mainly related to business banking, where banks typically charge their customers several pounds to deposit cash but the Post Office receives much less. This is unfair on Postmasters who have to spend time counting cash and are liable for any obvious forged notes. While we have a degree of forbearance on accepting forgeries and absorb some losses ourselves, if Post Office were to cover all losses as a result of branches accepting counterfeit notes, this would create a moral hazard and leave the process open to abuse. This means that the Post Office and individual Postmasters need to invest in our supply chain infrastructure, from our cash centres to branch counters. This includes things like the latest security equipment in our cash centres through to counterfeit detection equipment in branches, which we are working with the National Federation of Sub-Postmasters (NFSP) to provide at subsidised cost. However, at the current remuneration rate, these innovations do not provide a viable investment proposition for Post Office or Postmasters.

In summary, the current model for paying for access to cash works well in principle but we are calling for a significant increase in remuneration for business banking cash transactions in order to ensure this important service is sustainable long into the future. As banks close branches which are not commercially viable by themselves, it is important that these cost savings are in part put to use in ensuring the provision of cash through the Post Office network, widely recognised by industry, government and third parties, as a key strand of the UK's future access to cash infrastructure. Post Office is one of very few networks actively seeking to increase the access to cash locations it provides – we believe this is a testament to our role as a commercial business with a social purpose but we need the appropriate support in order to do this and continue to support the billions of cash payments which take place each year.