UK ACCESS TO CASH REVIEW

NCR RESPONSE

SEPTEMBER 2018

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

At NCR, we believe that cash will still have a vital role to play within the UK over the next fifteen years. To fully understand the future of cash in the UK means understanding exactly what is meant by the word 'cash'. Cash is legal tender that takes a variety of different forms. Ultimately, cash is money. While to most, it refers to physical coins or notes in hand; some identify cash to be any form of currency, whether it be physical or digital. Thus, in the NCR response we feel it is extremely important that we capture both perspectives in our response to the future access to cash in the UK. By doing so, NCR will provide a well-rounded and balanced contribution to this vital industry review.

One of NCR's main areas of expertise in the UK is in the deployment of ATM technology. To fully comprehend the future of cash demand in the United Kingdom, it seems appropriate to discuss ATM usage in the country. The UK has one of the highest densities of ATMs to geographical areas and population, the UK now faces a slow decline in opportunity to expand ATM estates, due to limited opportunity in the market. With this being said, according to RBR (2017) the number of ATMs in the UK is forecast to reach 74,000 by 2022, demonstrating an annual growth rate of 0.6 per cent. Thus, it could be argued that there is still an element of demand in the UK. This is potentially due to impending branch closures, which intensifies demand for multi-function ATMs, ensuring that Banks can still offer core services, while reducing expenditure on staffing and resources. The role of automated deposit will be vital in this also.

Whilst ATM volumes may indeed remain flat, we believe that Intelligent Deposit ATMs functionality will significantly change the market. Already in the UK, over 9,000 ATMs (as at the end of 2016) are enabled for some form of automated deposit. This growing trend highlights that consumers still want to be able to decide how and when they interact with self-service. By 2021 there are expected to be over 13,000 of these terminals. Usage remains high also with £56 Million deposited in notes alone annually according to RBR (2017). Furthermore, the introduction to cash recycling in the United Kingdom has proven that there is a new area of potential expansion to ATM technology for banks across the nation.

Declining use of notes and coins in the country reflects consumers' desire to utilize other forms of payments, particularly in a society that welcomes cashless payments for any transaction amount. The volume of payments for amounts less than £1 have more than halved in the last ten years as consumers shift towards card, contactless and mobile phone payments. Among many other factors, the move towards exercising other means of payment threatens the profitability of the ATM channel. The reduction in ATM cash withdrawals will cause a decline in interchange revenue for deployers, and with the low level of surcharging in the UK, it makes it hard for banks to justify expanding their ATM fleet (RBR, 2017).

A staggering 2.7 Billion was withdrawn in cash in the UK in 2016. Estimates are that this trend will decrease but even by 2022, there will still be 2.4 Billion cash withdrawals annually. To put this in context the UK's entire annual GDP based on overall economic output is 2.01 Trillion per year. The equivalent of 10% is withdrawn in cash. **Whilst NCR would not dispute that other payment methods will start to increase over the next fifteen years, what we feel important to point out is that the total volume of cash withdrawals done at ATMs each year in the UK remains significant. Cashless payment methods can to some extent compete with each other and that value of cash in circulation should remain steady.**

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

Demand in the United Kingdom is extremely varied between physical cash and digital payments. While there is no denying the obvious shift towards digital technologies, NCR would like to highlight that there remains a strong case for physical cash.

Globally, there are 500 billion banknotes and a few trillion coins in circulation. Physical cash now accounts for 9.6% of the worldwide GDP, which has risen by 1.5% since 2011 (G4S, 2018). It is hard to imagine the United Kingdom without physical cash, let alone the world. Some reasons that consumers may still demand physical cash in the future from an NCR perspective are:

Lack of privacy – making payments electronically translates to lack of privacy with all transactions, whereas cash permits anonymous spending

Technological issues - Since the beginning of the 2018, the United Kingdom have demonstrated the challenge of a cashless economy when it comes to system crashes and failures. Perhaps the best example of technological issues in a cashless society is the computer failure at TSB which caused up to 1.9 million Britons to lose access to their online banking services, with staff unable to provide a variety of basic branch services (BBC, 2018). TSB ran into these problems in April whilst moving customer data to a new IT infrastructure designed by its new Spanish owner Sabadell (Financial Times, 2018). This system failure has cost TSB £176m so far, this year, with many regulatory penalties to come (Financial Times, 2018; BBC, 2018). Following closely behind TSB, VISA reported a mass network failure across Europe in June, which left consumers outraged with no access to card payments for a few days. All VISA card payments were declined and the only option was to withdraw physical cash from the ATM.

The vulnerable, elderly and the unbanked - The elderly generation are highly diverse, with some remaining agile and healthy and abreast with digital innovations, others face increasing challenges with technological advances in payment mechanisms (AGE UK, 2018). A study carried out by the UK Payment Market Review (2017), states that 5% of the adult population relied almost entirely on physical currency in 2016. According to Office for National Statistics (2018), 'In 2018, 8.4% of adults had never used the internet. Of the 4.5 million adults who had never used the internet in 2018, more than half (2.6 million) were aged 75 years and over'. This creates concern as to how the older population would cope in a cashless economy. Furthermore, the number of Britons without a bank account highlights an area of potential challenge in a cashless economy, which relies gravely on the population having some access to a banking system of some form (GOV UK, 2018). Whilst the unbanked account for a relatively minor percentage of the British population, this segment is a key driver of financial exclusion. Perhaps a question we should consider is: what happens to the unbanked, the poor and those who cannot get approval for financial products in a cashless society? **NCR believe that large parts of the population globally still rely on cash for a broad range of payments and will continue to do so. Physical cash will continue to be used for many years, as many individuals prefer this method of payment for security and privacy reasons. It is important to realise that in many parts of the world there is infrastructure challenges (including cellular coverage and reliable access to electrical power), therefore cash is required to remain as a payment method.**

On the other hand, we must anlayse the demand for digital payment mechanisms. The maturity of the ATM market and decline in expansion opportunity resonates to the decline in cash usage in the country. In 2017, a total of 38.8 billion payments were made by consumers in the UK, of which over a third (34 per cent) were paid for with physical cash (UK Payment Markets, 2018). This represents a 15 per cent decline from the previous year. While this decline may raise concern in the country, it is important to note that cash is still the second most popular payment mechanism (behind debit cards), which demonstrates that there remains a demand for cash among consumers.

Having said this, the United Kingdom now ranks third behind Canada and Sweden as the most progressive cashless economies in the world (York, 2018). Once a hypothesised concept, a cashless society is now considered a possibility within the UK. This leaves some consideration as to the case for a cashless society from a government and retail bank perspective. **NCR believe that cashless payment alternatives will grow, through mobile, card and wearable technologies. However, these are likely to co-exist with physical cash.**

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

Banks and fintech companies are rapidly expanding their portfolio of products, with innovative new concept methods of payments. The UK has seen an extremely positive introduction and growth in usage of smart phone and wearable payments. According to Worldpay (2018), Britons used their NFC-enabled smart phones to spend one billion pounds over the course of 2017, which accounts for a 328 per cent rise year-on-year. Utilizing smart phone and wearable contactless payment methods is extremely convenient for consumers, allowing them to pay for goods and services on the go, without carrying a wallet. In addition to convenience, the replacement of a magnetic strip potentially reduces the risk of skimming and fraudulent activity. The economy may even see a reduction in petty theft. According to research conducted by Mastercard (2018), more than a quarter of UK shoppers are ready to use wearables to make contactless payments. Moreover, Barclaycard (2018) have stated that 'touch and go' payment mechanisms are set to rocket by 2021 to 317 per cent, which will inevitably save shoppers an astounding amount of time at the checkout. Frictionless payment solutions seem to be growing in popularity, so perhaps it is not a question of whether or not the UK will become a cashless society, but rather will it become card-less? **NCR believe that other innovative payment mechanisms such as: wearables and mobile phones will grow alongside cash. This will not necessarily impact users of physical cash negatively, as people still value choice and freedom.**

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

From an NCR perspective, we are aware of cashless agendas that have accelerated the adoption of digital payments in certain markets globally. For example in Sweden, the country is often referenced as one of the most pro-cashless countries in the world. The amount of notes and coin in circulation as a proportion of GDP continued to drop and the overwhelming majority of the country (85%) have access to online banking (Source Riksbank/CNBC – May 2018). The key point proving that regulation is vital is that such was the rate of Sweden adopting cashless was that the Central Bank had to step in and warn against the rate of which this change was happening.

In Sweden there were huge concerns that in a cashless society there would essentially be a very small number of commercial players responsible for all of the payments in the country. Consumer choice was being restricted as to how they wanted to pay. The payments infrastructure must be regulated and proven to be in a position that it could cope with all payments becoming digital. The catastrophic consequences witness when the VISA network went down in summer of 2018 are just one example of the challenges of an over-reliance on cashless payments. In this case, demand for cash increased as ATM withdrawals was the recommended route for consumers looking to pay for goods.

There is also the point that in uncertain economic times, withdrawal of cash as a store of value is something that consumers like to do. The demonetization initiatives in India had the opposite effects with consumers withdrawing more cash at the ATM. In Greece when the economy was in trouble, consumers again took to the ATM to withdraw cash.

Regulation and central co-ordination of a cashless push in the UK is very important. There must be attention paid to those that have no access to digital services in remote areas, or those who simply do not want to go cashless.

Question 5: How should access to cash be paid for

From an NCR perspective, there appears to be several bodies that could potentially pay for access to cash in the future. Of which, possibly the most obvious would be the Government and Central Bank. Currently, both agencies cover some of the surcharging and interchange fees. Governments across the globe have been actively in support of the use of digital payments, encouraging the demise of physical cash due to many reasons. The key driver behind a cashless agenda is predominately the reduction in criminal activity such as tax evasion, fraud and theft. Furthermore, a cashless society would enable a boost to local economy by speeding up transaction flow. Another potential group of individuals that may incur financial penalty in a cashless economy are the public. It is possible that in years to come all consumers may be surcharged to open an account with their banking institution. However, it would be our assumption that this would result in pushback from the citizens of the United Kingdom. Should the Government enforce a cashless economy, it could be argued extremely unfair to then charge consumers a fee to use a payment mechanism that they are being forced to utilise.

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