Access to Cash Review: Positive Money submission

Positive Money welcomes the opportunity to respond to the Access to Cash Review call for evidence.

We are a not-for-profit research and campaigning organisation, working towards reform of the money and banking system to support a fair, democratic and sustainable economy. We are funded by trusts, foundations and small donations.

Our submission makes the following points:

- Assuming that people continue to enjoy a free choice over how they use their money, significant demand for cash will remain
- Consumers' need for digital payments could be met with the establishment of a central bank digital currency
- Regulation should protect people's ability to use cash. An obligation should be placed upon retailers to accept cash, and the Payment Systems Regulator should be assigned overall responsibility for protecting access to cash
- The current model should continue, whereby the cash system is largely funded by interchange fees paid by banks on cash withdrawals
- The scope of Link's financial inclusion programme is too limited, and should be reviewed

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

We envisage that if consumers continue to enjoy a free choice over how they use their money, a strong demand for cash will remain. There is no prospect that digital payments will completely replace cash. As the call for evidence notes, the recent UK Finance report concluded that cash will remain a core part of the UK economy and still be the second most frequently used payment method in 2027.[1] Indeed, a substantial proportion of people continue to rely almost entirely on cash to manage their money, despite many of them having access to alternative forms of payment.[2]

The call for evidence notes that consumer choice has played a part in the shift towards digital payments. But it is important to note the role of public policy. For example, unlike existing benefits, Universal Credit claimants will only be able to receive payments via an account with a bank, building society or 'suitable alternative'. The government has justified this by arguing that use of a bank account is "a key enabler to preparing people for the world of work and enabling them to budget effectively".[3]

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[1] UK Finance (2017). UK Payments Markets Summary. https://www.paymentsuk.org.uk/file/2529/download?token=7ZkWTfjG
[2] Ibid
[3] Department of Work and Pensions (6 April 2016). Response to Freedom of Information request: Post Office Card Accounts for Universal Credit Digital Service.

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

Consumers have a need for free and easy access to cash. A Positive Money/YouGov poll found that 77% view access to a free-to-use cash machine as essential to their lives.[4]

People choose to use cash for a variety of reasons. It is often because they find cash to be a useful method of budgeting and managing low or irregular incomes. Using cash gives consumers a greater sense of control over their money: it's obvious how much a person has, and compared to other forms of payment, it is much more difficult to spend more than intended. A factor not mentioned in the call for evidence is the usefulness of cash for people who are uncomfortable with the "frictionless" experience of electronic payments. This can create problems for people who worry about their own ability to make responsible decisions. A study of more than 5,000 people signed up to the Money and Mental Health Policy Institute found that 93 percent of those self-describing as having mental health issues said they spent more when they were unwell.[5] Respondents to the survey also reported self-excluding from certain forms of payments because of mental health problems.[6]

A further key reason why many people rely on cash is that they are dissatisfied with the service offered by high street banks. For most people, making digital payments, such as via contactless card, mobile wallet or online transaction, can only be done using a bank account at one of a small number of institutions, given that Barclays, HSBC, Lloyds, RBS and Santander UK account for 70 percent of the UK retail banking market.[7] As Toynbee Hall's research showed, some people associate banks with overdrafts and debt and find banks to be alien, too complicated or untrustworthy.[8] Polling has shown that a majority of UK adults don't trust banks to work in their customers' best interests.[9]

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https://www.whatdotheyknow.com/request/320876/response/792522/attach/html/2/FoI%20904%20reply.pdf.html

[4] Positive Money (March 2018) Free-to-use cash machines \`essential for majority´: https://positivemoney.org/2018/03/thefutureofcash/

[5] Rose Acton, Money and Mental Health Policy Institute. (March 2017). How fintech can help people with mental health problems. http://www.moneyandmentalhealth.org/wp-content/uploads/2017/03/FCA-Briefing-paper-MMHPI.pdf

[6] Polly Mackenzie and Katie Evans, Money and Mental Health Policy Institute (14 September 2016). Submission to the Financial Exclusion Committee. http://www.moneyandmentalhealth.org/wp-content/uploads/2016/09/LordsFinancialExclusionCommitteeresponseMMHPI.docx.pdf

[7] CMA (February 2016). Retail Banking Market Investigation https://www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk

[8] Financial Inclusion Taskforce (2010). Banking Services and Poorer Households, London: Financial Inclusion Taskforce. http://webarchive.nationalarchives.gov.uk/+/http:/www.hm-treasury.gov.uk/d/fit_access_to_banking.pdf

[9] YouGov (May 2017). 'Most Brits don't think Banks work in customers' interests'. https://yougov.co.uk/news/2017/05/19/most-brits-trust-banks-dont-think-they-work-custom/

As the call for evidence notes, emerging fintech solutions are offering the ability to access digital payments without a bank account. But these non-bank providers face certain key barriers. Institutions wishing to provide current accounts are currently obliged to store their customers' funds in accounts at larger banks, even when they take no risk with their customers' money. In order to connect directly to the major UK payment systems, such as BACS, FasterPayments or CHAPS, an entity must have an account at the Bank of England. Currently, only a handful of big banks have those accounts, and although non-banks are eligible for settlement accounts, these are subject to certain key restrictions.[10] Therefore, in order to process payments or offer current account services, other banks or financial institutions must often enter into an "agency" arrangement with a larger bank. But these larger banks have no interest in encouraging competition, and their clients have complained of high costs and other constraints.

The decline of cash and move towards electronic payments has led to growing calls for universal access to be granted to central bank accounts. This is often described as a 'central bank digital currency' or 'digital cash'. It would retain many of the characteristics of physical cash; a widely-accepted means of payment and store of value, which is available to everyone. And just like physical cash, it could be stored and used without relying on a high street bank.[11]

Giving people the ability to make electronic payments without reliance on traditional financial intermediaries could open up new opportunities to people who currently rely on cash, or who are poorly served by the current market. Such accounts could be administered by private companies, such as existing banks or tech firms, or a public payments provider, with a specific remit to reach currently-excluded groups.

<u>Does access to cash require regulation or central coordination that goes beyond the current framework? If so, what should this involve?</u>

Regulation must protect people's ability to use cash. It is clear that millions of people choose to use cash, even when they have access to alternative forms of payment. Even if a majority of consumers move to digital alternatives, there will always be people who rely on cash, and their ability to participate in the economy must be preserved.

As central bankers have warned, the move to create cashless societies poses a severe risk to financial stability, as it exposes the payments system to credit risk and technological failure.[12] In Sweden, which is arguably the country that has moved farthest towards becoming a cashless society, the central bank has expressed concern that the disappearance of cash may undermine

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[10] Non-bank payment providers are not eligible to store funds overnight at the Bank of England, and are subject to a cap

[11] Ben Dyson, Positive Money (2016) Digital Cash: http://positivemoney.org/publications/digital-cash/

[12] Politico (August 2018). 'Central bankers warn of chaos in a cashless society', https://www.politico.eu/article/central-bankers-fear-cybersecurity-chaos-in-a-cashless-society/

the bank's job to provide a safe and efficient payments system.[13] Moreover, control of the digital payments market is highly concentrated among two actors, Visa and Mastercard. Visa Debit cards accounted for 97% of all debit cards in 2017.[14] This worrying lack of competition will be further compounded if cash, which is the primary alternative payment method, ceases to be an option. With a captive market, card companies would be free to hike the 'interchange fee' on card transactions, resulting in higher prices for consumers.

We agree with the call for evidence that it is unclear whether the overall cost to the UK of a cashless economy would be more or less than the cost of today's cash economy. What is clear is that many of the costs of cash are currently borne by banks, for example via the ATM interchange fee, and that many of the costs of a cashless economy would be borne by retailers and consumers, for example via higher charges on card payments.

Although a small number of shops and restaurants currently refuse to accept cash, this number is likely to increase unless steps are taken to protect consumer choice. As cash accounts for a declining proportion of sales, retailers may move to avoid the additional cost of offering the additional payment option. Card companies are seeking to encourage these moves, with Visa announcing that it was considering plans to launch a 'cashless challenge' in which small traders would be invited to explain the benefits of eliminating cash.[15] A similar exercise in the US saw small businesses given payments of up to $10k for refusing to accept cash.[16] As the call for evidence notes, the concept of legal tender is commonly assumed to constitute a requirement on retailers to accept notes and coins, but no such law currently exists. It is worth considering whether the UK should follow other countries such as Canada in requiring retailers to accept payment in cash. Even if a majority of consumers in a particular area opt to use digital payments, this cannot come at the expense of the minority for whom the option of paying in cash remains essential.

There is a clear need for central regulation of the cash system, in order to secure future generations' ability to use cash. Changing consumer behaviour may put pressure on existing parts of the system, and as the call for evidence says, there are large fixed costs associated with processing and transporting cash. Without central coordination, certain parts of the system may fail, with unacceptable consequences for consumers and financial stability. We propose that protecting the public's access to cash be assigned as a statutory duty of the Payment Systems Regulator.

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[13] CNBC (May 2018). 'People in Sweden barely use cash — and that's sounding alarm bells for the country's central bank', https://www.cnbc.com/2018/05/03/sweden-cashless-future-sounds-alarm-bells-for-the-central-bank.html
[14] UK Cards Association (December 2016). http://www.theukcardsassociation.org.uk/wm_documents/UK%20Card%20Payments%202017%20%20website%20FINAL.pdf
[15] BBC News (July 2017). 'Visa considers incentives for UK firms to go cashless'. https://www.bbc.co.uk/news/business-40604373
[16] Visa website (2018). 'Cashless Challenge'. https://usa.visa.com/about-visa/cashless.html

How should access to cash be paid for?

The ability to make payments is fundamental to any person's participation to the economy, and people should have the right to use their money in the way they choose. On current trends, millions of people will choose to use cash for decades to come.[17] It is therefore important that we treat cash access as a "right".

We are well-served by the current model, where most consumers pay nothing when they withdraw cash, and access is funded primarily by fees paid by banks. Banking is among the most heavily-subsidised sectors of the economy, and it is right that the public expects banks to provide basic services in exchange for the billions in implicit taxpayer support that the sector receives annually.[18] It is not necessarily helpful to think of the fees paid by banks as being a cost to "society" or to bank customers. If banks no longer had to pay interchange fees on cash machine transactions, there is no reason to think that the money saved would not be diverted towards bank profits and dividends for shareholders rather than towards higher interest for savers, or lower charges for current account customers.

The current arrangement is under threat from cost-cutting by banks and moves by card companies to make cash machines unprofitable. Some banks have pushed Link for a reduction in the interchange fee on cash machine transactions. They have been able to do this because of the threat that they will leave Link for alternative schemes operated by Visa and Mastercard, which are reported to set interchange rates up to 30% lower than Link, well below the true cost of facilitating the transaction.[19] The cuts were planned to be introduced incrementally, and have been partially postponed and cancelled, but the first cut in 2018 still coincided with a record rate of free-to-use cash machine closures.[20]

We welcome steps by Link to protect isolated cash machines, which it defines as those free-to-use machines which are further than 1km from the nearest free-to-use machine. Link has pledged to ensure that no 'protected' machine closes without that area having an alternative means to access cash, and the PSR is currently consulting on a 'Specific Direction', which will require Link to report on this commitment. This is a timely intervention, given that dozens of protected machines closed in the first six months of 2018.[21] But the financial inclusion programme is too limited in scope. Only a fraction of the overall number of cash machines is included, meaning that there could be a dramatic hollowing out of the network without Link or

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[17] UK Finance (2017). UK Payments Markets Summary. https://www.paymentsuk.org.uk/file/2529/download?token=7ZkWTfjG
[18] New Economics Foundation, (February 2016). Our Friends in the City. https://neweconomics.org/2016/02/our-friends-in-the-city
[19] Letter from the PSR to the Treasury Select Committee (February 2017) https://www.parliament.uk/documents/commons-committees/treasury/Correspondence/Letter-from-Managing%20Director-Payment-Systems-Regulator-Link-Scheme-20-02-17.pdf
[20] BBC News (September 2018). 'Free cash machines closing at record rate', https://www.bbc.co.uk/news/business-45483637
[21] Ibid

the PSR taking further action. Even if the arrangements are successful at protecting isolated machines, many communities may be left to rely on a just a single cash machine which would fail, on average, nearly two days each month.[22] We are therefore calling for an immediate end to cuts in the interchange fee, and for a further review of the terms of the financial inclusion programme.

[22] UK Finance (2017). UK Payments Markets Summary. https://www.paymentsuk.org.uk/file/2529/download?token=7ZkWTfjG