Treasury Select Committee inquiry into consumers access to financial services: Positive Money submission

Positive Money welcomes the opportunity to respond to this inquiry into consumers' access to financial services.

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:

- There remains a significant demand for cash, including among certain vulnerable groups
- The ongoing closure of free-to-use ATMs will mean that many consumers face detriment
- 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 scope of Link's financial inclusion programme is too limited, and should be reviewed
- Alongside measures to protect consumers' ability to use cash, access to digital payments could be expanded with the establishment of a central bank digital currency

Are certain groups of consumers excluded from obtaining a basic level of service from financial service providers?

The millions of consumers who use cash regularly are at risk of losing access to their money due to the ongoing closure of free-to-use ATMs.

<u>The importance of cash</u>

The ability to access cash freely and easily is vital for many people. A Positive Money poll found that 77% of people regard access to a free-to-use cash machine as essential to their lives.[1] This strong demand for cash is set to continue, with a recent UK Finance report concluding that cash will remain a core part of the UK economy and still be the second most frequently used payment method in 2027.[2] Cash is used frequently by a majority across all age cohorts and demographic groups. It is valued as a payment method by young people, with 74% of 18-24 year-olds seeing cash as ideal for small purchases.[3]

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[1] Positive Money (March 2018) Free-to-use cash machines `essential for majority´: https://positivemoney.org/2018/03/thefutureofcash/
[2] UK Finance Payments Market Review 2017.
[3] Finextra (October 2018) Brits see ATMs as public utility https://www.finextra.com/pressarticle/76173/brits-see-atms-as-public-utility/retail

This consultation has a particular focus on vulnerable consumers, and it is of course important to understand the specific importance that cash has for certain underprivileged groups. But we should also avoid seeing cash as a 'minority' concern. It is used and valued by the majority of consumers, and will continue to be so. The public interest is best served by there being access to all forms of payment. Payment by cash should not be restricted.

2.2 million people rely almost entirely on cash to manage their money.[4] These people are far more likely to come from low income households, with more than half earning a household income of less than £15,000 per year.[5]

Those on lower incomes seem more dependent on cash for storing their savings as well as for payments. Research from the Family Resources Survey and the Department for Work and Pensions shows that those on a low income are more than twice as likely to use cash for their informal savings.[6] Those on low incomes are most likely to have poor financial resilience, exhibited by low savings rates and high levels of personal debt.

Access to cash via ATMs

Cash is most often accessed via ATMs. They are the preferred method for the majority of consumers, regardless of income.[7] The ongoing closure of bank branches is increasing the proportion of cash accessed via ATMs still further. 98% percent of cash withdrawals are made at ATMs which are free to use.[8]

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[9], 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. 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.

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[4] UK Finance Payments Market Review 2017.
[5] Ibid
[6] DWP (2017) Family Resources Survey: financial year 2015/16
https://www.gov.uk/government/statistics/family-resources-survey-financial-year-201516
[7] Toynbee Hall (2016). Response to Payments Strategy Forum User Needs Consultation.
https://consultation.paymentsforum.uk/sites/default/files/documents/Toynbee%20Hall%20Webready.pdf
[8] LINK (2018) Cash and digital payments in the new economy: Comments by LINK on HM Treasury call for evidence
https://www.link.co.uk/media/1391/h-documents-organisations-treasury-tsc-call-for-evidence-2018-hmt-call-for-evidence-2018-link-final.pdf
[9] New Economics Foundation, (February 2016). Our Friends in the City.
https://neweconomics.org/2016/02/our-friends-in-the-city

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.[10] 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 high rate of free-to-use cash machine closures.[11]

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 implementing a 'Specific Direction', which requires Link to report on this commitment. This is a timely intervention, given that dozens of protected machines closed in the first nine months of 2018.[12] 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 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.[13] 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. Given that the terms of the financial inclusion programme are based on recommendations made by the Treasury Select Committee, the committee should take the lead in reviewing whether it is currently fit for purpose.

<u>The PSR must be given a statutory duty to protect cash</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.

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[10] Letter from the PSR to the Treasury Select Committee, 2017 https://www.parliament.uk/documents/commons-committees/treasury/Correspondence/Letter-from-Managing%20Director-Payment-Systems-Regulator-Link-Scheme-20-02-17.pdf

[11] Link (2018) Monthly ATM footprint report https://www.link.co.uk/initiatives/financial-inclusion-monthly-report/

[12] BBC News (September 2018). 'Free cash machines closing at record rate', https://www.bbc.co.uk/news/business-45483637

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

As central bankers have warned, the move to create cashless societies risks alienating vulnerable people, as well as posing a risk to financial stability.[14] 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 the bank's job to provide a safe and efficient payments system.[15] 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.[16] 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. This would disproportionately affect consumers on lower incomes.

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.[17] A similar exercise in the US saw small businesses given payments of up to $10k for refusing to accept cash.[18] 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 in the UK. 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 the public's ability to use cash. Changing consumer behaviour may put pressure on existing parts of the system, and 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, particularly those vulnerable groups which are less financially resilient. We propose that protecting the public's access to cash be assigned as a statutory duty of the Payment Systems Regulator. This call was echoed by MPs from across the House of Commons during a Westminster Hall debate on ATM closures on 4 December.[19]

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[14] 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/
[15] 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
[16] UK Cards Association (December 2016). http://www.theukcardsassociation.org.uk/wm_documents/UK%20Card%20Payments%202017%20%20website%20FINAL.pdf
[17] BBC News (July 2017). 'Visa considers incentives for UK firms to go cashless'. https://www.bbc.co.uk/news/business-40604373
[18] Visa website (2018). 'Cashless Challenge'. https://usa.visa.com/about-visa/cashless.html
[19] Transcript of the debate on TheyWorkForYou: https://www.theyworkforyou.com/whall/?id=2018-12-04c.265.0

Dissatisfaction with banks

A 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.[20] As Toynbee Hall's research showed, some people associate banks with overdrafts and debt and find banks to be alien, too complicated or untrustworthy.[21] Polling has shown that a majority of UK adults don't trust banks to work in their customers' best interests.[22]

Access to digital payments could be expanded via the issuance of a central bank digital currency

Emerging fintech solutions are providing consumers with a way 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.[23] 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.[24]

Giving people the ability to make electronic payments without reliance on traditional banks and

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[20] CMA (2016) Retail banking market investigation
https://www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk
[21] 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
[22] 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/
[23] Non-bank payment providers are not eligible to store funds overnight at the Bank of England, and are subject to a cap
[24] Ben Dyson, Positive Money (2016) Digital Cash: http://positivemoney.org/publications/digital-cash/

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. The remit of a public payments provider could be agreed in collaboration with the Government's Financial Inclusion Policy Forum, in line with its mission to ensure that people, regardless of their background or income, have access to useful and affordable financial products and services.