

## Positive Money submission to Access to Cash Call for Evidence

Positive Money welcomes the opportunity to respond to HM Treasury's Call for Evidence on Access to Cash.

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:

- The most important way the government can protect and enhance access to cash is through maintaining a geographically widespread free-to-use ATM network. Cashback must be seen as complementary to this, rather than a replacement.
- The rapid disintegration of the UK's free-to-use ATM network is the result of structural shortcomings of the LINK scheme. The government must ensure that banks are not able to withdraw membership of LINK, and that the interchange fee is determined by independent reviews which take into account the preferred usage of cash among vulnerable groups and more deprived demographics.
- The costs of providing universal access to cash should be borne by the banking sector, rather than small businesses and the public.
- Acceptance of cash is equally important as access to cash. The government should bring forward legislation to ensure that people have a legal right to pay for goods and services with cash. Furthermore, guidance to retailers must reflect the fact that cash does not pose any particular virus transmission risk, to help ensure that customers are not discouraged from enjoying their freedom to use cash.
- A single regulator, such as the FCA, should be given a statutory duty to protect access to cash. This regulator must be subject to high-levels of public accountability.

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

1.1 Protecting Britain's free-to-use ATM network is the most important thing the government can do to maintain an appropriate network of cash withdrawal facilities. YouGov polling commissioned by Positive Money in December 2019 found that 88% of the public support the government guaranteeing that free-to-use cash machines remain open.<sup>1</sup> Withdrawals from ATMs remain by far the most popular means of accessing cash in the UK, with people acquiring 90% of their cash in this way.<sup>2</sup> YouGov polling commissioned by Positive Money has found that 77% of Britons consider access to free-to-use ATMs 'essential'.<sup>3</sup> Despite this, the number of free-to-use ATMs in the UK has been reduced from 54,500 to 44,000 between

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<sup>1</sup> Positive Money (December 2019). "Huge majority wants government to protect free cashpoints – Positive Money poll reveals."

<https://positivemoney.org/2019/12/huge-majority-wants-next-government-to-protect-free-cashpoints-yougov-positive-money-poll/>

<sup>2</sup> Bank of England (2020). Cash in the time of Covid: Quarterly Bulletin, 2020 Q4.

<https://www.bankofengland.co.uk/quarterly-bulletin/2020/2020-q4/cash-in-the-time-of-covid>

<sup>3</sup> Positive Money (2018). "Over three quarters of Britons deem free ATMs 'essential', as new report calls on government to defend access to cash".

<https://positivemoney.org/2018/03/britons-deem-free-atms-essential/>

January 2018 and March 2020, representing an overall reduction in the size of the network of nearly a fifth (19%).<sup>4</sup>

1.2 The main reason for the rapid disintegration of the UK's free-to-use ATM network are changes to the interchange fee, which is paid by banks and card issuers to fund the provision of free-to-use cash machines. This fee is set by LINK, which confirmed plans to cut the amount banks and card issuers from 25p to 20p per transaction in January 2018. At the time, the ATM industry warned that this could lead to the closure of up to 10,000 free-to-use cash machines.<sup>5</sup> By March 2020, this forecast had already been surpassed, with 10,500 free-to-use cash machines disappearing in the period since January 2018.<sup>6</sup>

1.3 The interchange fee required to fund Britain's free-to-use ATM network has traditionally been independently calculated by KPMG, but in January 2018 LINK took the decision to ignore this independent cost study and reduce the fee below what is needed to provide ubiquitous access to cash across the UK. Positive Money submits that this decision was the result of structural flaws with the LINK scheme. LINK relies on the voluntary membership of banks and card companies, which have an interest in cutting the cost of their contribution to maintaining Britain's free-to-use ATM network, as well as an interest in the decline of cash itself.<sup>7</sup> As a result, it appears that LINK's decision to ignore the independent cost study and instead reduce the interchange fee was motivated by a need to prevent its members withdrawing from the LINK scheme and joining alternative schemes, such as those operated by VISA and Mastercard, which offered interchange fees reportedly 30% lower.<sup>8</sup>

1.4 This 'race to the bottom' in interchange fees is depriving communities across Britain of access to cash, and passing costs from banks onto the public. LINK's interchange fee reduction saved banks £120m in the two years since January 2018, while the public paid £104m to access cash through fee-charging ATMs in 2019 - a 39% increase from 2018.<sup>9</sup>

1.5 An immediate solution to mitigate this trend would be taking measures to ensure that no bank is able to withdraw from schemes that provide wide-reaching access to cash, such as LINK's ATM scheme and the Post Office Banking Framework. The LINK interchange fee must also be decided by a model which is independently calculated, incentivises widespread geographic access, and accounts for the fact cash is particularly relied on by vulnerable groups and more deprived demographics. For example, there is an increased need for ATMs in areas with a greater population of older people, or lower average income. For these areas, the interchange fee could be adjusted to reflect demographics and needs, along with currently considered factors such as proximity to other ATMs. These measures should be overseen by a regulator with a statutory duty for maintaining access to cash, such as the

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<sup>4</sup> LINK Monthly ATM Footprint Reports (January 2018 and March 2020).

<https://www.link.co.uk/initiatives/financial-inclusion-monthly-report/>

<sup>5</sup> The Guardian (2017). "Plan to shut free-to-use cash machines could lead to 'ATM deserts' in UK."

<https://www.theguardian.com/money/2017/nov/01/free-to-use-link-cash-machines-atm-deserts-uk>

<sup>6</sup> LINK Monthly ATM Footprint Reports.

<https://www.link.co.uk/initiatives/financial-inclusion-monthly-report/>

<sup>7</sup> <http://positivemoney.org/wp-content/uploads/2018/03/Positive-Money-Future-of-Cash.pdf>

<sup>8</sup> The LINK board announces changes to operation of its ATM network (31 January 2018).

<https://www.link.co.uk/media/1355/h-documents-uploads-link-interchange-consultation-announcement-31-january-2018.pdf>

<sup>9</sup> <https://www.which.co.uk/news/2020/02/banks-save-120m-but-customers-forced-to-pay-104m/>

FCA. This regulator should maximise transparency of the process, and welcome high levels of public accountability, to help mitigate against the threat of regulatory capture.

1.6 The measures outlined in section 1.5 would help ensure that the costs of Britain's vital cash infrastructure is borne by the banking sector, rather than households and small businesses. UK banks' profitability is based on their ability to take deposits guaranteed by the state, which represents a considerable implicit public subsidy.<sup>10</sup> It is therefore incumbent on banks to provide ubiquitous access to these deposits through a widespread ATM network, and fair that deposit-takers bear the costs of maintaining this vital utility.

1.7 Furthermore, we endorse the calls for greater government support for the Post Office network that have been put forward by the Business, Energy and Industrial Strategy Committee<sup>11</sup>, Citizens Advice<sup>12</sup>, the Communications Workers Union<sup>13</sup>, and others. We recommend the government commits to maintaining its subsidy for the Post Office in the long-term to ease the financial pressures on the network. The FCA should also be ready to make strong interventions in the event that commercial banks take steps towards leaving the Post Office Banking Framework, including making membership mandatory if necessary. In total, the Post Office network has more branches than all the banks and building societies combined, and should be considered an irreplaceable part of the UK's cash infrastructure.

#### Question 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?

2.1 Cashback must be considered complementary to a geographically widespread free-to-use cash machine network, rather than a replacement. As outlined in section 1.1 of this submission, ATM withdrawals are by far the most popular means of accessing cash in the UK.

2.2 We are particularly concerned that an over-reliance on no-purchase cashback and similar small-scale solutions would risk placing unfair costs and pressures on SMEs, which may then also be transferred onto the communities they serve. Small scale commercial solutions for cash distribution are likely to be efficient and well presented on first impression, but will ultimately rely on extracting value from their users, most likely in the form of a transaction fee in conjunction with the collection of users' sensitive data. This makes them a poor candidate for providing the primary means for cash access.

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<sup>10</sup> Positive Money (2017). To better understand UK banks we have to follow the money  
<https://positivemoney.org/2017/11/uk-banks/>

<sup>11</sup> Business, Energy and Industrial Strategy Committee - Future of the Post Office Network: First Report of Session 2019–20.  
<https://publications.parliament.uk/pa/cm201919/cmselect/cmbeis/247/247.pdf>

<sup>12</sup> Citizens Advice - Post Office News: November 2020.  
<https://www.citizensadvice.org.uk/Global/CitizensAdvice/Post%20Office%20Investment%20at%20Spending%20Review%202020.pdf>

<sup>13</sup> Communications Union (June 2020). "Summary of Government Response to the BEIS Committee's First Report of Session 2019-20 on the Future of the Post Office Network."  
[http://www.cwu.org/wp-content/uploads/2020/06/Attachment-to-201\\_TB287-Government-response-to-BEIS-Committee-on-Post-Office-B.-Taylor.pdf](http://www.cwu.org/wp-content/uploads/2020/06/Attachment-to-201_TB287-Government-response-to-BEIS-Committee-on-Post-Office-B.-Taylor.pdf)

2.3 Cash plays a vitally important role in the UK's payments system, and provision of cash withdrawals and deposits should continue to be regarded as a core service the banking sector provides for the real economy. As mentioned in section 1.5 of this submission, banks have received generous public support from implicit subsidies, bailouts and emergency lending schemes, and are more able to shoulder the costs of maintaining vital cash infrastructure than households and small businesses. This is especially the case considering the devastating impact the COVID-19 crisis has had on many businesses and workers, while banks have reported better than expected profits.<sup>14</sup>

#### Question 4: What are the key factors and considerations for maintaining cash acceptance in the UK?

4.1 The COVID-19 pandemic has brought to the fore the importance of not only access to cash, but cash acceptance. Many retailers across the UK are insisting that customers do not pay in cash, on the supposed basis that notes and coins pose a higher risk of virus transmission than card payments, which are being encouraged instead.<sup>15</sup> One in ten people were reportedly refused when attempting to pay with cash in May.<sup>16</sup>

4.2 Cash usage is being discouraged despite the evidence showing that banknotes carry no particular virus transmission risk, as the head of the Robert Koch Institute for infectious diseases has pointed out.<sup>17</sup> The World Health Organization (WHO) clarified that it has not said banknotes would transmit COVID-19, after media reports spread misinformation regarding its statements on the matter.<sup>18</sup> Indeed, according to the Bank for International Settlements, "Scientific evidence suggests that the probability of transmission via banknotes is low when compared with other frequently-touched objects, such as credit card terminals or PIN pads."<sup>19</sup> A recent study published by the Bank of England also found the infection risks for cash were significantly lower than for 'high touch' objects in retail environments, including card terminals and the touchscreens of self-checkout terminals.<sup>20</sup> Not only are efforts to discourage cash usage therefore misguided, but they could actually serve to increase public health risks.

4.2 Misinformation regarding the safety of cash risks discouraging the public from enjoying the freedom to choose this payment method. Polling shows that 46% of people in the UK would feel more comfortable using cash if signs discouraging cash usage were

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<sup>14</sup>

<https://www.independent.co.uk/news/business/banks-coronavirus-government-support-profit-b1529540.html>

<sup>15</sup> Polling of SMEs has found that more than half have put up signs encouraging card payments <https://www.sld.com/podcasts/will-people-still-use-cash-in-the-future/>

<sup>16</sup> Which (June 2020). "Coronavirus cash crisis leaving vulnerable people with no way to pay." <https://www.which.co.uk/news/2020/06/coronavirus-cash-crisis-puts-millions-of-people-at-risk/>

<sup>17</sup>

<https://www.reuters.com/article/us-health-coronavirus-germany-banknotes/banknotes-carry-no-particular-coronavirus-risk-german-disease-expert-idUSKBN20Y2ZT>

<sup>18</sup>

<https://www.marketwatch.com/story/who-we-did-not-say-that-cash-was-transmitting-coronavirus-2020-03-06>

<sup>19</sup> <https://www.bis.org/publ/bisbull03.htm>

<sup>20</sup> Bank of England - Cash in the time of Covid: Quarterly Bulletin 2020 Q4.

<https://www.bankofengland.co.uk/quarterly-bulletin/2020/2020-q4/cash-in-the-time-of-covid>

removed.<sup>21</sup>The same polling indicates that it is not consumers who are most worried about the safety of cash, but businesses. This is most likely the result of government guidance to retailers during the pandemic suggesting that businesses should encourage card usage. The government and its Scientific Advisory Group for Emergencies (SAGE) must ensure any guidance reflects the scientific consensus on the safety of cash compared to other payment methods.

4.3 As the UK's monetary authority responsible for maintaining trust in banknotes, the Bank of England also has a responsibility to defend cash from misinformation. Other central banks have taken more proactive approaches in informing the public about the safety of cash from the early days of the pandemic. For example, Germany's Bundesbank held press briefings in which the country's media were educated on the safety of cash usage.<sup>22</sup> The Bank of England should follow the example of the Bundesbank and take a more active role in promoting trust in cash.

4.4 As well as maintaining geographically widespread access to cash, the government should bring forward legislation to ensure that people have a legal right to pay for goods and services with cash.

Question 5: Should the government give a single regulator overall statutory responsibility for maintaining a well-functioning retail cash distribution network? If so, with which regulator should this responsibility sit?

5.1 Positive Money has long-argued the need for a regulator with a statutory responsibility for ensuring access to cash. We have previously envisioned that the Payment Systems Regulator would be the most appropriate body to hold such a duty, but we also support the transfer of these responsibilities to the FCA itself, which possesses stronger regulatory powers. We also recommend that the FCA be subject to greater accountability through measures in the new Financial Services Bill.

5.2 Any future regulator must, at the very least:

- Guarantee widespread geographic access to cash.
- Reflect demographics, deprivation and demand for access to cash in its work.
- Deliver a 'user-centric' approach to access to cash, with a guarantee on minimum level of access to cash withdrawal points, with cashback seen as complementary to and not a replacement for ATMs.

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<sup>21</sup> <https://enryo.org/news-%26-media/f/only-1-in-10-consumers-think-cash-is-unhygienic>

<sup>22</sup>

<https://www.bundesbank.de/en/tasks/topics/cash-poses-no-particular-risk-of-infection-for-public-82876>