HOUSE OF COMMONS LIBRARY

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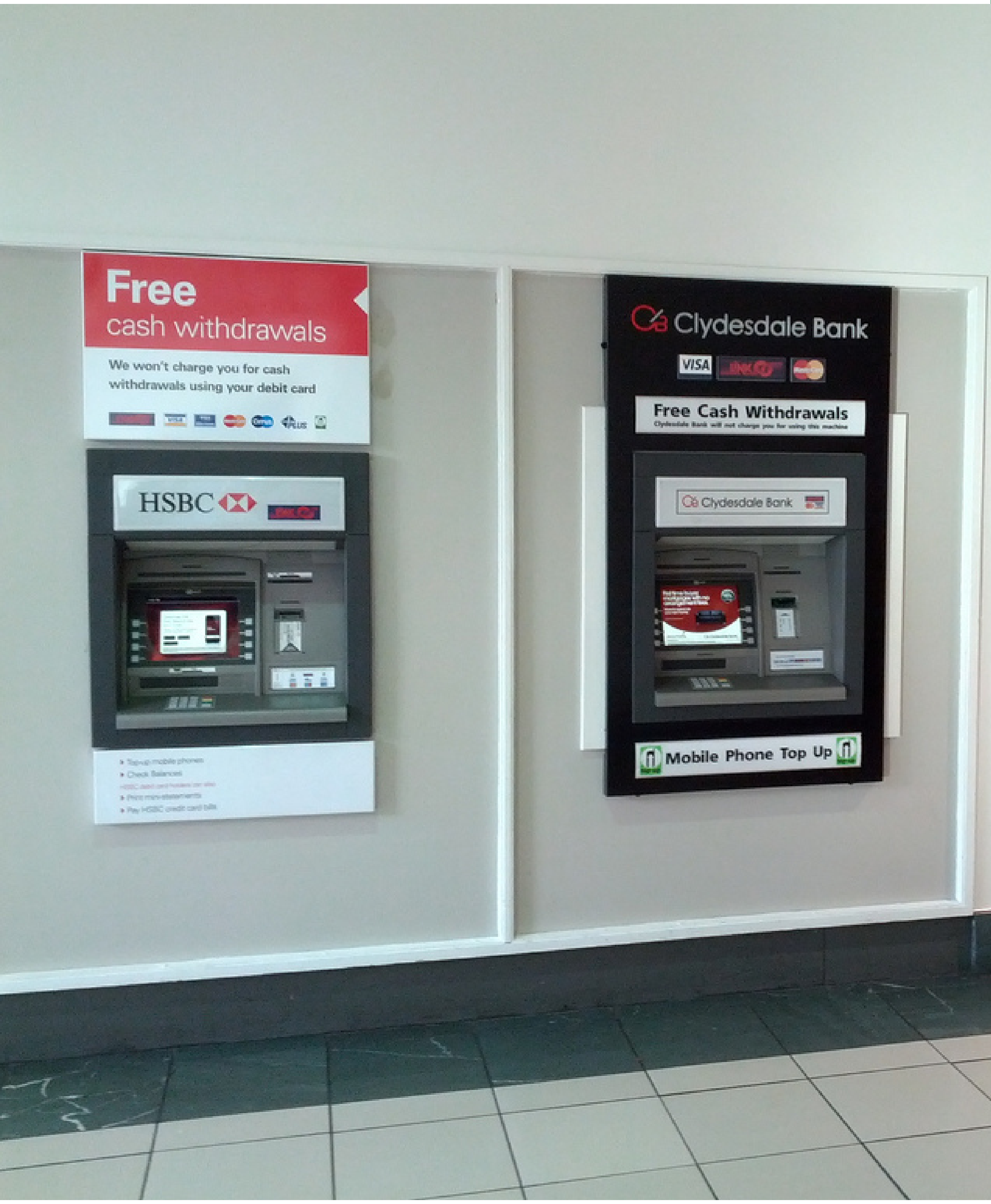
Protecting access to cash

By Jamie Evans



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Summary

Cash use is declining and the decline appears to have been accelerated by the pandemic, but it remains a key payment method for more vulnerable people

The way that consumers in the UK pay for goods and services has changed in recent years. Many consumers are increasingly turning their backs on cash and are moving to digital payments. This trend appears to have been accelerated by the coronavirus pandemic.

While there are benefits to digital payment methods, those who are unable to use this technology are at risk of being left behind. Lower income households and those who don't have or can't use the internet are much more likely to depend on cash and may therefore find themselves struggling in a cashless society. There is evidence that, during the pandemic, cash use declined less in constituencies with higher deprivation.

Digital payments are still less commonly used in some situations, for example: where online connectivity is limited; where retailers don't take cards or where this functionality is down; or where someone relies on someone else making purchases on their behalf.

The cash system is under increasing pressure and there are fears for its future

Lower consumer demand is putting the system for accessing cash under increasing strain, as the economic incentives for providing cash infrastructure slowly disappear. This has led to fears the cash system could collapse in coming years as demand for cash falls further.

The number of free-to-use (FTU) ATMs fell by 13 per cent between 2018 and 2019, coupled with a 38 per cent increase in pay-to-use (PTU) machines. Data suggests that PTU ATMs have emerged disproportionately in more deprived areas since 2018. Overall, one in four areas were further from free access to cash in 2020 than in 2018 – but in most cases the increase in distance has been relatively low (less than 250m).

While ATMs accounted for 90 per cent of all cash withdrawn in 2019, consumers can also access cash via other channels, including over the counter at bank, building society and Post Office branches or through cashback at merchants that offer this service. Each of these has its own pros and cons as a way of accessing cash, however.

The other side of access to cash is the extent to which customers can pay by cash. There is limited evidence overall on the number of businesses that will not take cash. However, survey data suggest that one-in-ten consumers have been refused when trying to pay by cash since the start of the coronavirus pandemic.

Measures to protect access to cash

The 2019 Access to Cash Review highlighted the need for different government bodies and regulatory authorities to work together to address access to cash. This prompted the Treasury to set-up and chair the Joint Authorities Cash Strategy (JACS) group, bringing together the Treasury, the Payment Systems Regulator (PSR), the Financial Conduct Authority (FCA) and Bank of England to lead the UK's strategy on this issue.

In the 2020 Spring Budget, the Chancellor said the Government would legislate to protect access to cash in the UK. Following this, in October 2020, the Treasury published a call for evidence to inform its future strategy. This outlined the Treasury's views that ATM provision may need to move towards a more 'utility-based' model in future, that cashback **without purchase** could be made more widely available through changes to legislation, and that the FCA is likely to be best-placed to regulate access to cash in future.

Simultaneously, there are ongoing industry-led schemes to protect cash access and to pilot new ways of doing so. The Government is also taking steps to reduce digital exclusion and to support new innovations in financial technology.

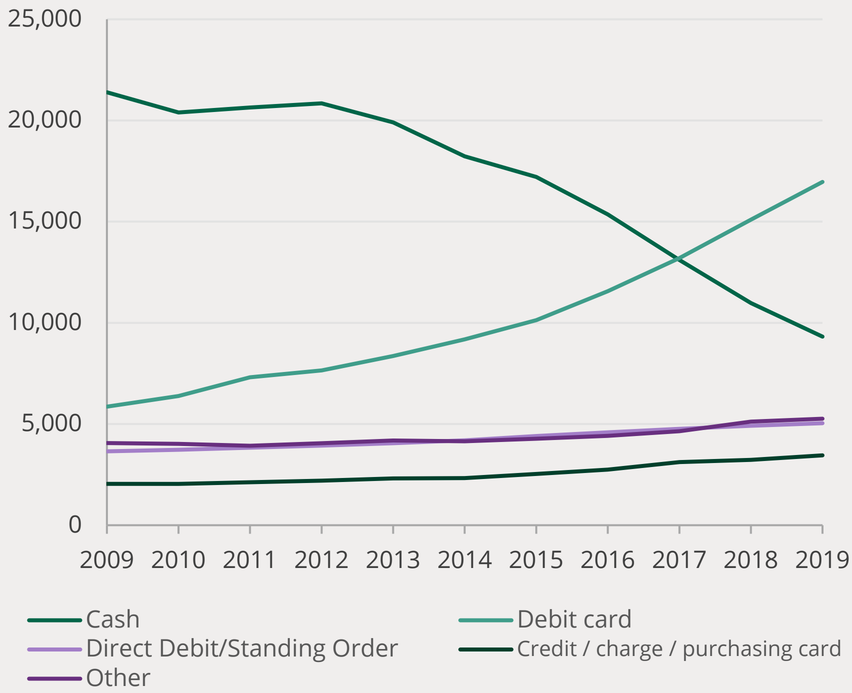
1. Cash use declines, but remains a key payment medium

1.1 Trends in cash usage

In recent years, cash payment volumes have fallen substantially, while the use of digital payment methods – led by debit cards – has accelerated. According to data from UK Finance (the largest trade association for banks and the financial services industry), the number of payments made in cash in the UK fell from over 20 billion in 2012 to less than half that in 2019.[1] Card payments, on the other hand, had increased to the point of accounting for more than half (51 per cent) of all payments in the UK by 2019.

UK Payment Volumes, 2009 to 2019

Millions of payments



Source: UK Finance. [UK Payments Markets 2020](). June 2020.

But despite the decline in the use of cash, it still accounted for 23 per cent of all payments in 2019 and was the second most common form of payment.[2] Data from the British Retail Consortium meanwhile suggests

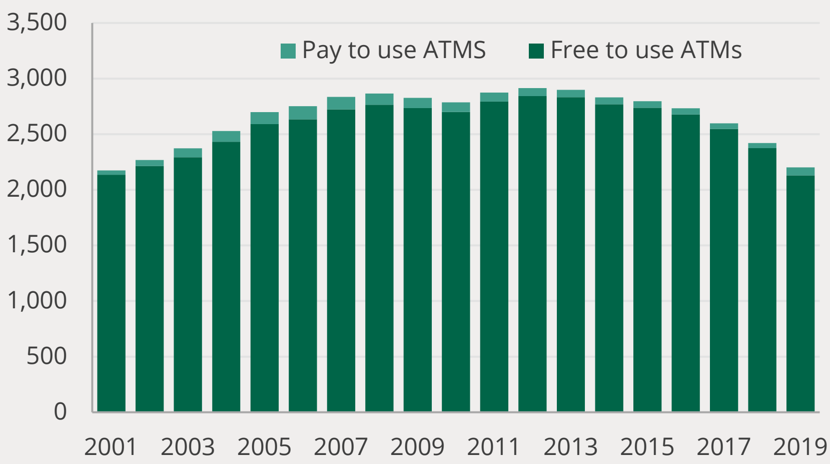
1 UK Finance (2020) 'UK Payments Market Summary 2020'.
2 Ibid.

that in 2018 cash comprised 38 per cent of all payments made to British retailers, amounting to a total of £77.7 billion.[3]

Data from LINK (the network to which effectively all ATMs in the UK are connected) shows how the volume of cash withdrawals from cash machines has changed in recent years.[4] While the number of withdrawals had been steadily increasing until the early 2010s, this pattern has since reversed. The data also reveals that the vast majority of withdrawals are made from free-to-use (FTU) ATMs, rather than pay-to-use (PTU) machines, which charge a fee to withdraw money. Between 2001 and 2019, PTU ATMs accounted for between 1.8 and 4.3 per cent of withdrawals in any given year.

Volume of cash withdrawals from ATMs

Millions



Source: LINK. Statistics and trends [accessed on 20 October 2020]

The impact of the coronavirus pandemic

The coronavirus pandemic has led to dramatic changes to the way that many people in the UK (and across the world) live, work and spend their money.

As the National Audit Office (NAO) concluded in a report on the cash system published in September 2020, this appears to have impacted upon the use of cash by British consumers. It found that cash use crashed during the lockdown, and only returned to 77% of pre-lockdown levels by August:

> Early indications suggest a substantial further reduction in cash use over and above [previous] forecasts resulting from the COVID-19 emergency, as many consumers and businesses switched away from cash during the lockdown, although it is unclear yet if this is

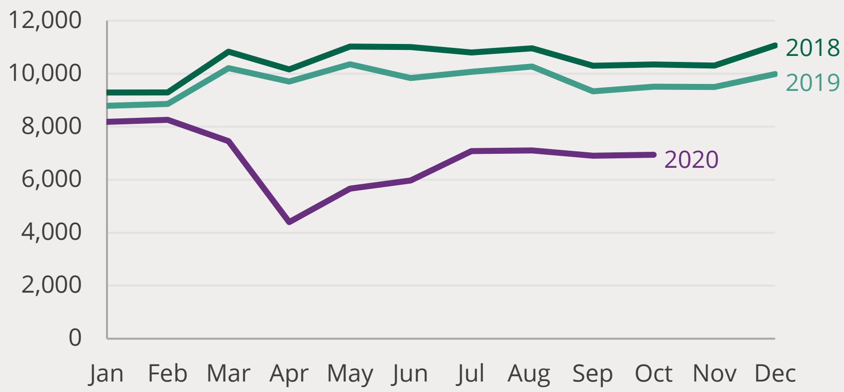
3 British Retail Consortium (2019) 'BRC calls for action on card fees'.
4 LINK (2020) 'Statistics and trends'.

> a permanent switch or a temporary effect. Data collected by the cash industry suggest that the demand for notes and coins declined by 71% between early March and mid-April during the COVID-19 lockdown but by early August had recovered to 77% of pre-lockdown demand. (National Audit Office)[5]

Data from LINK (shown below) highlights the very different trajectory that 2020 has taken in terms of cash withdrawals from ATMs, compared to previous years. Cash transactions from ATMs decreased by 57 per cent in value and 62 per cent in volume in the first full week of lockdown compared with the same week in the previous year – but interestingly, the average withdrawal value per transaction went up by nearly a third to £84 from 2019's average of £63.[6] The reason for this change is unclear but it may reflect: greater reluctance to touch ATMs, leading to fewer but larger withdrawals; changing shopping habits, such as less frequent but larger purchases; or a change in the type of customer continuing to use cash (for example, lower users of cash may be using it less while heavy users continue to use it the same).

Value of cash withdrawals from LINK ATMs*

£ million



**does not include withdrawals at customers' own banks' or building societies*
Source: LINK. Statistics and trends [accessed on 20 October 2020]

LINK published the results of an online survey of consumers in April 2020, which asked about how the pandemic had affected their use of cash.[7] This showed that:

- 14% consumers say they are keeping more cash at home in case of emergencies.

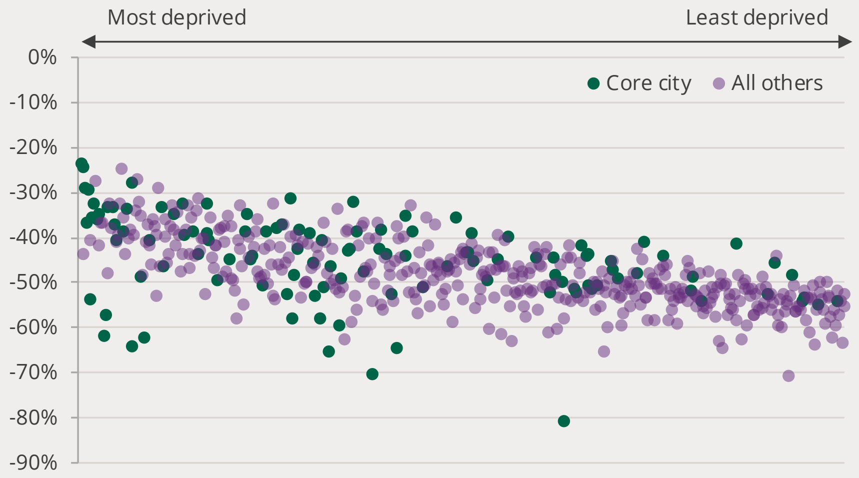
5 NAO (2020) 'The production and distribution of cash'.
6 Evidence provided for 'The future of cash post COVID-19' webinar BrightTALK, 21 April 2020. In: Tischer, D., Evans, J., & Davies, S. (2020) 'Cash'. In: Parker, M.. (Ed.) *Life After Covid-19. The other side of crisis.* Bristol: Bristol University Press. Pp. 83-93.
7 LINK (2020) 'Coronavirus Crisis means cash use down but UK still withdrawing £1billion from ATMs each week'.

- Three quarters (75%) of consumers said they are using less cash, with over half (58%) using cash a lot less. However, 23% of consumers said they are using the same amount or more cash.
- More than half of people (54%) say they are now avoiding using cash and using alternative payment methods.
- 76% of people say they think the Coronavirus crisis will affect their future use of cash over the next six months:
  - Around half (51%) say they will use cards more.
  - 44% said they will use contactless/mobile payments more.
  - 34% said they will do more shopping online.
  - 31% said they will use ATMs less frequently.
- 10% said they had wanted to pay in cash but that it hadn't been accepted.

Data from LINK suggests that some places have seen their use of cash reduce by more than others. Constituencies in the UK's core cities (such as Cities of London and Westminster, Glasgow Central and Holborn and St Pancras) have seen some of the largest falls in cash withdrawals. A relationship also appears to exist between deprivation and the reduction in cash withdrawals – with more deprived areas seeing *less* of a reduction than less deprived areas (as shown below). While the cause of this cannot be established from this data alone, one conclusion is that a higher proportion of people in deprived communities are dependent on cash, compared to those in less deprived areas.

Deprivation and change in ATM withdrawals, by Parliamentary constituency

Year-on-year % change in ATM withdrawals, English constituencies only

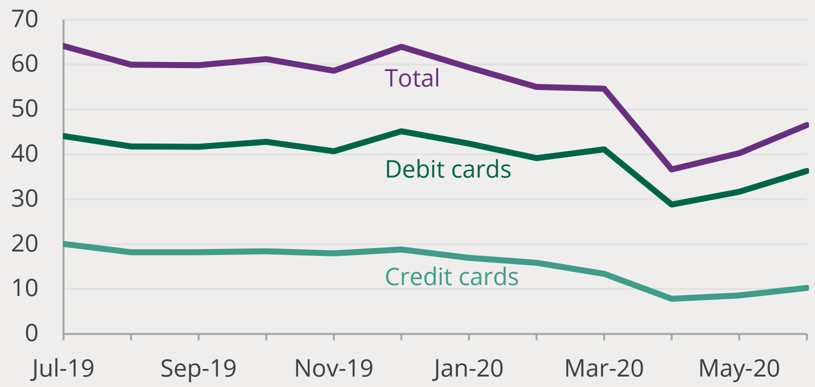


Source: data supplied by LINK (April to September); constituencies classified by Commons Library (see CBP 8322)

Cash is of course not the only payment medium to have been affected by the pandemic. The volume and value of card transactions also declined dramatically during and after lockdown, as indicated by the chart below. The total value of card transactions in the UK in July 2020, for example, was down more than 16 per cent when compared with the same time the previous year.[8] Analysis of transaction data from Nationwide Building Society meanwhile suggested that in the four weeks to 12 April 2020 debit card spending was 41 per cent lower than the previous year.[9] Contactless payments decreased to 33 per cent of Nationwide transactions, down from around 49 per cent – reflecting the shift towards online shopping behaviours during this period of lockdown.

Card activity in the UK – impact of lockdown

Value of transactions,* £ billions



** both UK and overseas issued cards*

Source: UK Finance. Card spending update for July 2020.

The UK compared with other countries

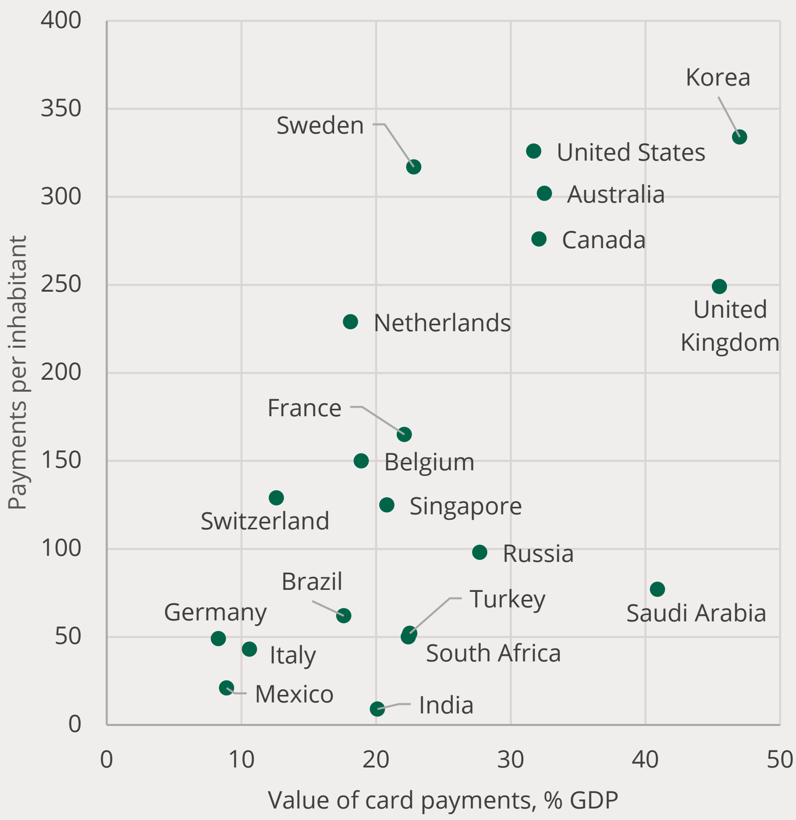
Card payments are increasing across both advanced and emerging economies, but uptake has been quicker in some countries. In the UK, Korea and Saudi Arabia the value of card payments relative to GDP was more than 40 per cent in 2016, while Germany (8.3 per cent), Mexico (8.9), Japan (10.1) and Italy (10.6) sat at the other end of the spectrum.[10]

Focusing on the value of ATM withdrawals as a percentage of GDP in 2016, however, Sweden (2.5 per cent), Switzerland (4.4) and France (6.3) were the lowest users of cash.[11] For comparison, in the UK, ATM withdrawals were equivalent to 9.7 per cent of GDP.

8 UK Finance (2020) 'Card spending update for July 2020'.
9 Nationwide Building Society (2020) 'Month one of lockdown: Britain takes in 430 million home deliveries as nation adapts to life indoors'.
10 Bech, M., Faruqui, U., Ougaard, F., and Picillo, C. (2018) 'Payments are a-changin' but cash still rules'. BIS Quarterly Review, March 2018.
11 Ibid.

International comparisons of card payments, 2016

Value of payments and payments per inhabitant



Source: Bech et al. (2018) '[Payments are a-changin', but cash still rules'](). BIS.

1.2 The impacts of cashlessness on consumers

John Glen MP, Economic Secretary to the Treasury, has hailed the progress that the UK has made in financial innovation, describing the UK as "one of the leading destinations globally" for investment in financial technology (or 'FinTech'). However, he also recognised that such changes can be detrimental to some people:

> …progress can also risk leaving people behind, and in the case of financial services, exclusion from banking services can have a detrimental impact on people's lives. Whilst card payments and other payments services are becoming increasingly popular, the evidence shows that a significant proportion of the UK population continues to rely on cash in their day to day lives. (John Glen MP)

This was largely the conclusion of the independent 'Access to Cash Review', which was commissioned and funded by the LINK ATM network in 2018 and led by a former chief executive of the Financial Ombudsman Service, Natalie Ceeney CBE.[12] The review concluded that while "the convenience of digital payments has made them the first choice of payment for many", as many as 8 million adults in the UK (17

12 Access to Cash Review (2019) 'Access to Cash Review. Final Report.'

per cent of the population) would "struggle to cope in a cashless society".

The review found that those in the following groups and situations may be negatively affected by such a move:[13]

- **Those on a lower income** – described as the "biggest indicator of cash dependence", lower-income households are less likely to have access to digital infrastructure and are more likely to use cash for budgeting reasons.
- **Older adults** – older adults are more likely to be dependent on cash, with 53 per cent of over 75s being 'cash preferers' according to the Payment Systems Regulator, compared with just 14 per cent of those in the 25-34 age group.[14] This trend appears to link to digital exclusion, with 39 per cent of those over 75 surveyed not having access to any digital device. Interestingly, consumers aged 18-24 somewhat buck the trend; a higher proportion (23 per cent) of those in this age group prefer to use cash than in the 25-34 and 35-44 age groups (14 and 16 per cent respectively). The reason for this among younger adults appears to be to help them better 'control' their spending.
- **Those with certain physical or mental health problems –** a range of health problems may make it more difficult to use digital payments. Cognitive difficulties, for example, may make it challenging to remember a PIN, while those with certain visual impairments may prefer the tactile nature of cash. Those with certain mental health problems may not trust digital payments or may find it more difficult to control compulsive spending (affecting, for example, some people living with bipolar disorder or with gambling addiction).
- **Those at risk of overspending and going into debt if using digital** – nine per cent of the population worry that they will overspend if they use digital payments, so instead stick with cash.
- **Those who rely on others to buy things for them** – four per cent of the population rely on other people, such as a carer or family member, to make purchases on their behalf and then pay them in cash. During the first national coronavirus lockdown, according to *Which?* one in five people said they were helping someone else with their shopping or to manage their finances, and the majority of these had been repaid in cash.[15]
- **Those who are 'financially excluded'** – seven per cent of the population can't get or doesn't have access to a debit card, and in total around 1.3 million are 'unbanked'.[16] This might include

13 Unless specified otherwise, all findings below are from the Access to Cash Review's nationally representative survey of 2,000 UK consumers conducted in November 2018.

14 BritainThinks (2019) 'Access to cash research with consumers and small businesses. Final report. Commissioned by the Payment Systems Regulator'.

15 Which? (2020) 'Coronavirus cash crisis leaving vulnerable people with no way to pay'.

16 Financial Conduct Authority (2018) 'The financial lives of consumers across the UK. Key findings from the FCA's Financial Lives Survey 2017'.

those who are new to the UK, living in extreme poverty or who are homeless.

- **Those in areas with poor digital connectivity** – six per cent report that they don't always have good access to broadband or mobile reception, meaning that cash is sometimes the only option.
- **Those in areas where local shops or services don't take card** – 37 per cent of the population reports that they need cash for occasions when cards are not accepted. For example, 33 per cent of adults said they need cash to pay tradespeople, window cleaners or gardeners, 23 per cent said that a lot of local businesses still only accept cash, and six per cent are involved with a community group that only uses cash.

Collectively, the Access to Cash Review found that 47 per cent of the population would find it personally problematic if there was no cash in society.

Questions of 'need' versus 'preference' for cash

It is arguably impossible to determine whether someone else truly 'needs' something or merely has a 'preference' for it. However, when it comes to cash, stakeholders such as the Payment Systems Regulator (PSR) have attempted to distinguish between groups of consumers who are dependent on cash and those who prefer to use it.

Research for the PSR described the proportion of consumers that are wholly dependent on cash as "low" – although this is based only on those who do not have a debit card or bank account (3 per cent) and on those who lack access to a computer, tablet or smartphone (9 per cent).[17]

It found that around a quarter of consumers (28 per cent) have a preference for cash. This is "primarily for budgeting and control purposes, but also to avoid the discomfort and security risks they associate with cards and contactless." More broadly, the research also shows that as many as 83 per cent of consumers had used cash in the past week. One-in-ten, however, had *only* used cash.

In a similar exercise, the Access to Cash Review asked consumers whether they would find it personally problematic "if there was no cash in society as we know it today".[18] While 34 per cent said it would not be problematic and 19 per cent did not know, 47 per cent reported that they would find it problematic. This 47 per cent comprised the following groups, each with differing levels of 'need' or 'preference' for cash:[19]

- 7 per cent of the population who "wouldn't cope at all. Cash is essential to how I live my life."

17 BritainThinks (2019) 'Access to cash research with consumers and small businesses. Final report. Commissioned by the Payment Systems Regulator'.
18 Access to Cash Review (2019) 'Access to Cash Review. Final Report.'
19 Author's own calculations, based on figures from the Access to Cash Review. Figures re-based so that the percentages in bullet points add up to the 47 per cent who would find it problematic without cash.

- 10 per cent of the population who "don't know how I would cope. Cash is very important to how I live my life."
- 24 per cent of the population who "would cope. But losing cash would be a major inconvenience".
- 7 per cent of the population who "would cope. Losing cash would be a minor inconvenience".

UK Finance report that in 2019, 2.1 million consumers 'mainly used cash'.[20] They note, however, that the majority of these still use other payment methods to pay their bills and that they largely have access to a debit card. For this reason they concluded that:

> It should be noted that whilst these people prefer to use cash when paying for things, they are not necessarily unwilling or unable to use other methods of payment… Nevertheless, there is great diversity in the way in which different people in the UK prefer to manage their finances and conduct their day-to-day spending. (UK Finance)

1.3 Longer-term questions about going 'cashless'

Beyond its effect on individual consumers, there are also broader longer-term questions that shifting to a purely cashless society poses. These relate predominantly to the **reliability**, **security** and **privacy** of digital payments.

Reliability

Research from the consumer group *Which?* found that one-in-seven people – equivalent to seven million – experienced at least one glitch that had made it impossible to pay with their debit or credit card at some point in 2018.[21] One-in-twenty meanwhile had experienced such issues more than once.

Furthermore, analysis of IT failings reported to the FCA showed that between April 2018 and the end of that calendar year there were 302 major incidents in this time.[22] This was equivalent to more than one incident per day.

Perhaps the most significant IT failing to-date was one that affected the VISA network in 2018, causing 10-hours of problems for customers in the UK and across Europe. This affected 1.7 million cardholder accounts in the UK (10 per cent of the cards used during this time) and led to 2.4 million transactions failing to process (equivalent to 9 per cent of transactions initiated during this period).[23] The issue was caused by a partial failure of a switch in one of VISA's two UK data centres used for processing payments.

20 UK Finance (2020) 'UK Payments Market Summary 2020'.
21 Which? (2019) 'More than seven million people blocked from card payments by IT glitches'.
22 Which? (2019 'Revealed: UK banks hit by major IT glitches every day'.
23 VISA (2018) Letter to Nicky Morgan MP, Chair of the Treasury Committee, about service disruption on Friday 1 June.

Such IT failures are viewed by some consumers as a good reason for continuing to use and hold cash. Indeed, nearly one-in-five (18 per cent) of those surveyed for the Access to Cash Review said that they believe it is a good idea to keep cash in case IT systems go down.

Security

While cash is perhaps less secure for individual consumers – "stolen cash is gone forever"[24] – digital payments can also pose security challenges and, when they do, these often occur on a much larger scale. Dr Daniel Tischer, an academic at the University of Bristol specialising in finance and banking noted that "the danger of mass cyber-attacks… looms ominously for any cashless society with no good backup plan."[25]

Indeed, in the year to October 2018, financial firms reported a 187 per cent increase in technology outages to the FCA and 18 per cent of these incidents were cyber-related.[26] This led the FCA to conclude that:

> On the basis of the data that the FCA is currently collecting, we see no immediate end in sight to the escalation in tech and cyber incidents that are affecting UK financial services.[27]

There have been a number of high-profile cyberattacks on banks and financial institutions in recent years: in 2016, HSBC's internet banking service was left unavailable after a 'denial of service' attack; in 2019, Travelex was forced to halt travel money sales at some banks and supermarkets following an attack by hackers; and in 2020, in Japan a number of thefts from bank accounts linked to a major cashless payments service were uncovered.[28,29,30]

Please also see our House of Commons Library Research Briefing on *Economic Crime in the UK*.

Privacy

A further concern about the cashless society is the damage that it might do to an individual's ability to live their life privately. While cash transactions are largely anonymous and untracked, digital payments leave a record that can be traced back to individuals with ease. Some commentators are therefore concerned about the power that this gives to financial institutions and how this power might also be used by government actors and corporations:

> The end of cash will probably mean the beginning of an all-encompassing financial panopticon that can be used for widespread surveillance, tracking and manipulation of individuals by both states and corporations…
>
> Those who argue for the benefits of such surveillance effects always say 'if you have nothing to hide you have nothing to fear',

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24 Access to Cash Review (2019) 'Access to Cash Review. Final Report.'
25 Tischer, D., Evans, J., & Davies, S. (2020) 'Cash'. In: Parker, M.. (Ed.) *Life After Covid-19. The other side of crisis.* Bristol: Bristol University Press. Pp. 83-93.
26 FCA (2018) 'Cyber and technology resilience in UK financial services'.
27 Ibid.
28 The Guardian (2016) 'HSBC suffers online banking cyber attack'.
29 BBC News (2020) 'Travelex boss breaks silence 17 days after cyber attack'.
30 The Japan Times (2020) 'As cyberattacks rise globally, Japan's digital security found lacking'.

> but we value privacy for reasons beyond trying to hide. Many of us like feeling that we have autonomy and that we can engage in private economic decisions without an authority looking over our shoulder all the time. The surveillance society is one in which adults are made to feel like small children who cannot be trusted.[31]

Conversely, some see cash as a facilitator of criminal activity and black markets. HM Revenue & Customs (HMRC) issued a call for evidence on this subject in 2015 and concluded that there is some evidence of cash being used in the hidden economy, which matches HMRC's own operational experience.[32]

However, HMRC notes that a decline in the use of cash will not necessarily result in it being used less for such purposes. Likewise it was also suggested that those who are intent on evading payment of tax or committing financial crimes will always find a way to do so, regardless of payment mechanism. Indeed, this is exemplified in research from the Oxford Internet Institute, which highlighted the way in which 'darknet markets' are used to facilitate the purchase of illicit drugs in the UK and around the world.[33]

1.4 The benefits of digital payments

While a number of questions do remain about the shift towards a cashless society, digital payments offer a range of advantages to consumers and businesses. These include:

- Speed and convenience – neither party in a transaction needs to count change in order to hand over or receive money.
- Maintaining a digital record of transactions – allows people to recall what they have spent money on. Additionally, through technologies such as open banking, consumers can potentially use this digital record to complete income and expenditure forms (such as those used in debt advice) quickly and easily.[34] Cash has traditionally left various amounts of money unaccounted for in such forms.
- Digital payments can offer greater protections for consumers. As noted in the Access to Cash Review: "Stolen cash is gone forever, but if you suffer card fraud you'll usually get your money back. Banks can trace transactions if there's a dispute, and credit cards offer Section 75 cover for purchases over £100."[35]
- Spending on cash does not help consumers improve their credit rating; whereas budgeting well on a card can.

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[31] Scott, B. (2018) 'Cash in the era of the digital payments panopticon'. In: Gloerich, I., Lovink, G. & de Vries, P. (eds) *MoneyLab Reader 2: Overcoming the Hype.* Amsterdam: Institute of Network Cultures.

[32] HMRC (2016) 'Call for evidence: cash, tax evasion and the hidden economy. Summary of responses'.

[33] Dittus, M. (2018) 'Darknet markets: global platforms used for local retail trade'. Oxford: Oxford Internet Institute.

[34] See the Money and Pensions Service's PACE debt advice pilot for more information on a trial of the use of open banking data to speed up the debt advice process.

[35] Access to Cash Review (2019) 'Access to Cash Review. Final Report.'

- Digital payments can help to reduce abuse and exploitation. Migrants, often female, are at greater risk of abuse and coercive control if paid in cash, while older adults or those with health conditions may also be at greater risk of financial abuse when relying on cash.[36]
- As previously noted, digital payments may also play a role in reducing the size of the hidden economy, potentially helping lower levels of tax evasion.
- It could also be said that there may be environmental benefits to digital payments associated with reduced need for printing notes and vehicles driving cash around the country.

What is clear is that a characteristic of digital payments that helps one individual – such as being quick and easy to spend money – might also be something that harms another (for example, by making it *too easy* to spend money).

36 Access to Cash Review (2019) 'Access to Cash Review. Final Report.'

2. The cash system is under pressure

2.1 An overview of the cash system in the UK

Box 1 summarises the different parts of the cash system in the UK, from over-arching government policy down to the end-consumer of cash and the return of old banknotes.

The Government's policy is to safeguard access to cash for those who need it, while supporting digital payments.[37] HM Treasury is responsible for meeting this objective; and their intentions are described in more detail in a 'call for evidence' on access to cash, published in October 2020:

> The government's overarching objective is to maintain a sustainable infrastructure for cash in the UK, to ensure financial inclusion for all parts of society, including the most vulnerable who rely on cash in their daily lives. This includes ensuring that people and businesses can access cash withdrawal and depositing facilities within a reasonable travel distance as needed for their day to day lives.[38]

The Royal Mint and Bank of England are responsible for the production of coins and banknotes respectively, while the Payment Systems Regulator (PSR) and Financial Conduct Authority (FCA) both hold roles relating to the protection of consumers in the payments and financial markets. As noted by the National Audit Office in September 2020, neither the FCA nor PSR have formal objectives relating to the protection of cash, but the PSR and Bank of England regulate LINK – the organisation that oversees the UK's ATM network.[39]

UK consumers access cash via a range of commercial entities, but most commonly through the ATM network: in 2019, around 90 per cent of all cash withdrawn was from ATMs.[40] Of those withdrawals from cash machines, in 2019, 97 per cent were made from free-to-use (FTU) ATMs and the remaining three per cent came from pay-to-use (PTU) machines.[41]

Consumers are also able to access cash via the branch of their banking provider as well as via a Post Office branch if their bank has signed-up to the Banking Framework with the Post Office.[42] As of 2020, 29 banks are part of this agreement, including all of the 'CMA 9', the nine largest banks and building societies in the UK by volume of personal and business current accounts.[43] There are around 8,000 bank and building

37 NAO (2020) 'The production and distribution of cash'.
38 HM Treasury (2020) 'Access to cash: call for evidence'.
39 NAO (2020) 'The production and distribution of cash'.
40 Ibid.
41 Author analysis of LINK data from 'Statistics and Trends' [accessed 29 October 2020]
42 For a list of banks that offer banking services at Post Office branches, please see the Post Office's 'Everyday Banking' webpage.
43 See Open Banking's 'Glossary' for more information on the CMA 9.

society branches and 11,000 Post Office branches in the UK.[44,45] Shops and businesses are able to deposit unneeded cash in-branch at their banking provider or Post Office, or can have it collected via an armoured courier who will take it to a cash depot.

44 Commons Library Briefing Paper, Number 02585. 'Post office numbers'.
45 Tischer *et al.* (2020) 'Access to cash – mapping the territory'. FCA Insight article.

Box 1: Summary of the cash system in the UK

Over-arching UK Government policy aim:
Safeguard access to cash for those who need it, while supporting digital payments.

Responsible for achieving the Government's aim:
HM Treasury

Ensuring the cash system meets consumer need:
The **Payment Systems Regulator** (PSR) and **Financial Conduct Authority** (FCA) have statutory consumer protection objectives and functions. None of these refer specifically to cash – but the PSR does regulate LINK's oversight of the ATM network.

The production of cash:

The **Royal Mint** holds responsibility for producing coins. These are produced at Llantrisant in South Wales. In 2019-20 the Mint manufactured 383 million coins for UK circulation (compared with nearly 1.1 billion in 2010-11).

The **Bank of England** holds responsibility for the production of notes. It sub-contracts manufacture to a company called De La Rue, which prints notes at a Bank-owned site in Essex. The number of notes in circulation reached a high of 4.4 billion in July 2020.

The distribution of cash:

Wholesale distribution of notes through the 'Note Circulation Scheme (NCS)', which enables four commercial entities (G4S Cash Solutions, the Post Office, National Westminster Bank and Vaultex) to manage wholesale distribution. Coins are collected by banks and other companies from the Mint.

Consumers can access cash through:

- The **ATM network**, which is overseen by LINK. ATMs are either owned by banks or Independent ATM Deployers (IADs), such as Cardtronics and NoteMachine. There are around 45,000 free-to-use (FTU) and 15,000 pay-to-use (PTU) ATMs. When a consumer uses an ATM that isn't owned by the bank that issued their card, their bank pays an interchange fee to the ATM operator.
- **Post Office branches** – customers of 29 banks signed up to the Banking Framework can withdraw cash from the Post Office's network of approximately 11,000 branches.
- **Bank and building society branch counters** – customers are able to withdraw money over the counter at any organisation they bank with. Credit unions may also offer this service.
- **Cashback** when making a purchase at merchants which offer this service. In January 2020, VISA launched a scheme where shops and businesses in the most rural parts of the UK are offered a monetary incentive to offer cashback to consumers using their VISA debit cards. Cashback without purchase is also currently being trialled at PayPoint retailers.
- **Other services** that provide cash to consumers include: PayPoint's Cash Out scheme, Cash Perks and OneBanks. Some banking providers sent consumers cash in the post during the pandemic.

Cash depositing:

Cash that isn't returned to customers as change or spent by a business is either taken to a local depot or NCS cash centre by armoured van, or is taken to a bank branch or Post Office where it is paid in over-the-counter or via a deposit machine. When notes are returned to the NCS cash centre, they are sorted by machines to check they are genuine and in good condition.

2.2 Current access to cash

A survey of consumers run on behalf of the PSR in 2019 found that 95 per cent of consumers found it easy to withdraw or access cash, with little difference found between those who use cash more regularly and the average consumer.[46] 16 per cent meanwhile said that they have to go out of their way to access cash (falling to 12 per cent among 'cash preferers'), and 6 per cent reported problems when accessing cash in the last month – with these mostly relating to ATM faults.

There is also evidence from the PSR's survey that different groups of consumers have different levels of willingness to travel or pay to access cash. Older consumers and those with long-term health conditions were less likely to say that they would be happy to travel 10 minutes out of their way to access cash, while older consumers, those in rural areas, those with long-term health conditions and those on lower incomes said that they would rather pay a small fee (of around 20 pence) each time for each withdrawal in order to keep their nearest ATM operational than risk it closing down.[47]

Similarly, the Access to Cash Review highlighted that while some consumers may have good physical access to cash (i.e. they are near to a cash access point), they may not be able to make use of this access.[48] For example, those with disabilities may not find an ATM accessible and some consumers may be concerned about the security and/or privacy of some access points. Additionally, consumers may not necessarily be aware of the different options available to them for withdrawing cash.

Accessing cash via ATMs

There was a 13 per cent decrease in the number of FTU ATMs in the UK between 2018 and 2019 (down from 52,040 to 45,355), coupled with a 38 per cent increase in the number of PTU machines (from 11,120 to 15,307).[49] As of the end of October 2020, the number of FTU ATMs was approximately 42,000, while there were 13,400 PTU machines.[50] Indeed, a pattern of declining ATM numbers has been ongoing since 2015, though this is actually a reversal of the trend in the decade before that – as shown below.

There have been concerns that the impact of ATM closures or conversions to PTU have been disproportionately concentrated in more deprived communities.[51] [52] [53] *Which?,* for example, found that whereas just 3.9 per cent of ATMs in the least deprived decile of neighbourhoods

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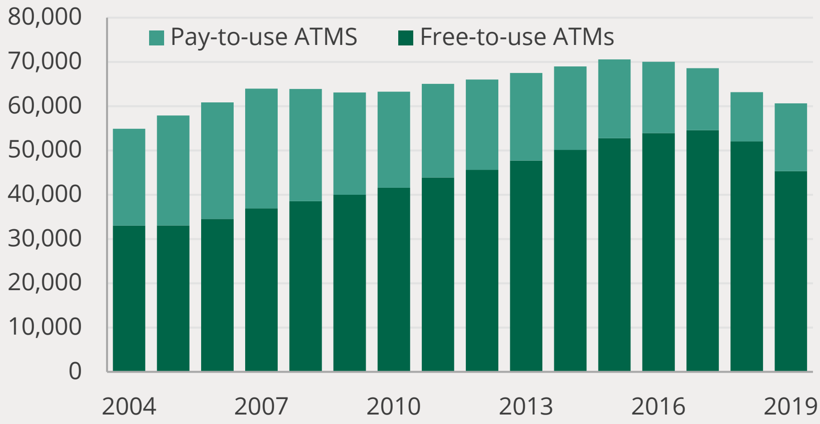
46 BritainThinks (2019) 'Access to cash research with consumers and small businesses. Final report. Commissioned by the Payment Systems Regulator'.
47 BritainThinks (2019) 'Access to cash research with consumers and small businesses. Appendices. Commissioned by the Payment Systems Regulator'.
48 Access to Cash Review (2019) 'Access to Cash Review. Final Report.'
49 Author's analysis of LINK data from their 'Statistics and Trends' webpage [accessed 29 October 2020]
50 Data provided directly by LINK.
51 Tischer *et al.* (2019) 'Mapping the availability of cash. A case study of Bristol's financial infrastructure.' Bristol: Personal Finance Research Centre, University of Bristol.
52 Which? (2019) 'Poorer areas hit hardest by loss of free cash machines'.
53 NAO (2020) 'The production and distribution of cash'.

closed or started charging fees since January 2018, this rises to 5.7 per cent in the most deprived areas. Similarly, the National Audit Office (NAO) also reports that between January 2018 and January 2020 the average number of FTU ATMs in the most deprived areas declined proportionally more than in the least deprived areas, though it does point out that such areas do still have more FTU ATMs overall.

Number of ATMs in the UK

Number at year-end



Source: [LINK. Statistics and trends] [accessed on 20 October 2020]

In its report, the NAO concluded that "the PSR has focused on geographical access to free-to-use ATMs but has paid less attention to analysing the impact in more deprived areas".

The PSR plans to measure this in future using a consumer tracker. Together with the FCA it has also worked with researchers at the University of Bristol[54] to map access to cash in the UK, with a particular focus on the impact that changes in recent years have had on more deprived communities. Indeed, initial analysis from this project shows that 'constrained city dwellers' saw a 36 per cent increase in PTU ATMs between March 2018 and March 2020, while the number of FTU machines decreased by 17 per cent.[55]

The impact of these changes in ATM numbers on consumers' ability to access cash, however, appears somewhat nuanced. Around three-quarters of all UK neighbourhoods were no further from the nearest FTU ATM in 2020 than they had been in 2018.[56] While 26 per cent of areas were further away than they had been, most had seen the distance to the nearest FTU ATM increase by less than 250m. This also

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[54] The main author of this Library Briefing Paper, Jamie Evans, is part of the team from the University of Bristol that contributed to this research. Jamie is currently a Parliamentary Academic Fellow who is working with specialists in the Library under the Parliamentary Academic Fellowship Scheme.

[55] Tischer *et al.* (2020) 'Access to cash – mapping the territory'. FCA Insight article.

[56] Ibid.

appears true in more deprived communities, but the researchers do note that while most deprived areas did have free access to cash within relatively low distances (less than 1km), the **closest** option was more likely to be a PTU ATM in these areas than in less deprived places. The researchers were not able to determine the extent to which consumers actually use these machines, however.

The pattern of declining FTU ATM numbers has been at least partially put down to a reduction in the amount paid by banks to ATM deployers when customers withdraw money from a machine that the bank doesn't own (the 'interchange fee'). LINK sets its own interchange fees[57] and announced a first reduction from July 2018 and a second in January 2019 (as shown in Box 2). These changes were made with the intention of "shifting incentives from deploying ATMs in city centres to rural and less-affluent communities" and to maintain LINK's membership for the foreseeable future.[58] [59] Independent ATM deployers, however, have publicly said that the changes have negatively impacted on their machine's economic viability, 'forcing' them to convert some machines to PTU:

> We have always operated a free-to-use model wherever possible. However, in a worst case scenario, unless urgent action is taken to reduce the pressure on ATM operators by reversing the interchange fee reductions, NoteMachine will be forced to begin converting ATMs to surcharging. (Peter McNamara, Chief Executive, NoteMachine)[60]

In response to such concerns, LINK announced that it would protect the 2018 interchange fee payable to ATMs that are located more than 1km from the nearest FTU ATM. [61] It also announced that a new higher premium would be paid on ATM withdrawals from machines with low levels of withdrawals (less than 600 per month) to protect their commercial viability.[62] This added to existing schemes already in place to protect ATMs that are far from another free alternative and those in the most deprived areas. See Box 2 for a full breakdown of interchange fees and premiums payable in different situations.

The full impact of the coronavirus pandemic on ATM availability is as yet unknown; however, initial analysis by the FCA and PSR suggested that as many as 12 per cent of ATM sites across the country were unavailable by May 2020.[63] These were generally unavailable because the businesses in which they were located – such as shopping centres,

57 Similarly, Mastercard and VISA also set their own interchange fees for electronic transactions made at retailers. Please see their respective websites for more information.

58 LINK (2018) 'LINK moves to secure future of free ATMs'.

59 Card issuers (i.e. banks and building societies) that pay the interchange fee are members of LINK on a voluntary basis – and could leave the scheme to join other lower cost schemes, such as those offered by VISA or Mastercard.

60 Collinson, P. (2019) 'UK's free ATM network under threat as operators levy charges.' *The Guardian, 1 May 2019.*

61 LINK. 'Interchange'. [accessed 29 October 2020]

62 LINK already ran a low volume premium for machines with < 4,500 withdrawals per month, but announced new higher premiums for those with < 600 withdrawals.

63 Iscenko, et al. (2020) 'Cash and Covid: identifying gaps in provision during Covid-19'. *FCA Insight Article.*

pubs and universities – had to close. These figures, however, did begin falling again in the weeks and months following May; over 50 per cent of those which had temporarily closed had re-opened by August.[64]

In terms of how these (temporary) closures have affected consumers' ability to access cash, the analysis finds that just 0.1% of the UK population had lost access to all sources of cash within 3 miles of their home because of the pandemic. These impacts were found to be greater in Wales and Scotland, in rural areas more generally and in those areas where a mobile bank branch or Post Office had been the only option previously available.

64 Data supplied by LINK.

Box 2: Changes in the interchange fee structure over time

The interchange fee is a fee that a card issuer pays the ATM operator when a customer makes a withdrawal at a cash machine (that the card issuer doesn't own).

The rate of interchange varies depending on whether an ATM is protected or not, and whether it is located within a branch (generally bank-owned) or located elsewhere.

Effective date	Standard interchange rate		Protected ATM interchange rate		Financial inclusion and low volume premium (paid in addition to interchange fee)	Notes
	Branch Rate	Remote Rate	Branch Rate	Remote Rate		
1st January 2017	£0.251	£0.287	N/a	N/a	10p	
1st January 2018	£0.251	£0.283	N/a	N/a	10p	
1st July 2018	£0.238	£0.269	£0.251	£0.283	From 10p to 30p	First 5% reduction in interchange rate. Protection comes in effect. Premiums added for low transacting ATMs.[65]
1st October 2018	£0.243	£0.273	£0.256	£0.287	From 10p to 30p	LINK raises interchange rates based on Bank of England's Monetary Policy Committee decision to raise base rate by 0.25% to 0.75% .
1st January 2019	£0.231	£0.259	£0.256	£0.287	From 10p to 30p	Second 5% reduction in interchange rate.
1st April 2019	£0.231	£0.259	£0.256	£0.287	From 10p to £2.75	Additional premiums added for low transacting ATMs.[65]
1st January 2020	£0.231	£0.259	£0.256	£0.287	From 10p to £2.75	Proposed rate decrease was cancelled.
1st January 2021	£0.231	£0.259	£0.256	£0.287	From 10p to £2.75	Proposed rate decrease was cancelled.

Accessing cash via bank, building society and Post Office branches

More information on the number and trends related to the availability of bank and Post Office branches can be found in the following Library briefing papers:

- 'Post office numbers' (Briefing paper no. 02585)
- 'Bank branch and ATM statistics' (Briefing paper no. 08570)

Data from the ONS suggested that there were 10,405 bank and building society branches in the UK in 2019, down from 13,345 in 2012 (a fall of 22 per cent).[66] Using data supplied by the majority of banks

[65] Premiums payable according to cash withdrawals per calendar month are: 0-199 withdrawals, £2.75; 200-399 withdrawals, £0.81; 400 – 599 withdrawals, £0.43; 600 – 1,500 withdrawals, £0.30; 1,501- 3,000 withdrawals, £0.20; 3,001 – 4,500 withdrawals, £0.10. The premiums for ATMs with less than 600 withdrawals per month were added in April 2019.

[66] Commons Library Briefing Paper, Number 08570. 'Bank branch and ATM statistics'.

and building societies, however, the FCA, PSR and University of Bristol estimate that there were around 8,000 bank and building society branches as of the beginning of March 2020.[67]

As of March 2019, there were 11,638 Post Office branches in the UK.[68] Most of these (9,814 or 84 per cent) were agency branches – owned and managed by either an independent postmaster or larger franchise partner. 191 (2 per cent) meanwhile were directly owned by the Post Office and a further 1,633 (14 per cent) were outreach services, which are typically small part-time services (often run out of village halls or mobile vans) to provide services to communities that otherwise might lack access.

The Government requires the Post Office to meet six 'Access Criteria' to ensure that the majority of the UK population is able to utilise Post Office services. These criteria are as follows:

- 99% of the UK population to be within three miles of their nearest post office outlet;
- 90% of the UK population to be within one mile of their nearest post office outlet;
- 99% of the total population in deprived urban areas across the UK to be within one mile of their nearest post office outlet;
- 95% of the total urban population across the UK to be within one mile of their nearest post office outlet;
- 95% of the total rural population across the UK to be within three miles of their nearest post office outlet.
- 95% of the population of every postcode district to be within six miles of their nearest post office outlet.

In 2019, it met all but the final of these criteria, with three postcode districts failing to serve 95 per cent of the population within six miles.[69]

As outlined in section 2.1, customers of 29 banks and building societies are able to withdraw cash from the Post Office – however, this is only possible because of commercial agreements reached between the Post Office and the respective banking providers. Indeed, in October 2019, Barclays announced that they were no longer going to allow their customers to do this; however, after concerns from customers and consumer groups, the bank eventually reversed their decision and committed to the agreement for a further three years.[70]

In terms of how often branches are used for cash withdrawals and why, research for the PSR gives some indications: 25 per cent of 'cash preferers' (and 12 per cent of all consumers) had used a bank or building society branch to withdraw money in the past month; while 15 per cent of 'cash prefers' (and 11 per cent of all consumers) had done

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67 Tischer *et al.* (2020) 'Access to cash – mapping the territory'. FCA Insight article.
68 Commons Library Briefing Paper, Number 02585. 'Post office numbers'.
69 Post Office Limited (2019) 'The Post Office Network report 2019'.
70 Peachey, K. (2019) 'Barclays U-turn on cash access in post offices'. *BBC News, 24 October 2019.*

so at the Post Office.[71] Qualitative evidence suggests that those who withdraw money from these sources tend to prefer to deal with people and value being able to withdraw larger amounts from bank branches – but may have concerns over long queues and branch closures.[72]

Additionally, Citizens Advice conducted research in 2020 into cash access and banking services at Post Office branches and found that consumer banking at Post Office counters has doubled in the past three years, with a quarter of consumers and a fifth of small businesses having now used Post Office banking services.[73] While they found that "overall service standards are largely good", staff don't always provide customers with the right information (for example, 56 per cent gave incorrect information about withdrawal limits) and 70 per cent of postmasters surveyed said the pay rates they receive for banking do not cover the cost of providing the service.

In October 2020, the Post Office announced significant changes to its ATM estate.[74] While at present its ATMs are owned and operated by the Bank of Ireland, towards the end of 2021 ATMs will be migrated to the Post Office estate. As part of this, it will reduce overall ATM numbers (in Post Office branches) by a third; however, the Post Office says that it will "retain those ATMs that provide a vital source of cash for communities where nearest alternative free to use ATM is at a significant distance away".

Lastly, University of Bristol researchers have noted that the opening hours of Post Offices and bank/building society branches mean that on Sundays the number of free cash access points (excluding cashback) accessible to consumers in the UK drops by 32 per cent.[75] This leaves one in five (21 per cent) rural communities more than an additional 1km further away from free access to cash, and 4 per cent of tall such areas more than 5km further away.

Accessing cash via cashback

Around one-in-five consumers (20 per cent) and one-in-ten (11 per cent) 'cash preferers' had withdrawn cash by requesting cashback when making a purchase in the past month, as of February 2019, according to the PSR's research.[76] This was regarded as a particularly convenient source of cash for those who use their card regularly. For some, however, cashback had "fallen off the radar" since supermarkets had stopped asking customers about cashback with every purchase.

As we explore in Section 3, one possible barrier to consumers using cashback is the need for a purchase. As part of the Community Access

71 BritainThinks (2019) 'Access to cash research with consumers and small businesses. Final report. Commissioned by the Payment Systems Regulator'.
72 Ibid.
73 Citizens Advice (2020) 'Banking on it: How well are post offices delivering cash and banking services?'
74 Post Office (2020) 'Post Office to invest in free to use ATMs.'
75 Tischer *et al.* (2020) 'Where to withdraw? Mapping access to cash across the UK'.
76 BritainThinks (2019) 'Access to cash research with consumers and small businesses. Final report. Commissioned by the Payment Systems Regulator'.

to Cash Pilots, LINK's Consumer Council has funded a trial of cashback *without purchase* in 13 small shops in four communities of the UK.[77]

As part of research in which they mapped access to cash across the UK as of March 2018, the FCA, PSR and University of Bristol identified approximately 37,000 locations across the country where cashback (with purchase) is already being offered and used by consumers.[78] The researchers also found differences in how consumers use cashback compared with other methods of accessing cash: while they typically withdrew £60 per withdrawal from an ATM, this fell to £20 when obtaining cashback. At Post Office branch counters, the average withdrawal value was £90, and at bank or building society branch counters it was £220.

2.3 Could the cash system 'collapse'?

The trends discussed in previous sections are generating concerns that as cash use falls over time, the economic viability of cash infrastructure in the UK will decrease. This is said to put the entire cash system at risk of 'collapse', with consumer advocates such as *Which?* and Natalie Ceeney CBE (chair of the Access to Cash Review) urging government action on the issue.[79]

The Access to Cash Review[80] highlights two ways in which consumers' ability to access cash could be severely impacted – as outlined below.

'Cash deserts': consumers can't access cash

Free-to-use ATMs are funded by the 'interchange fee', paid for by a customer's card issuer (usually a bank or building society). The card issuer may fund this activity through their other business activities (such as lending or account fees). The costs of running a pay-to-use ATM meanwhile are paid directly by the customer through a fee per transaction.

With ATM usage falling, there is a risk that the costs of running an ATM will no longer be met by the amount of money made from either interchange or transaction fees. This could mean that ATM operators choose to close ATMs or convert them to pay-to-use (which, as explored in section 2.2, appears to already be happening).

Unlike banks and building societies which run ATMs in addition to a range of other services that they offer, independent ATM deployers (IADs) predominantly run ATMs. There is a risk therefore that these organisations could exit the market, meaning thousands of ATMs could close rapidly. The Access to Cash Review notes that this is particularly important given that 57% of all ATMs are run by just four IADs.

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77 LINK (2020) 'LINK and PayPoint pilot enabling free cash withdrawals from retailers' tills goes live with good demand'.

78 Tischer *et al.* (2020) 'Where to withdraw? Mapping access to cash across the UK'.

79 Read, S. (2020) 'UK's cash system 'will collapse without new laws'. *BBC News,* 19 February 2020.

80 Access to Cash Review (2019) 'Access to Cash Review. Final Report.'

Cash infrastructure 'fails': problems with wholesale and distribution

There are a relatively small number of commercial entities who run the wholesale cash network in the UK and transport cash to its final destination. There are six wholesale banks that buy and sell notes and coins in bulk, who are supported by four members of the wholesale Note Circulation Scheme (NCS). Two firms (G4S and Loomis), meanwhile, dominate the market for transporting cash.

All of these firms are operating in an environment where the demand for cash is predicted to fall considerably in future. As with the ATM market, there is a risk that one or more of these firms could exit the market, which could severely impact the capacity of the market overall.

2.4 The acceptance of cash

Some consumers risk being left behind, not because they cannot access cash but because they cannot pay with it.

An inability to pay with cash in Sweden, for example, has been described as "the real death knell for cash"; half of Swedish retailers surveyed said that they probably wouldn't accept cash after 2025.[81] In the US, meanwhile, due to concerns about retailer non-acceptance of cash, a number of cities and states (including New York) have approved legislation to prevent retailers from refusing to accept cash.[82]

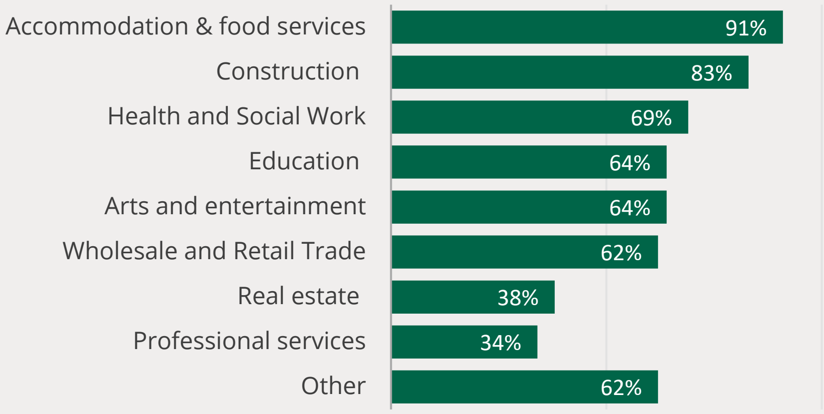
Data on cash acceptance in the UK is relatively limited; however, a survey of approximately 500 SMEs for the PSR suggests that acceptance of cash differs from sector to sector, with heavily consumer-facing businesses such as those in accommodation and food services being particularly likely to take cash (as shown below).

A 2019 survey found that 100 per cent of convenience stores accept cash, with 95 per cent accepting debit card and 88 per cent taking contactless payments.[83] Indeed, data from 2018 showed that three-quarters (76 per cent) of convenience store customers paid by cash, reflecting the low average spend (£6.50) when visiting such shops.[84]

81 Access to Cash Review (2019) 'Access to Cash Review. Final Report.'
82 Shanahan, E. & Mays, J. (2020) 'New York City Stores Must Accept Cash, Council Says'. *New York Times, 23 January 2020.*
83 ACS (2020) 'The local shop report 2020'.
84 ACS (2019) 'ACS submission: PSR research into cash access, use and acceptance'.

Cash acceptance, by business type

% of businesses in each sector that accept cash



Source: [BritainThinks survey of SMEs for the PSR (2019)](#).

Acceptance of cash appears largely driven by a number of factors, including digital connectivity, the business' customer base, value and volume of transactions, business structure, risk of counterfeit notes and whether staff are paid in cash.[85] The costs of handling cash are also important but are not always viewed as a direct cost to the business, unlike card transaction fees which appear as a fee on their bank statement. Nevertheless, 75 per cent of SMEs deposit cash in the bank, 34 per cent maintain it for a float, 22 per cent use it to pay suppliers, 14 per cent maintain it on the premises and 11 per cent use it to pay staff. Over half (55 per cent) deposit cash at least once per week, but the majority (78 per cent) travel less than five miles to do so.

The coronavirus pandemic may have had an impact on the acceptance of cash by retailers. A survey of consumers conducted by *Which?* in May 2020 found that one in ten had been refused when trying to pay with cash since the start of the pandemic, while *Which?* also received nearly 2,500 complaints about cash acceptance in September and October 2020.[86] [87] Less is known, however, about whether such impacts are short-term in nature or more longer-lasting.

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85 BritainThinks (2019) 'Access to cash research with consumers and small businesses. Final report. Commissioned by the Payment Systems Regulator'.
86 Which? (2020) 'Coronavirus cash crisis leaving vulnerable people with no way to pay'.
87 Which? (2020) 'All change? Cash refusal threatens people's ability to pay for food and medicine'.

3. Measures to protect consumers' ability to pay

3.1 Oversight of the cash system

The Joint Authorities Cash Strategy (JACS) group

The Access to Cash Review, when published in 2019, highlighted the need for different government bodies and regulatory authorities to work together to tackle the issue of access to cash:[88]

> **Our fifth and final recommendation is for a clear government policy on cash, supported by a joined-up regulatory approach which treats cash as a system.** We are clear that market forces alone won't make any of this happen. This issue needs leadership. Between our financial services regulators we probably have most or all the powers needed to make this happen, at least in the short term – but no one regulator can do this alone. This is also an ongoing action, as they will need to monitor the cash system over the next decade and refresh their approach as the situation changes. This recommendation is the most urgent, as without this leadership, change is unlikely to happen.

This prompted the Government to announce in May 2019 that the Treasury would set-up and chair the Joint Authorities Cash Strategy (JACS) group.[89] This brings together the Treasury, the PSR, the FCA and Bank of England:

> Acknowledging the UK already has experienced and well-established financial regulators, the Group brings together the Bank of England, PSR and FCA to ensure comprehensive oversight of the overall cash infrastructure across the UK. This is so that the UK's cash infrastructure remains resilient, cost effective, sustainable and can meet the needs of users, particularly in a future environment of lower cash usage.[90]

As part of this the FCA and the PSR have published a joint approach to access to cash and the FCA published their expectations for firms on maintaining access to cash for customers. These include the expectation that firms need to clearly communicate to customers that an ATM or branch is closing or being converted at least 12 weeks prior to this happening.

In a report on the production and distribution of cash, the National Audit Office welcomed the creation of the JACS group but noted that there is still more that could be done to improve joint working in this area:

> **The public bodies have improved their joint working but lack a shared view of what a good outcome for the consumer will look like and how the costs of achieving this are to be taken into account…** The JACS Group has enabled

88 Access to Cash Review (2019) 'Access to Cash Review. Final Report.'
89 HM Treasury (2019) 'Cash here to stay as government commits to protecting access'.
90 Joint Authorities Cash Strategy (JACS) group (2020) 'Joint Authorities Cash Strategy (JACS) group: safeguarding the UK's cash infrastructure'.

> more formal coordination among its participants, although it does not itself have responsibility for the cash system and is not a decision-making body. We could not see a clear link between the overall government aim for cash and consumers, the outcomes that consumers should expect in terms of access and acceptance of cash and their associated costs, and the statutory responsibilities of the public bodies as set by government and Parliament.[91]

3.2 Legislation announced in 2020 Budget

In the 2020 Spring budget, it was announced that "the government will bring forward legislation to protect access to cash and ensure that the UK's cash infrastructure is sustainable in the long-term."[92]

Campaign and consumer groups, such as *Which?*, welcomed the announcement:

> We are pleased that the chancellor has taken decisive action today to ensure that millions of people who have been hit hard by bank branch and ATM closures will continue to have access to cash.
>
> We know that the cash system faces irreversible damage within the next two years, so the government must swiftly press ahead with its plans to legislate, which must include putting a single regulator in charge of protecting cash.
>
> It is vital that this commitment is quickly turned into action. We look forward to working with the government, regulators and industry to ensure that cash is protected for as long as it is needed. [93]

In October 2020, as part of its development of legislation to protect cash access, the Treasury published a call for evidence on the future of access to cash and the government's approach to legislation. This describes how "the government is progressing the design of legislation at pace, informed by a process of close engagement with the financial regulators, financial services firms, and other interested parties". The call for evidence describes the Treasury's thinking in relation to several aspects of the cash system:

- **Access to ATMs** – "Reasonable access to cash" across the UK should be ensured by the country's network of ATMs. While "the government believes legislation should allow flexibility in terms of channels, this is likely to require that ATM provision moves to a more 'utility-based model', where decisions over the location of ATM machines balances customer need alongside commercial factors."
- **Cashback** – the government believes that 'cashback without a purchase' could be a "valuable facility to cash users in future"; however, at present the EU's Second Payment Services Directive[94] stands as "barriers to the widescale provision of cashback without a purchase". Following the end of the transition period with the EU, the government will be able to implement legislation to remove such barriers. It notes, however, that "the success of

91 NAO (2020) 'The production and distribution of cash'.
92 HM Treasury (2020) 'Budget 2020. Delivering on our promises to the British people'.
93 Which? (2020) 'Budget 2020: Government commits to protecting access to cash'.
94 Incorporated into UK law via the 'Payment Services Regulations (2017)'.

cashback without a purchase will also require the right commercial incentives to encourage merchants to offer this service".

- **Cash access via bank, building society and Post Office branches** – the call for evidence does not appear to signify further changes to policy to ensure access to cash at branches, rather a continuation of current policies (such as the Access to Banking Standard, FCA guidance to firms, and the renegotiated Bank Framework Agreement which enables access to cash via the Post Office).
- **Cash acceptance** – "The government's view is it would not be appropriate to mandate cash acceptance but wishes to explore options for better incentivising cash acceptance."
- **Regulation of cash access** – according to the government, the FCA is "well positioned" to take on the role of "setting requirements to ensure that the retail distribution of cash meets the needs of consumers and SMEs." The PSR and Bank of England meanwhile would continue with their existing functions.

The call for evidence is open until 25 November 2020, when the Government will review and provide a summary of responses. It will then set out next steps in its work to deliver legislation to protect access to cash.

The Access to Cash Review panel published their call for evidence response in November 2020.[95] This broadly welcomed the Treasury's proposals but recommended that "the legislative focuses on outcomes, and not inputs" – meaning that the legislation should focus on the need for cash access, rather than a need for a specific channel of cash access (e.g. ATMs).

It also proposed that legislation should ensure that banks are able to collaborate to provide access to cash without being in breach of competition law, and that the Post Office's banking services should be brought under the FCA's regulatory remit. The panel's response also highlights some of the challenges – beyond current regulations – that act as barriers to cashback being used more often to provide access to cash (see Box 3).

Box 3: Possible barriers to cashback being used to provide access to cash, as outlined by the Access to Cash Review panel in their call for evidence response:

- **It costs retailers money to provide cashback** – "Retailers are bound by commercial agreements with their merchant acquirers, who rarely differentiate between types of purchase. Therefore, it is not uncommon for a retailer to pay 3-4% per transaction, which represents a 60p – 80p fee on a £20 withdrawal. Unsurprisingly, many retailers are unwilling to bear this cost."
- **No 'standard offer' on cashback for consumers –** "Unlike ATMs, where there is a LINK scheme and clear consistent standards, there is no 'standard' cashback offer. Some shops require a certain level of minimum purchase. Others have a maximum limit of withdrawal. Therefore, consumers don't know what they can ask for, and what to expect. Unsurprisingly, this stops many consumers asking for cashback."

95 Access to Cash Review (2020) 'Response to HMT call for evidence – access to cash'.

- **Cashback is poorly advertised (if at all)** – "Because of the cost to merchants, much cashback is informal in nature, with many retailers saying that they offer it if a regular customer asks, but not otherwise. Therefore, many consumers simply don't know it is on offer."
- **Merchant acquirers may prohibit cashback** – "We have asked some merchant acquirers why this is – and none have given a clear answer. However, if an agreement prohibits it, it is unlikely and unwise for a shop to offer it."

3.3 Ongoing industry and other measures to protect communities' access to cash

LINK protected ATMs and financial inclusion programme

As noted in section 2.2, LINK sets the rate of its interchange fee (the amount paid by banks to ATM deployers when customers withdraw money from a machine on the LINK network that the bank doesn't own).[96] This rate differs depending on whether or not an ATM is designated 'protected' status[97], by virtue of being 1km or more from the nearest FTU ATM. All Protected ATMs receive the higher protected rate of interchange. Most are also eligible for additional premiums if they do less than 4,500 withdrawals a month.[98] There are 6 tiers of premiums ranging from £2.75 per withdrawal for the lowest transacting machines to £0.10 for the ATMs that average between 3,000 – 4,499 withdrawals per calendar month.

Protected status applies only to FTU ATMs in areas which had a FTU ATM on 1 February 2018 – and therefore is designed to maintain the UK's current 'footprint' of ATMs. The financial inclusion programme also incentivises ATM operators to maintain ATMs in deprived communities that lack access to free access to cash.[99] If these ATMs do close, LINK acts to replace them with a suitable FTU alternative, and has replaced 30 ATMs to date.[100] LINK's full policy on protected ATMs (as of June 2020) can be found online.

LINK High Street Commitment

In August 2019, LINK announced that it would guarantee access to cash for every UK high street which had five or more cash-dependent retailers.[101] LINK found that around 10 high streets did not have free cash access within 1km through either an ATM or a Post Office, and has funded ATMs to provide cash access in these areas.

LINK ATM Delivery Fund

In October 2019, LINK announced that communities would be able to directly request a free ATM if they currently have poor access, with LINK

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96 LINK (2020) 'Interchange'.
97 It also differs according to whether a transaction takes place at a branch or remotely, and based on the type of transaction (e.g. cash withdrawal vs. balance enquiry or declined cash withdrawal).
98 This excludes ATMs which are not publicly accessible (for example, those in a hotel or office building).
99 LINK (2020) 'Financial inclusion'.
100 LINK (2020) 'LINK Scheme ATM Footprint Report. September 2020.'
101 LINK (2019) 'LINK protects free access to cash for every UK high street'.

paying for the installation costs.[102] Community representatives can submit a request via LINK's online form. An initial £1 million was set aside for this (enough to fund 40 to 50 machines), and this has since been expanded with a further £4m.[103] LINK expects this to deliver 100-150 machines, and so far has funded a total of 37.[104]

Community Access to Cash Pilots

Led by Natalie Ceeney CBE (chair of the Access to Cash Review) and sponsored by UK Finance, the Community Access to Cash Pilots are trials of innovative ways to protect access to cash in a number of local communities across the UK. The programme was announced in September 2019, with an application period for communities that ran until June 2020. A total of 23 communities applied for the scheme, with nine selected to be pilots (running from Autumn 2020 to June 2021). Some of the solutions to be trialled are outlined in Box 4.

Box 4: Solutions to be trialled as part of the Community Access to Cash Pilots [105]

- "Three new local 'banking hubs' in dedicated retail spaces on the high street, which combine the cash-transaction facilities of a Post Office with access to community banking services offered by the key retail banks, allowing the privacy and security people expect in a bank branch
- Speedy and automated local cash deposit facilities for small businesses, so that retailers don't have to close to travel to a nearby town bank branch to deposit their takings
- Existing Post Office branches restructured and refurbished with cash services streamlined to make it easier for local residents and businesses to withdraw and deposit cash quickly and safely.
- Pop-up Post Office services, allowing small communities to access basic banking services over a Post Office counter within an existing small shop
- Widespread 'cashback' from local stores, restaurants and pubs – as well as from PayPoint counters, and new app-based digital services – to widen the options for people to get cash locally, and to help business reduce their own costs of depositing cash
- New, free to use ATMs
- Digital education services to help those who want to access digital banking services."

3.4 Measures to support digital payments

The Government's efforts to protect access to cash are complemented by initiatives to tackle digital exclusion. This includes a policy objective to roll-out 'gigabit broadband' nationwide by 2025 – as explained in Commons Library briefing paper on full-fibre broadband in the UK.

The UK's current Digital Strategy (which is expected to be updated in Autumn 2020[106]) also focuses on ensuring that "everyone has the digital skills they need to fully participate in society".[107]

102 LINK (2019) 'LINK sets up Delivery Fund so that all communities can get access to a free ATM'.
103 LINK (2019) '£4m in new investment from banks to fund new free-to-use ATMs'.
104 LINK (2020) 'LINK community request machines deliver £10m across UK'.
105 Text from: https://communityaccesstocashpilots.org/
106 Williams, O. (2020) 'The UK is set to launch a new digital strategy, again'. *New Statesman, 23 June 2020.*
107 DCMS (2017) 'Policy paper. 2. Digital skills and inclusion - giving everyone access to the digital skills they need'.

Lastly, the Government has a range of policies to support the development of financial technology (or 'FinTech') in the UK, with the ambition of making the country the "global capital of FinTech".[108] This includes regulatory initiatives to encourage innovation, such as the FCA regulatory sandbox, as well as the Inclusive Economy Partnership's efforts on financial inclusion and capability (such as Open Banking for Good and their scale-up programme *Boost*).[109]

108 EY (2016) 'UK FinTech. On the cutting edge. An evaluation of the international FinTech sector'.
109 DIT / HM Treasury (2019) 'UK FinTech. State of the nation'.

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