



UK Cash Supply Alliance

Access - Availability - Authenticity - Acceptability

HM Treasury – Access to Cash - Call for Evidence

Response from the UK Cash Supply Alliance

Introduction

The HM Treasury Call for Evidence regarding Access to Cash and other related issues will be welcomed by all who care about the future of cash.

A number of complex issues are raised relating to Government aims:

- Provision of cash withdrawal and deposit facilities
- Cash acceptance
- Consideration of the UK cash regulatory framework.

A clear thread running through the consultation document is one which proposes a greater focus on local recycling of cash, which in turn starts to put an emphasis on community retailers and other businesses becoming much more heavily involved in providing both withdrawal and deposit facilities. Over-the-counter cash withdrawal and deposit provision, potentially augmented by machine processing of larger deposits, is one route to achieving such involvement.

Within the coming years we may well see the number of UK bank branches drop to below 3000. While Post Offices will continue to have a significant on-going role in providing access to cash, further innovations will be required to meet the continuing significant demand for cash deposit services. As bank branches close, Post Offices are increasingly the support structure behind cash deposits, and will require automated solutions to improve the service still further. That will require funding and the Post Office calls on the banking industry to either voluntarily (or through legislative control) create a fund to upgrade Post Offices in areas where banks have left the community to ensure support for those customers left behind.

A further solution could be to mobilise a portion of the UK's 250,000 plus shops or other outlets to assume the role of community cash hubs.

Without widespread access to deposit services, local recycling cannot function, and the continued reduction in bank branches and restricted hours are driving small businesses to refuse to accept cash.

The UKCSA would like to express some reservations in terms of the content of the consultation document in relation to three main areas:

- We are disappointed that there are repeated references to members of the public who *need* to use cash (crucial though this is), but no clear recognition that many millions more continue to *prefer* to do so. The UKCSA passionately believes that cash must remain on the payment choice menu for all UK consumers, and we trust that the UK Government is mindful of



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the preferences of this large segment of the population as well as vulnerable groups.

- Regarding cash acceptance, it is stated that “the government’s view is that it would not be appropriate to mandate cash acceptance”. The UKCSA believes that this is a view with which many may well take issue, and that legislation should be passed which enables consumers to pay with cash if they wish to, possibly up to a reasonable limit. We hope that Government may yet reconsider its views on this subject, as we are convinced that retailers are facing significant costs for processing low value card payments which will eventually cause price inflation.
- The document might have been clearer in relation to the significant limitations of the traditional cashback service, which has been around for well over 30 years and has failed to claim a significant share of the UK cash withdrawal market. Innovations are available which could make cash acquisition in shops and other cash-driven businesses more attractive to both the consumer and the businesses providing the service.

Overall, the UKCSA welcomes this consultation, and is pleased to see the Treasury take the lead in this way. Such leadership is required to ensure that cash remains on the UK consumer’s Payment Choice menu.



The UKCSA's responses to the specific questions raised in the Consultation document

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

UK Finance reported that £193 billion was withdrawn from UK ATMs in 2019. This is a vast figure which confirms that the public continue to need and want access to cash withdrawal facilities.

Acknowledging that there is some decline in cash usage, there remains significant demand and the UKCSA believes that:

- The relative importance of cash for those who need or want to use it is increasing
- Economies of scale for the institutions providing the service are being eroded, hence there is a need for greater collaboration to find a commercially viable and sustainable model.

The question posed is how can the government legislate to ensure the public get what they need and want?

We urge Government to look very carefully at the methods used to set ATM interchange by all ATM and card schemes operating in the UK, which are principally LINK, Mastercard and Visa. Legislation should compel ATM interchange fees to be calculated using a transparent, cost based, audited formula.

Such a formula had been used in the LINK Scheme for nearly two decades up to and including 2018. The formula should be reviewed to ensure it continues to properly capture all cost components (including a reasonable return on investment) and then incorporated in legislation. The implementation of such legislation should then be overseen by a competent regulator.

Setting interchange at stable and economically viable levels for ATM operators in this way would provide a financial incentive to non-banks to continue their operations and hopefully expand their ATM estates to provide the UK public with widespread cash withdrawal facilities. It critically important that operators have certainty of and confidence in the interchange calculation method to enable them to plan sustainable businesses. Existence of such a regime might also encourage some banks to increase their participation in the ATM market.

We emphasise that the methodology must be mandated on all schemes operating in the UK to prevent it from being destabilised by organisations offering artificially lower interchange rates to attract card issuers to break away from established schemes to capture market share for short term economic gain.



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The UKCSA notes that there is currently an obvious imbalance between ATM provision and consumer demand. Some high streets and city centres are clearly over supplied, while other locations have no facility at all or are dependent on a single ATM with obvious implications if the service fails for any reason. This imbalance should be adjusted in an equitable manner as part of the development of a revised interchange methodology.

It is revealing to note that, of the card issuing financial institutions whose customers perform over 75% of all LINK transactions, that group provided less than 20% of all acquired ATM transactions. Another way of looking at this is to say that NoteMachine, Cardtronics, Sainsbury's Bank and Tesco Bank perform over 65% of all LINK ATM withdrawals, yet less than 2% are for their own customers to whom they have issued cards. This illustrates well that, through a long period of retrenchment the issuer banks have reduced or disposed of their ATM networks, and have long been dependent on others to serve their customers. These facts must be at the forefront of any thinking about how interchange should be restructured to make it equitable and sustainable.

An alternative to legislating an interchange methodology would be for the Government to use its powers to create an ATM Utility. This utility could be tasked with providing cash withdrawals and other critical facilities such as balance enquiry and PIN change to a transparently developed service standard, for example at least requiring one ATM for every 1000 adults in the UK, with special provisions in remote and economically deprived areas..

There are now ATM Utilities in at least two European markets, notably Sweden and Holland. The Dutch Utility (Geldservice Nederland, branded geldmaat) has only recently been created, but the Swedish Utility (Bancomat) was implemented almost a decade ago. It is jointly owned by all the major Swedish banks.

Since Bancomat took over the management of all bank ATMs in Sweden, there has been a significant and continuous decline in ATM numbers. This decline, coupled with the fact that the majority of Swedish bank branches do not provide counter cash withdrawal facilities, has recently led the Swedish government to pass legislation compelling the country's banks to provide those facilities. What this means in practice is yet to emerge from the marketplace.

A crucial (and in our view, negative) aspect of the Bancomat model is that the Utility is not permitted to make profits. Instead, Bancomat is obliged to reduce the costs met by its banks owners each year. In practice, this means that ATMs must be de-installed every year. This cost reduction programme is likely by 2022 to have brought about a 75% decline in the number of locations with Bancomat ATMs since the inception of the Utility.

Any Utility set-up in the UK with the genuine objective of safeguarding cash withdrawal facilities in the public interest would certainly need to avoid the



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negative aspects of the Swedish model by ensuring that operators are adequately compensated for providing a widespread, accessible, high quality and secure service that does not encourage a “race to the bottom”.

In addition, Government should be aware that there are emerging solutions which can broaden cash withdrawal services by enabling over-the-counter transactions which recycle cash payments received in the normal course of business. This class of solution will enable low cost, low friction circulation of cash in the economy and could be deployed in many settings, including those where space or footfall are insufficient to justify ATM deployment.

Moreover, these over-the-counter solutions have the distinct advantage of enabling to-the-penny withdrawals, which is critical to support people that need to have access to all the funds available to them. The adoption of these solutions has generally been stifled by legislative hurdles and we highlight the changes that are necessary in the appropriate section in this response.

As a general point we urge Government to ensure that the needs of vulnerable customers are given the highest priority. That means ensuring that they have ready access to cash without having to depend on technologies such as smartphones and online banking, and that cash is as widely accepted as possible. Otherwise a large segment of the population that already faces significant challenges in going about their daily business risks being left behind in this revolution and becoming severely disenfranchised members of society.

We would also draw Government’s attention to the technical solutions available which can be attached to traditional ATMs (often referred to as sidecars) to enable to-the-penny withdrawals. We are unaware of any major technical hurdles preventing the adoption of these technologies, although minor ATM and card scheme rule changes may be required. Perhaps such solutions might be trialled under the Community Access to Cash Pilots, with funding for the trials being provided by the banking community.

Another potential avenue for legislative action by the UK Government to safeguard cash withdrawal facilities would be in relation to the Post Office. Around 11,500 Post Office branches now provide counter service cash withdrawal facilities under separate contracts between the Post Office and each of the UK’s significant banks. However, the issue of who is to provide consistent long-term funding applies to Post Offices in the same way it applies to ATMs. Put simply, the cash service at Post Offices is only viable if banks are willing to continue to provide adequate funding. If legislation can guarantee such funding, the Post Office has long-term potential as a provider of cash withdrawal facilities.



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?

The huge obstacle that has prevented traditional cashback from being widely adopted is uncertainty.

The public have not known:

- Which businesses offer the service
- Whether they could ask for it
- Whether they will be refused or, perhaps, be offered a lower amount of cash than they want
- Whether they would be charged for the service.

This uncertainty has left cashback as a fringe service, with no potential to offer any kind of serious challenge to, or substitution of, the existing key channels for community cash delivery, namely ATMs and bank branches.

However, the very fact that a purchase is required is probably the largest inhibitor to the service. Millions of people withdraw cash before doing their shopping because they use cash as a budgeting tool. The notion of doing the shopping and then withdrawing cash is alien to this large segment of the population.

Larger retailers such as the grocers are less likely to champion cashback, primarily due to the fact they have extensive ATM estates already (that should be commercially supported by a fair interchange methodology as outlined in our response above), but also due to the inconvenience to customers that cashback causes through increased queuing time at the till.

Smaller retailers may have seen some small benefit from cashback through reduced banking charges, but it is interesting that they are actually paying to offer the service through merchant acquirer fees. This means that the financial institutions that issue cards receive interchange income in return for a third party providing services to their customer. This appears to us to be iniquitous. If the banks are reducing their costs by closing and restricting services, then they have to be prepared to pay others to provide customer services on their behalf.

Cashback (with or without a purchase) also has significant limitations that prevents it from being able to replace or augment dwindling bank branch services:

- No balance enquiry feature (critical to enable consumers to know their balance before requesting a withdrawal to avoid embarrassment)
- No PIN change or unlock facilities (currently only available at ATMs or branches)
- No deposit facilities (needed to promote local cash recycling)
- Uncertainty whether the retailer has sufficient cash on hand.



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Solutions are available which address some of, or all these limitations by facilitating over-the-counter cash transactions which could remove consumer uncertainty and promote local cash recycling across the nation. Some of these solutions require no legislation to allow adoption, while others require that “cashback without purchase” is effectively exempted by the current PSD2 directives, as is the case for “cashback with purchase” and independently operated ATM cash withdrawals.

Some of these innovative solutions allow members of the public to use a smartphone app to reserve the cash they want even before leaving home and select exactly where they will pick up their cash, to suit their own convenience. The businesses contracted to provide this service commit to having the cash available, using their own app to confirm their real-time ability to provide cash to the public.

Services may be delivered by participating businesses, which effectively become a “Virtual ATM”, while other solutions place a small terminal on the premises which can be regarded as a “Mini ATM” (effectively a POS terminal performing ATM-class transactions including balance enquiry and PIN management facilities).

These solutions have the potential to connect tens of thousands of local businesses with cash to dispense in communities around the UK with tens of millions of members of the public who need certainty about convenient access to the cash they need and want to enable them to live their daily lives.

Government should act to ensure that regulatory barriers are removed so that this class of solution can be promoted and widely adopted, as there is huge potential to provide services that the UK population would use and value, including in so-called “cash deserts” where no other facilities exist or are limited.

While a change in legislation as proposed would also permit general “cashback without purchase” at POS terminals, the UKCSA believes that this alone is of limited value to consumers as it:

- Will not provide balance enquiry facilities
- Is unclear whether “to-the-penny” withdrawals would be supported (critical to some consumers)
- Will probably still suffer from the uncertainties listed earlier, including availability of cash to fulfil requests
- Will not deliver other services such as deposit or PIN management.



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Question 3. How can the government ensure the UK maintains an appropriate network of cash deposit-taking facilities over time through legislation?

With bank branches disappearing and universal deposit functionality not implemented at UK ATMs, making cash deposits has become a serious problem for both the public and also for the UK's hundreds of thousands of cash accepting businesses.

Post Offices accept cash deposits up to £20,000 for the customers of most UK banks (unless the bank sets a lower limit), but there is little automation and queues for counter service can be long.

To promote local cash recycling (which is needed to reduce economic friction by ensuring low cost cash circulation) it is critical that solutions are developed to enable widespread cash deposit services.

Although technical mechanisms exist for deposit transactions to be credited in real time to customer accounts (eg via the LINK network) they have not been adopted largely because of the lack of an equitable commercial framework that adequately recompenses those providing the service. The UKCSA urges Government to investigate this and to put suitable measures in place.

A wide range of hardware is available that is capable of processing deposit transactions, and some of the mini-ATM solutions we referred to in our response to Question 2 are capable of processing deposit transactions, with the cash being received over-the-counter in a mirror image of the cash withdrawal facilities they can provide.

It is clear to the UKCSA that the technical infrastructure to support cash deposit taking largely exists, or that it can be readied in a short space of time. Government needs to look very closely at the factors in the existing payment schemes that need to be unlocked to enable customer accounts to be credited in real time, and to make it economically viable for operators to provide a service.

We submit that the Open Banking concept needs to be made a reality. The economic beneficiaries of branch closure programmes have been the UK banks. As we have said elsewhere in this response, where other organisations step in to provide services to financial institution customers, there must be enough money in the system to make this viable. It therefore is reasonable to look to the banks to contribute significant funding to enable a network of deposit-taking points, which may use automation to a greater or lesser degree, to be rapidly developed.

Where there is a lack of deposit facilities in a community, this needs to be analysed to assess how the requirement may be best served. As we have indicated, the solutions are available along with the rails on which they can run. The commercial



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inhibitors need to be removed and best-fit solutions deployed where they are needed.



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

Cash acceptance is becoming a major issue in the UK, heightened by misinformation regarding health matters during the current pandemic. The UK public's previously unchallengeable right to exercise Payment Choice is now definitely under threat.

Among the key factors and considerations are:

- Several million UK residents rely on cash as the sole payment method to conduct their daily lives.
- Many millions more would find themselves inconvenienced should they be unable to use cash for payments.
- No survey has ever found that a majority of the UK public is in favour of a so-called "cashless society".
- Indeed the 2018 Access to Cash study concluded that the UK was not ready for a cashless society.
- Reliance on card based payments depends on the absolute reliability of the system behind it – terminals, phone lines, comms networks, acquiring and issuing systems, and occasionally, whole card scheme networks are known to fail. Cash is dependable and not dependent on technology.
- Each year, research carried out by the British Retail Consortium reveals cash to be by far the cheapest payment method for their members to process.
- Without cash as competition, providers of other payment methods would be freer to increase their fees, which businesses already often complain are too high.
- Cash deposit difficulties (closed branches, queues, restricted opening hours) make businesses reluctant to accept cash payments.
- Promoters of other payment methods can give businesses short-term incentives to cease to accept cash. Cash does not have the potential for similar promotional activity.
- The public believe that there is a "Legal Tender" law which protects their right to use cash. This is not the case.
- Payments around the world are effectively controlled by a small number of international card schemes and other multi-national organisations. None of these entities is controlled from within the UK.
- There is growing international precedent for legislative action to compel the acceptance of cash for in-person payments. A notable example comes from the United States, where a number of States have passed such legislation and a Federal Bill is currently under consideration in Washington.



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The UKCSA believes that the Bank of England (as the body responsible for the currency and public confidence in it) should be much more active in promoting the message that cash is safe, commissioning authoritative research as necessary.

However, a common sense approach should also be promoted, such as reminding the public to wash their hands after handling cash, in line with the general hand washing guidelines.

We fear that the absence of such authoritative guidance is misleading the general public and retailers into believing that cash is unsafe. This may be music to the ears of the international card schemes who would like nothing better than to eliminate cash from economies.

However to do so would be a significant blow to customer payment choice and would probably be inflationary. As things stand the cost of card processing creates incremental cost to small retailers with no evidence that it generates incremental revenues.

We recently asked a sole trader running a seaside coffee stall why he did not accept cash payments. His answers were revealing. Firstly, he claimed that he had adopted a "card only" stance as he feared that the local authority would close him down if he accepted cash as it would be seen as a breach of Covid-19 protocols. We checked this with the local authority, who confirmed that they placed no such restriction on concessions. So we surmise that this particular trader had been under a mistaken impression that cash acceptance was considered "unsafe". We noticed that he was using an iZettle terminal to take card payments and asked what that was costing him. The answer was astonishing – on a busy day his iZettle charges can exceed £20! We imagine that the coffee beans don't cost him that much for a day's trading. These unreasonable fees have eventually only got one place to go to – the consumer's pocket.

This anecdote illustrates well that cash acceptance is critical to reduce economic friction in payments.

We would like to share a further anecdote: The following sign was seen displayed on all tills at a branch of a garden centre chain:



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Do businesses have to accept cash in the UK?

In the UK, it is not illegal to refuse cash as payment.

Although coins and banknotes are officially classed as 'legal tender' this only applies to settling a debt, not paying for goods in a transactional situation.

Shops are free to refuse cash as tender when a customer wants to purchase a product.

It is interesting that this chain has felt it necessary to resort to presenting a legalistic argument regarding cash acceptance (or the lack thereof) to its customers.

It may be assumed that this sign was prepared in response to a large number of customer complaints, and illustrates again that many consumers may wish to use cash in preference to cards.

We imagine that many customers of that business are able to use cards if they so wish, but it shows that their choice of payment method is being restricted.

The UKCSA therefore urges Government to reconsider its stance on mandating cash payments. We believe that where consumers wish to pay in cash they should be able to, and therefore businesses should have to accept cash payments.

It may be appropriate to consider an upper limit for mandating cash acceptance in a single transaction. Since the limit for contactless transactions now stands at £45 that may be a good place to start. It would certainly be a blow against the absurd situation where in some places a cup of coffee can only be purchased using a card.



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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?

Planning the future of access to and acceptance of cash has, in our view, been hindered by the failure to give overall responsibility to one regulator.

For example, the decision to give the Payment Systems Regulator oversight of the LINK ATM Network but no oversight of cash itself, was an omission that few understood at the time it was taken. It makes just as little sense today.

Having one regulator with overall statutory responsible means, quite simply, that the buck stops there and that there is one authority to turn to for guidance. It would be hoped that an efficient regulator would not burden industry with excessive costs and levies.

The FCA would be an obvious choice to be the single regulator but we would also urge that there is a strong, transparent connection with the Bank of England to ensure that the responsibilities for wholesale cash supply and distribution are completely aligned with consumer needs and retail services.



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Appendix

Overview and objectives of the UK Cash Supply Alliance

The UKCSA is a not-for-profit organisation that aims to engage with and connect organisations across the cash supply chain with UK government, regulators, trade associations, the retail sector and the public, with the following key objectives:

- To promote widespread acceptance of cash, so that it remains a valid payment option for UK consumers across all demographics.
- To understand consumer trends and requirements for cash usage and acceptance – why and where do people demand or prefer to use cash?
- To provide strong and high profile representation for all elements of the Cash Supply Industry in the UK that is focused on maintaining a strong supply chain and widespread acceptance.
- To promote cash withdrawal channels that support “exact amount” dispensing, particularly to support consumers that need to be able to access all the funds in their account.

The UKCSA brings together a diverse range of organisations including major banks, the Post Office, supermarkets, equipment and software suppliers, ATM deployers, service providers, the cash in transit and insurance industries, the insurance industry and others.

It is led by the following Steering Group:

Nigel Constable, Chair

Duane Campbell, Tesco Bank

Ron Delnevo, Cash and Card World

Wendy Luczywo, Post Office

Nick Purnell, Clyde & Co

Martin Smith, Cennox