The Money Charity response to the Access to Cash Review (Sept 2018)

The Money Charity is the UK's leading financial capability charity.

We believe that being on top of your money means you are more in control of your life, your finances and your debts, reducing stress and hardship. And that being on top of your money increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.

Our vision is for everyone to be on top of their money as a part of everyday life. So, we empower people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives.

We believe financially capable people are on top of and make the most of their money in five key areas:

- Planning (including budgeting)
- Saving
- Debt
- Financial services products
- Everyday money (including wages, cash, bank accounts)

Introduction

The Money Charity welcomes LINK's initiative of establishing the Access to Cash Review and thanks the Review for the opportunity to attend events and make this submission. We think the Review is timely and provides an opportunity for the industry to anticipate customer needs and avoid causing accidental consumer harm. What should come out of the Review is a roadmap for maintaining comprehensive, free-at-the-point-of-use access to cash throughout the UK for the foreseeable future, with a socially equitable means of funding such a system. The approach adopted should pay attention to consumer psychology, promote financial inclusion and support financial capability, as we set out below.

Responses to Review Questions

Question 1: What do you think could happen to cash demand in the UK over the next fifteen years?

We agree that cash demand is likely to fall, due to the spread and increasing convenience of digital payment options and related money management apps. However, for the reasons set out below we think that a widespread need for cash will continue for the foreseeable future. On equity grounds it will be essential for the UK banking and payments system to continue to provide convenient cash access in all parts of the country and for all age and social groups.

Question 2: What are consumers' needs for cash and digital payments and how can they best be met in the future?

We see a growing adoption of digital payment methods such as contactless, Faster Payments and digital payments through phone apps. However, choice is key. Many users of digital payments still use cash, either as a payment method of choice in certain circumstances or as a back-up to their digital options, while some people prefer to budget and transact in cash.

We expect demand for cash to persist for the foreseeable future, alongside a growing frequency of digital payments, for the following reasons:

1**.** Some people prefer to transact in cash. Others operate in the cash economy due to life circumstances (poverty, homelessness, low income, disability, previous negative credit events etc), as described in the Call for Evidence. For such people, financial capability is promoted by having access to cash as a means of payment. Some people use cash as an aid to budgeting, dividing their cash into separate pots or rationing spending by limiting withdrawals. For people on tight budgets, using cash can avoid accidental overdrafts, reversed payments and the associated fees and penalties charged by banks. It can be a safer method of money management than relying on the banking system. Over four million people in the UK are still not online and therefore do not have access to web-based banking and payments systems. There is a high upfront cost in going digital (mobile phone, computer, broadband and mobile fees etc), which many offline people on low incomes may not be able to afford. For such people, cash is the simple, familiar solution.

2. Due to human error, infrastructure weakness, natural disasters, hacking[1] or device or card breakdown, the digital payments system is not 100% robust, nor is likely to become so. Cash provides a backup means of payment which makes the system as a whole more resilient. The UK has seen several major payment systems failures, including those of TSB and Visa in 2018. Internationally, worse things have happened. For example, after Hurricane Maria hit Puerto Rico in September 2017, power failure caused a complete breakdown in the digital payments system and the US Federal Reserve had to fly in large quantities of physical US dollars to enable economic life to resume.[2]

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[1] In August 2018, the British Airways website was hacked, causing the loss of 380,000 sets of customer card details including card expiry dates and CVV codes. The attack was reported to be similar to a recent attack on the Ticketmaster website, but tailored specifically to the British Airways website, including the acquisition of a Secure Socket Layer (SSL) certificate, which makes the site look safe to users. https://www.bbc.co.uk/news/technology-45481976

[2] https://www.paymentscardsandmobile.com/cashless-society-happens-power-goes/

The country reported to be furthest along the road to a 'cashless society' is Sweden, where in early 2018 only 15% of retail transactions involved cash. However, the idea of moving to a completely cashless society has caused anxiety on the grounds of inclusion, choice and system robustness. The Governor of Sweden's central bank has argued that phasing out coins and notes could put the entire country at risk should Sweden encounter a 'serious crisis or war' and a parliamentary commission has begun a review of the consequences of a cash-free economy.[3]

3. Cash is an anonymous means of exchange. While it can be used for criminal activity, including evading tax, cash gives the public as a whole the ability to make anonymous payments, which would be a significant right to lose. In the current debate about data protection and digital surveillance, cash plays a role in maintaining confidentiality when people wish to do so, such as buying presents for a partner, hiding payments from an abusive partner or avoiding the Big Brother feeling of having all payments tracked by 'the system'. The argument that cash assists criminality and tax evasion is undermined by the apparent ease with which criminals and tax evaders use loopholes in the UK and international financial systems to transact digitally. Indeed, with the rise in online fraud and scams, much crime has moved online. Bitcoin – the ultimate digital currency – is reported to be popular with criminals. At the time of writing, Danske Bank is in under scrutiny for facilitating criminal activity through its Estonian subsidiary and the German regulator BaFin has instructed Deutsche Bank to crack down on money laundering, appointing external auditors to supervise its progress.[4]

4. Cash may dilute the market power of the payments industry. Prior to the abolition of card payment charges in January 2018, consumers shopping with small businesses often faced transaction surcharges for small digital payments (for example, 30p or 50p on a purchase of less than £5) or a minimum transaction amount (£5 or £10). These charges and limits imply a regressive charging structure for small payments and for small businesses, which are price-takers in relation to the payments system. In the UK,

[3] https://www.bbc.co.uk/news/business-43645676
[4] https://www.theguardian.com/business/2018/sep/24/watchdog-orders-money-laundering-auditor-to-oversee-deutsche-bank

the digital payments infrastructure is a highly profitable business[5] run by a small group of large financial companies who exercise market power over the prices charged for digital transactions, and appear to be charging significantly above the per-transaction marginal cost. Fintech payments providers are also reported to apply a regressive fee structure, typically charging a percentage payment plus fixed per transaction fee (eg 20p).[6] In the case of micro-payments, such charges constitute a large fraction of the total payment. This can affect digital charitable donations, among other uses.

Cash provides an alternative means of payment that may slightly reduce the market power of payments service providers. Government and regulators have not yet looked closely enough at the fee structure and market power of the digital payments industry. With the trend towards digitisation, this should be a priority.

5. Were official cash to be prematurely abolished or made inaccessible, we think that new types of informal money would emerge to meet the continuing need for cash. Some of these may be innocuous (for example, money certificates issued by a local community for community purposes) but others are likely to attract criminal attention, or be outright illegal, such as drugs, ammunition, stolen valuables, stolen bitcoin etc. History shows that virtually anything that is reasonably portable and durable can serve as money. Another possibility would be for people to use another country's currency, for example US dollars or Euros. In our view, it is far better that banknotes created by the UK state continue to serve as legal tender.

6. Cash has significant symbolic value. Banknotes are national symbols. In the case of the UK, they show the images of the monarch and other figures of national importance such as (currently) Adam Smith, Winston Churchill, Jane Austen, JMW Turner, Matthew Boulton and James Watt. The choice over which historical figures to depict on British banknotes has sparked significant public debate, showing the importance attached by the public to the symbolic character of cash.

[5] In 2016, Vocalink, the UK's payments infrastructure company, made a profit (EBITDA) of £73.7 million on revenues of £195m. (Vocalink 2016 Annual Report, page 3). Vocalink is owned by Mastercard (92%) and a consortium of UK banks and building societies.

[6] Information from Greater Change (provider of a mobile donation system for the homeless). The website for Stripe (an electronic payments provider) says that it charges 1.4% plus 20p per transaction: https://stripe.com/gb/pricing

Banknotes express the nature of money, the ‘promise to pay’, and imply the backing of the Bank of England for our currency through its prevailing monetary policy regime. At present this includes maintaining as far as possible the real value of the pound, appropriate interest rates and the stability of the financial system. Banknotes are certificates in the hands of the public symbolising these commitments.

Cash should continue to be available throughout the country by means of a network of bank and building society branches, post offices and ATMs, and/or new cash distribution technologies of similar effect.

Question 3: What digital or other innovations are likely to affect those who currently are using cash?

From what we see in our financial capability work, we expect a continued increase in digital payments and associated services. . For example:

- Contactless cards.
- Digital wallets.
- Thumbprint digital payments for children at school.
- Money management apps.
- Payment facilities within social media and other web-based and mobile services.

The uptake of digital payments is driven by both supply and demand. Where digital payments are freely chosen by consumers, this is to be welcomed, but a problem arises if suppliers try to force digital payments onto people who wish to use cash. For example, were a school to switch to digital-only payments, this could cause difficulties for parents operating in cash or for their children who might be singled out in some way as different or of lower status. This exclusion is unlikely to be intentional, but arises nevertheless.

Where payees switch to digital means of receiving payment, they need to take care to ensure that alternative methods or workarounds are available for those who use cash. An example is the London Oyster Card which, though compulsory for Tube and bus travel, can be topped up using cash at a large number of Oyster Card agents throughout London.

There is much the industry can do to improve confidence in, and voluntary uptake of, digital systems, for example:

- Improve the robustness of IT systems and avoid high-profile, confidence-sapping IT meltdowns.
- Improve security, prevent loss of confidential information, reduce scams and fraud and/or offer customers better protection against scams.[7]
- Adopt a consistent position in relation to digital documentation. For example, at present banks encourage customers to accept digital bank statements, but often demand original paper documentation when processing loan applications.
- Improve communication about digital payment processes and security systems.

Question 4: Does access to cash require regulation or central co-ordination that goes beyond the current framework? If so, what should this involve?

The cash distribution system is vulnerable to the combined effect of decisions taken individually by separate companies, as has happened with the closure of bank branches. Many small towns in the UK have gone from having several bank branches to having none at all, because of decisions taken by banks individually. With the continued closure of bank branches and possible reduction of the ATM network, we may see 'cash deserts' emerging in rural areas, small towns and the suburbs of larger towns and cities. This is an outcome to be avoided. Should cash deserts develop, the issue will become politicised, with interventions by local communities, MPs, political parties and parliamentary committees. The industry would do well to avoid this by developing a cash availability plan showing a map of future cash access points and the division of responsibility for providing cash access in areas the market will not spontaneously cover. Such a plan would be a *de facto* Universal Service Guarantee. We recommend that banks explore innovative solutions for preserving access to cash and banking services in areas that would otherwise lose such services. To avoid any individual

[7] In September 2018, UK Finance reported that in the first half of 2018, £500 million was lost to fraud and scams in the UK, of which £145 million were Authorised Push Payment (APP) scams. The money lost to APP scams is rarely refunded because banks regards these as the customer's responsibility: https://www.bbc.co.uk/news/business-45634362

company vetoing a collective response, we recommend that the process be overseen by an appropriate regulatory body with the requisite powers.

In principle, this should be the Payment Systems Regulator, under its service user objective,[8] but it is not clear to us that the PSR as currently constituted has the necessary powers and policies. In particular, its commitment to competition as the principal means of promoting customer interests may inhibit it from acting where competition leads to consumer detriment rather than consumer benefit, as in the 'combined effect' situation outlined above.

We therefore suggest that the Access to Cash Review looks carefully at the fitness of current UK regulators to ensure universal access to cash and, in the event that none of the UK's existing regulators have the appropriate powers, seek either (a) a voluntary solution involving the PSR and payment system companies, and/or (b) amendments to regulatory law and policy to enable the appropriate regulator to take the necessary actions.

Question 5: How should access to cash be paid for?

Banks have a privileged position in the UK economy in that they benefit from an implicit state guarantee and the right to create new money and credit, [9] charge interest on that credit and have this enforced by the UK legal system. These privileges create a large flow of income and generous executive and director rewards. At the same time, permissive bank lending has fuelled the house price boom and helped place property ownership beyond the budgets of many young and some older people. Since the 2008 crash, the public has become more conscious of the privileged position of the banks and less tolerant of behaviour which is unfair to customers or damaging to the wider interests of society. This being the case, it would be unwise for the banks and other companies involved in the payments industry to propose a means of paying for access

[8] 'The service-user objective is to ensure that payment systems are operated and developed in a way that takes account of, and promotes, the interests of those who use, or are likely to use, services provided by payment systems.' Financial Services (Banking Reform) Act 2013, s52.
[9] Michael McLeay, Amar Radia and Ryland Thomas, 'Money Creation in the Modern Economy', *Bank of England Quarterly Bulletin*, Vol. 54(1), 2014.

to cash that falls regressively on ordinary customers. The banking and payments industry has sufficient resources to ensure the continued universal availability of cash throughout the UK. Indeed, there is something strange about the idea of banks charging to give us banknotes, when notes originated as bank certificates of deposit with them of 'real money'.

It may be argued that 'the consumer ultimately pays anyway', for example through overdraft fees and low interest rates paid on customer deposits. According to the CMA, in 2014, around one third of net revenues of personal current accounts (PCAs) came from arranged and unarranged overdraft and unpaid item fees, while half of net revenues came from the value of customers' credit balances.[10] The Money Charity is concerned about the incidence of some of these revenues. Unarranged overdraft fees are likely to be regressive in impact, because low income and vulnerable people under financial pressure are those most likely to incur unarranged overdrafts and unpaid item fees.[11] Overdrafts are priced in a way that can lead to extremely high interest rates, higher even than payday loans. We are therefore pleased to note that overdraft fees and the retail banking model are currently under investigation by the Financial Conduct Authority.[12]

In recent analysis the FCA has found that:[13]

- Arranged overdraft revenues tend to be evenly distributed across customers from areas with different levels of deprivation.
- Revenues from customers' credit balances are skewed toward customers from better off areas.
- Revenues from unarranged overdrafts are skewed toward customers from areas of higher deprivation. A small group of probably vulnerable people account for a

[10] Competition and Markets Authority (CMA), Retail Banking Market Investigation – Final Report, 9 August 2016, page 104. Other sources of PCA revenue include foreign ATM and debit card fees, debit card interchange fees and monthly account fees. Net revenue per personal account holder in 2014 was £176.62.
[11] FCA research has found that half the total charges paid on unarranged overdrafts were applied to just 2% of accounts. https://www.fca.org.uk/news/press-releases/fca-publishes-update-high-cost-credit-work
[12] https://www.fca.org.uk/publications/multi-firm-reviews/strategic-review-retail-banking-business-models
[13] FCA, Strategic Review of Retail Banking Business Models, Progress Report, June 2018, pp 38-41.

high proportion of unarranged overdraft fees. The FCA plans to address this through its high-cost credit review.

In our view, unfairness in the incidence of bank revenues is an issue requiring its own remedies, not something that can be efficiently addressed by cash withdrawal charges. These should be avoided for the following reasons:

- Empirical psychology has found that losses hurt us roughly twice as much as equivalent gains please us,[14] so a withdrawal charge will always feel worse than the equivalent interest foregone.
- Free access to cash is part of the *quid pro quo* for the low interest rates paid on customer deposits.[15]
- Withdrawal charges are likely to be regressive, affecting low-income people the most.
- Withdrawal charges would influence people to withdraw larger amounts of money than they need to, creating security and money management problems.
- For many people on low incomes, the ability to withdraw small amounts of money is an important money management tool. Small withdrawals may be unavoidable where people have low bank balances.

We therefore recommend that banks and payments systems companies maintain a comprehensive, free-at-the-point-of-use system of access to cash throughout the UK. Even if banks and payments companies have reservations about this from a purely financial perspective, they should be able to see the considerable political, PR and customer value of maintaining such a network.

(end)

[14] Daniel Kahneman, *Thinking, Fast and Slow*, Penguin, 2012, p 283.

[15] The FCA has pointed out that customer deposits and savings 'have long behavioural tenor', ie although in theory these deposits can be withdrawn at any time, in practice they are left in the bank for long periods. Banks get the benefit of long term funding at ultra-low short term interest rates: FCA, *Strategic Review of Retail Banking Business Models – Progress Report*, paragraph 3.25.