



The Money Charity Response - PSR CP19/6 - Insights from Research into Cash Access, Use and Acceptance (September 2019)

The Money Charity is a financial capability charity whose vision is to empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives.¹

We welcome the opportunity to respond to the Payment Systems Regulator's consultation paper CP19/6, which we see as supporting the ongoing provision of universal cash access in the UK.

We look forward to working with the PSR to help with the design for an efficient and durable system for cash access appropriate to the twenty-first century.

In this response, we set out our Key Points then answer the questions posed in the Consultation Paper.

¹ See box on back page.

Key Points

1. We recognise the findings of the Britain Thinks survey, but think there are three additional aspects of **consumers' needs for cash** to be added:

- The cash needs of the UK's thirteen million children and adolescents.
- The symbolic value of cash.
- The educational value of cash.

2. We think the '1% of cash preferers' figure for **people wholly dependent on cash** is statistically unreliable and likely to be an underestimate. We call on the PSR to correct the impression that this is a validated number as soon as possible, by publishing the confidence interval for the statistic and the caveats added by Britain Thinks.

3. Regarding **future preferences for digital payments and cash**, there are two additional points we wish to emphasise:

- The precautionary motive for holding cash (in case of IT outage or natural disaster).
- Market dominance in digital payments, requiring a full study of pricing and the value chain for digital and card payments.

4. Regarding **ATM popularity**, we think there are a number of features of ATMs (convenience, privacy, simplicity, specialisation, standardised design, etc) that have made them popular as the leading source of cash. Furthermore, ATMs have achieved a place in popular culture that makes them part of our psycho-geography.

Answers to consultation questions

Q1. Do you think there are key insights arising from the research or key aspects of consumers' needs for cash that are not captured by this research?

1.1 Findings we recognise and agree with

Overall, the findings of the research match what we have seen in our financial capability work and contact with consumers, as summarised in our submission to the Access to Cash Review in September 2018.² In particular we recognise the following Britain Thinks findings:

² <https://themoneycharity.org.uk/media/The-Money-Charity-Response-Access-to-Cash-Review-Sept-2018.pdf>

- The large number of people (28% of respondents) who continue to express a preference for cash (slide 17).
- The large majority of people who still use cash (83%) and the many who see themselves as ‘cash and card’ users (slides 17 and 19).
- The large number of people who have paid cash because the business or payee took only cash (slides 22-23).
- The skew towards the disadvantaged among those who prefer cash (slide 28).
- The uptick in preference for cash among 18-24 year-olds, who say they find it easier to control their expenditure when operating in cash (slide 29).
- The use of cash for budgeting and control purposes (slide 34).
- Appreciation of the anonymity of cash for reasons of confidentiality in relationships (slide 41).
- The common use of a ‘minimum transaction amount’ before shops will accept card payments (slide 54).
- The preference of consumers for accessing cash via ATMs in safe places (slides 59 and 76).
- The high proportion of consumers who would be prepared to travel ten minutes out of their way to a free-to-use ATM to avoid a 20p transaction charge³ (slide 71).
- Cash preference among small businesses being higher than card preference (slide 92) despite concerns about the security of holding cash (slide 105) and the costs of depositing cash (slide 122).
- The use of cash in informal business settings (slide 103).
- Concerns among small businesses about the fees associated with card payments (slides 106, 129 and 133).
- Concerns about the reliability of digital networks (slide 110).
- The popularity of the ‘hub branch’ concept for maintaining cash and banking services is low population density areas (slides 134-135).

For the above reasons and other points we made in our submission to the Access to Cash Review, we think that a significant demand for cash will persist in the UK for the foreseeable future. It is therefore vital that the PSR, Bank of England and other public authorities with responsibilities in this area ensure the continuance of a universal, free-to-use system of cash access, funded in a socially equitable way, avoiding regressive charges on low income or otherwise disadvantaged people.

³ This is consistent with the finding of empirical psychologists that losses have twice the psychological impact of equivalent gains. See Daniel Kahneman 2012, *Thinking, Fast and Slow*, page 283. Measuring the real cost of these ten minute journeys (in time and transport) would provide a form of contingent valuation for the ATM network, which could be used to assist the case for maintaining comprehensive ATM coverage.

1.2 Needs for cash not captured by the research

Strong as the research findings are, we think there are some things missing. In particular the following:

1.2.1 The cash needs of children and adolescents

- The Britain Thinks survey was of adults aged 18+, but there are thirteen million children and adolescents in the UK who also have payments needs. Many children and adolescents do not have bank accounts and operate in cash, so would be severely disadvantaged if access to cash were to be restricted.

1.2.2 The symbolic value of cash

- Cash has a symbolic and historical value that is not fully reflected in the survey results, though some respondents commented on cash being 'real' and Britain Thinks describes it as 'tangible'. As we know, cash consists of tokens made of paper, plastic and metal which have minimal material value but carry the imprimatur of the Bank of England and of the UK as a state. The symbolic value is enhanced by the design of banknotes and coins, which show the head of the sovereign, other British historical figures and other symbols of trust and solidity of value, including the signature of the Chief Cashier of the Bank of England. This symbolism reflects the origins of banknotes as certificates for the deposit of precious metals. Even though electronic transactions have a high and increasing acceptance in the UK, they are experienced as ephemeral ledger entries rather than physical entities, so have a relationship to the UK psyche that is different from and weaker than that of cash.

1.2.3 The educational value of cash

- As a financial capability charity, we have learned to appreciate the educational value of cash. This is an instance of its tangibility and symbolic power. For example, in our young people financial capability work we use 'specimen only' copies of twenty pound notes for a budgeting exercise that involves tearing up the notes. Another budgeting exercise uses plasticised versions of £5 notes allocated to coloured pictures of various items of household and personal expenditure. This is a powerful way of communicating the limits of a fixed budget and the trade-offs that have to be made when choosing between different budget allocations. We also have a leaflet that looks like a folded £20 note, but opens up concertina-fashion to reveal mini-pages setting out our key financial capability messages. The leaflet works because of the recipient's initial thrill when they are given what looks like a £20 note, followed by discovery of what the note really is.

This is an example of what advertisers call ‘conceptual conflict’, which gives rise to heightened attention.⁴

We recommend that the above three points be included in the PSR’s analysis of the value of cash in the UK. In particular, the payment needs of children and adolescents warrant a specific piece of PSR research, due to the large number of people involved.

Q2: Do you agree with the emerging theme that the number of people wholly reliant on cash is small whilst a significant number of consumers prefer digital payments although many of these also continue to use cash for certain transactions? How do you think this may change in the future?

2.1 People reliant on cash

We recommend extreme caution in concluding that the number of people wholly reliant on cash is as small as shown in the survey (1% of cash preferers not being able to complete a transaction),⁵ for the following reasons:

- The reported result is a triple cut of the data (a percentage of a percentage of a percentage) and therefore typically would have a very wide confidence interval (margin of error). We suggest that the PSR ask Britain Thinks to calculate the confidence interval, so the level of uncertainty around this number is clear. Britain Thinks shows an awareness of the statistical fragility of this number by saying ‘low base sizes means that these figures are indicative rather than definitive’ (slide 48) and ‘it is difficult to assess whether the proportion of those who would not be able to make the transaction is truly representative of the wider population’ (slide 49). *In good statistical practice, a number like this should be reported with its confidence interval, as it may be that the size of the CI makes the number completely unreliable.*
- The reported number relates to the small proportion of cash preferers who have found themselves in a situation where they could not make a transaction in cash. At the present time, this is likely to occur only in parts of the country that have particularly high levels of preference for digital payment, otherwise the vendor would be alienating too many of their customers. In these places, people preferring to pay in cash are more likely to have alternative means of payment. In parts of the country where cash reliance is particularly high, cash preferers are less likely to have encountered a non-cash situation.

⁴ See for example: <https://www1.icsi.berkeley.edu/~stellayu/artvis/project/ad/index.html>

⁵ Page 5 of CP19/6, Slide 49 of the Britain Thinks report.

- As with any survey there are issues of coverage. Given that cash preferers are typically more disadvantaged than the population in general, they are likely to be less engaged with surveys and will probably be under-represented in the survey sample, even though Britain Thinks made use of landline and mobile phone contact. Exclusion tends to be multi-dimensional. A different research method would be required to accurately estimate the number of people who are 100% cash reliant, for example by observing behaviour at digital-only payment points established in representative locations around the country.

We are concerned that the PSR has reported the cash reliance result without properly qualifying it by quoting the warnings made by Britain Thinks or publishing the confidence interval. Once a number like this is reported it can quickly take on the character of an ‘urban myth’, being repeated by people as if it is a hard fact. We suggest that in forthcoming commentary the PSR qualifies the statistic and makes it clear that further research is required to accurately estimate the number of people who are cash reliant.

2.2 Future preferences for digital and cash

There are two points we would like to make here, both of which are hinted at in the Britain Thinks findings:

2.2.1 Cash backup

There is a precautionary motive for continuing to carry cash, even for people who prefer digital means of payment.⁶ This is because IT systems are not 100% reliable and, in general, are less reliable than access to cash. Many people have had the experience of intending to pay digitally but finding that, for one reason or another, digital payments are temporarily unavailable. This could be because of device breakdown, connectivity or systems issues. While such events may be relatively rare, the fact that they do occur makes people reluctant to abandon cash entirely. 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.⁷

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

⁶ Britain Thinks, slides 17, 19 and 110.

⁷ <https://www.paymentscardsandmobile.com/cashless-society-happens-power-goes/>

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 committee has recommended that cash services continue to be offered throughout Sweden.^{8 9}

2.2.2 Market domination in digital payments

Shifting from cash to card/digital involves not simply a choice of payment method but also a choice of providers. In the UK, card payments are dominated by two large international companies, whose charges are non-transparent to most consumers. We do not know if they are making a fair profit or extracting economic rent. We do not know the incidence of charges on various categories of user. There is evidence of regressive charging for small payments via small traders. This makes itself felt via 'minimum transaction amounts' (£5 or £10) imposed by some smaller retailers. Card companies are reported to charge a combination of percentage payment and fixed fee, which leads to a transaction cost that is large in relation to the size of the purchase.¹⁰ In the Britain Thinks results we see:

- The common use of a 'minimum transaction amount' before shops will accept card payments (slide 54).
- Concerns among small businesses about the fees associated with card payments (slides 106, 129 and 133).
- Lack of enthusiasm among small businesses for providing cash-back, due to high costs or insufficient incentives (slide 140).

We welcome the fact that the PSR is to conduct an inquiry into card services in Q4 2019 and we urge the PSR to extend this to a full economic study of the digital payments industry, looking at pricing, the value chain and the impact of market domination.

Our expectation for the future is that most people will prefer digital payments, particularly where – as with contactless cards – they are quicker than cash. However, many, perhaps most, will continue to carry cash to some extent as a backup in case of system outage or for payments for small items and in informal situations. There will also be a continuing need for cash in some situations requiring confidentiality, such as when a financially abused person wishes to hide certain income or payments from their abuser.

⁸ <https://www.bbc.co.uk/news/business-43645676>

⁹ <https://www.riksbank.se/globalassets/media/remisser/riksbankens-remissvar/engelska/2018/consultation-response-on-secure-access-to-cash.pdf>

¹⁰ 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>

While ‘most’ people may prefer digital, we expect a continuing proportion of people to be cash preferers, cash budgeters and/or cash reliant. In total this is likely to amount to some millions of people, necessitating the maintenance of a free-to-use cash access system across the UK.

Q3: 80% of those surveyed prefer free-to-use ATMs over current alternatives. When cash access options which might become more important in future (Post Office, cash delivery, cashback) were put before focus groups, there was still a strong preference for ATMs even if there were to be fewer of them. Do you have views why this might be and what could be done to make alternatives more acceptable to consumers?

3.1 Popularity of ATMs

We thought this was an interesting result too. There are two aspects to it: (1) the preference for ATMs, and (2) the preference for ATMs in safe places (Britain Thinks slide 59). The latter point is supported by Age UK research which has shown a strong preference by those aged 75+ for having ATMs in safe places.¹¹

While we have not formally researched the issue, we think there are several aspects to the popularity of ATMs:

- The ‘hole-in-the-wall’ has become culturally normalised in the UK, and in many other countries. As well as being useful, it occupies a place in the public imagination (see Figure 1 below).
- It is a specialised device. Its primary purpose is to dispense cash.
- ATMs are often conveniently located, so save time.
- ATMs carry bank and LINK branding, so have a brand presence.
- ATMs have standardised design features (unlike many home appliances, for example).
- ATMs are relatively easy to use and people have lots of practice with them, so technophobia tends not to be an issue.
- Alternatives such as cash-back or Post Office withdrawals involve getting mixed up in other business, for example having to wait in a queue of people buying stamps or groceries, or having to make a purchase in order to get cash back.
- ATMs are private. A person can withdraw their money in silence and without giving away information to anyone else. This suits the British character.

¹¹ Age UK 2016, *Age-friendly banking – what it is and how to do it*, page 12. Available at: https://www.ageuk.org.uk/documents/en-gb/for-professionals/policy/money-matters/report_age_friendly_banking.pdf?dtrk=true

- People are aware of the impact on their local high streets of the loss of bank branches and ATMs, so may wish to keep ATMs as a means of supporting local town and village centres.

ATMs have certain downsides, in particular the risk of fraud and mugging. However, these risks are generally manageable provided people are aware of what they are doing. Those for whom safety is a particular concern (eg the over 75s) can choose to use an ATM in a safe place and at a safe time, as long as this type of ATM remains available.

Figure 1: The ATM in popular culture



“I hope it’s fixed soon. I miss the convenience and friendly beep.”

The ATM is a popular cartoon subject.

As a primitive robot, the ATM anticipates features of human-robot interaction that will become commonplace to discuss in the future.

See for example:

<https://360.here.com/how-human-like-will-the-robots-of-the-future-need-to-be>

3.2 What could be done to make alternatives more acceptable to consumers?

We are not convinced this is the right question to be asking. What it seems to be saying is ‘how do we steer people away from something they like toward something they currently don’t like?’ which plays into the hands of those who accuse the payments industry of conducting a ‘war on cash’.

In a market economy, consumer sovereignty is supposed to prevail. As Adam Smith put it in *The Wealth of Nations* (1776):

‘Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer.’¹²

The theory of consumer sovereignty is that what consumers want drives production, not the other way around. It may be argued that this rule is observed more in the breach, but nevertheless it is a founding idea of economics and a cornerstone justification for a capitalist market economy. A UK regulator would be ill-advised to move away from consumer sovereignty in setting out its policy positions.

Having said this, the simple answer to the question is, ‘make them better.’ Consumers generally choose the best (for them) of the available alternatives. For example, the reason for the rapid uptake of contactless payment (despite technophobia and security concerns) is that contactless is better than other forms of card payment and faster than paying by cash. Contactless is an innovation that has genuinely improved the consumer experience.

For people to switch to alternatives to ATMs, the alternatives would need to be better, ie faster, safer, more convenient, more private etc. This may be a tough ask. Given the public’s stated preference for ATMs, the better approach may be to think about how to make them cheaper and more efficient by improving their design, production and servicing systems.

(end)

¹² https://en.wikipedia.org/wiki/Consumer_sovereignty

The Money Charity is the UK's financial capability charity providing education, information, advice and guidance to all.

We believe that everyone achieves financial wellbeing by managing money well. We empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives, helping them achieve their goals and live a happier, more positive life as a result.

We do this by developing and delivering products and services which provide education, information and advice on money matters for those in the workplace, in our communities, and in education, as well as through influencing and supporting others to promote financial capability and financial wellbeing through consultancy, policy, research and media work.

We have a 'can-do' attitude, finding solutions to meet the needs of our clients, partners, funders and stakeholders.

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