

## HM Treasury Access to Cash: Call for Evidence

### UK Finance response

#### Introduction

UK Finance is the collective voice for the banking and finance industry. Representing more than 250 firms, we act to enhance competitiveness, support customers, and facilitate innovation. We welcome the opportunity to respond to HM Treasury's (HMT) call for evidence on Access to Cash. This is an area of great interest and concern to our members and their customers.

We have laid out below some of the key principles underlying our views on cash access, before going on to respond to the specific questions laid out in the Call for Evidence:

- The banking and finance industry is committed to **ensuring access to cash remains free and widely accessible** for those personal customers that continue to need it. Yet there is no 'one size fits all' approach and only via collaboration across government, regulators, industry, customer groups and communities can this be achieved.
- Industry obligations to provide 'reasonable access' in the form of a universal service obligation ('USO') for critical coverage exist in many other sectors. **We believe there is much that HMT could learn, for example from the design and implementation of USOs in telecommunications in the UK and the United States.**
- **UK Finance supports the FCA/PSR workstreams on access to cash** which will provide appropriate regulatory support to consider the sustainable medium-term arrangements for retail cash access given competition considerations, e.g. maintaining a critical access footprint. It is important that the FCA/PSR's work takes an **evidenced-based approach** and **not rush to early sub-optimal solutions**. This work should feed into and support the design of the UK government's proposed legislation.
- A clear view of the expected level of cash distribution in the UK is required; a 'North Star' target for, e.g., the proportion of customers within distance from cash in/ out outlets, which should be subject to review after 3 years. The target must be based on a clear and agreed definition of the problem to be solved.
- A significant majority of our members believe that the **existing infrastructure must be re-sized in the medium term to maintain the sustainable and economically viable provision of cash for those who will continue to use it**: The wholesale cash distribution project has proposed a utility model to drive efficiencies and build a medium-term business model for the cash supply chain that ensures it is resilient and sustainable in the future. This work is complex and still under review and may be further developed.
- **There is no single, fixed end state**: Flexibility is required to meet changing customer needs. Any strategic vision or legislative mandate must leave room for re-adjustments. Decisions based on current cash usage must be made with caution and future requirements must include flexibility to change over time.

- There is an important task to promote the value of **digital payments and access to digital financial services** and make these accessible, whilst preserving access to cash. This task is wider than financial services alone, but we recognise our role.
- Understanding the needs of and **protecting vulnerable customers** is vital. In particular, the need for more education and support around digital options.
- Understanding the needs of local communities is critical and the **Community Access to Cash Pilots** initiative will test potential solutions which address access to cash needs and provide useful insights which **should be accommodated within the FCA/PSR's workplan as this informs planned legislation.**
- The needs of **SMEs to both deposit and access cash** are important and should be suitably accommodated in the forward landscape. Solution(s) include ATM deposits and deferred checking of SME deposits/ bag drop, e.g. supermarkets to provide cash in/ out and exchanged functionality (for retailers).
- **Cash acceptance:** The role of retailers in striking a balance must not be lost. Cash acceptance should not be mandatory, but we need to consider how to keep cash acceptance viable for businesses and to possibly re-frame the messaging about the safety of using cash.
- **Access to Cash Legislation** should be:
  - **Channel agnostic** - The strategic ambitions for access and depositing need to be channel agnostic; ATMs will not always be the answer.
  - **High level** – The legislation could set out a requirement for 'Appropriate access' but the details of how this is defined should be left to the Regulator.
  - **Pro Competition and innovation and least market distortive**

## Responses to questions

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

Our overarching view is that any future access to cash legislation should be channel agnostic, high-level and pro-competition/least market distortive. It must also enable flexibility for the industry to adapt to a changing market, and not seek to lock-in an 'as-is' state. We believe that any legislation should seek to support appropriately targeted and cost-effective solutions, keeping the cost of the cash cycle low.

As the recent FCA Insight article<sup>1</sup> on Cash and Covid demonstrated, cash access coverage in the UK is very good for the majority of people, even during stressed scenarios. There are some 'cold spots' in rural and more isolated areas, but we believe that ATMs are unlikely to be cost-efficient for the majority of under-served areas given typical low population densities. Instead we should explore the potential for increasing access through other means, such as cashback.

Generally speaking, members believe that a future industry obligation on 'reasonable access' might resemble some form of USO for critical coverage, which would be overseen by a designated regulator (please see our response to Question 5). If based on geographic coverage then we believe a combination of convenience of access near to where consumers shop (akin to the current Link 'Retail Centre' commitment) as well as distance to where people live could be reflected, with the former metric taking priority. Appropriate (and potentially different) thresholds for access proximity to Retail Centres and Neighbourhoods would not be specified in legislation but could be set by the

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<sup>1</sup> <https://www.fca.org.uk/insight/cash-and-covid-identifying-gaps-provision-during-covid-19>

regulator charged with responsibility for overseeing the cash landscape. This form of USO could then be supplemented by tailored solutions which meet vulnerable customer use cases, where the access provided under the geographic obligation is insufficient/irrelevant to these needs (for example, we should also consider the specific needs of the vulnerable where even if access is okay, their needs might not be met). Local communities could be given a route for raising material and unmet access needs for consideration by a defined exceptions process, similar to LINK's Request an ATM model.

If this approach is facilitated by high-level, channel agnostic and pro-competition primary legislation and monitored by an appropriate regulator, then implementation can then be left to the market. In this way, the USO could be met flexibly through a range of channel types. Industry recognises that not all access channel-types are the same or offer the same functionality. ATMs, Post Office branch, Bank branch, grocer bank offerings and cashback outlets all have different service attributes. Nevertheless, we believe that a combination of the mapping work being undertaken by the University of Bristol and work done at a local level by banks themselves is sufficient to ensure that these different channels can be used to ensure that different solutions meet local customer needs effectively.

If gaps emerge in the defined critical geographic coverage, these should ideally be filled by innovative market solutions. There are different ways of approaching this, perhaps through market incentivisation (LINK already has a range of broadly effective schemes in place to maintain current ATMs - these could be reviewed and expanded if required). Industry and the authorities could also work further together to consider some industry funded utility capability. However, much greater consideration of the dynamics of this would be required, including how to define a fair funding model, for example, given costs are already shared among banks in proportion to use.

One possible model would see a **play** (i.e. provide access) or **pay** (i.e. meet a proportion of the system costs) model. This could facilitate contributions from other relevant market actors. Alternatively, those parties not providing infrastructure could contribute through other means, by using their expertise to identify innovative solutions to help those who will be 'left behind' in a cashless society, as well as supporting digital transition for those that have the potential to move away from cash.

We assume that the Post Office (PO) will continue to play a big part in meeting the USO. Therefore, the extent to which individual PO branches meet the standards set out in any legislation and subsequent implementing rules will be important. Outcomes and learnings from the Community Access to Cash Pilots (CACP) work may help to define a way forward here. Furthermore, consideration should be given to appropriate oversight for the Post Office, suitable to organisations providing key outsource services – such as the EBA Guidelines on outsourcing arrangements.

Similarly, it is recognised, and has been evidenced by consumer behaviour during Covid that supermarket ATMs already provide a sizeable volume of ATMs in a convenient and safe location for consumers. It is pertinent that USO thresholds take into account the role these ATMs are likely to play in the foreseeable cash strategy horizon.

One of the biggest challenges in assessing reasonable access to cash provision is addressing the vulnerable customer gaps, which are often harder to define as they can be quite diverse. We think that there are positive lessons to be taken from the CACP initiative in terms of the way individual/discrete challenges are addressed. One aspect of the vulnerable customer cohort is the unbanked population, who will clearly face a higher challenge as use of cash decreases, and who are, by definition, not currently served by banks.

In terms of scope, the implementation of any legislation or USO needs to take a fair assessment of the access to cash landscape and by whom provision is made. It should reflect the complex network that currently exists, including financial institutions, grocer banks, the Post Office and independent ATM deployers. Finally, the HMT paper sets out that it wishes to continue to encourage innovation. We strongly support this goal, and believe that the government, the legislation and the regulators all have a role to continue to encourage and embrace innovation in order to expand supply, e.g. OneBanks, Paypoint trials, Visa deposit acceptance at supermarkets and automated deposits in the more highly used Post Offices. It is of course also helpful that this be done in a way that is complementary to the broader aims of protecting access (i.e. does not increase oversupply in urban areas). It is also helpful to consider how risks can be minimised, e.g. risks might include a customer in financial distress / being scammed approaching a third party counter service and the counter service not responding in the same way as their bank would do.

**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?**

We believe that there is significant potential for cashback to be made available to local communities in more numerous and more convenient locations.

Cashback without purchase can certainly play a role in the ongoing provision of cash withdrawal facilities. It may be particularly beneficial for specific use cases that ATMs cannot meet, such as the withdrawal of non-round amounts. For many in the industry this has been something they have been advocating for some time, with the legislative restriction presented by the Revised Payment Services Regulations 2017 being the primary barrier.<sup>2</sup> It is not a silver bullet, but cashback can also open up relatively easily and quickly a new avenue for cash access that may be particularly beneficial for meeting current gaps, for example, areas that have a shop but no ATM. Establishing a new ATM is, by contrast, more complicated and not quick, as it requires finding a location, obtaining planning permission, etc.

Legislative change in this space could also unlock innovative and quick industry solutions through open banking and other tools.

We believe this should not be mandatory but rather left open as an option for retailers where there is local demand and where it suits their business type and model. We also believe that further thought as to public awareness, signage etc, would be very valuable. For example, for large retailers such as supermarkets that have an extensive network of ATMs at stores and a strategy to remove friction from the customer checkout journey, there is no role for a mandated cashback strategy underpinned by legislation.

The current Link/Paypoint trial being undertaken as part of the CACP initiative is still in its early stages but we expect there will be some valuable lessons to be learned from this trial that may help shape a broader implementation of cashback without purchase.

In terms of the practical elements of implementing cashback without purchase, some of the main points raised by UK Finance members include:

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<sup>2</sup> We believe this could be addressed after the end of the Brexit transition period by inserting in Part 2 of Schedule 1 to the Payment Services Regulations 2017 (activities which do not constitute payment services) a new paragraph 2(ea) reading "services where cash is provided by the payee to the payer in connection with a payment transaction corresponding to the value of the cash provided following an explicit request by the payer immediately before the execution of the payment transaction;".

- Any cashback purchases, including cashback without purchase, should require an authentication at the point of withdrawal. Members are not yet clear whether this should be a regulatory condition and then allow the market to develop other form factors in the future, but always in a secure way. For ‘day one’ cashback without purchase transactions delivered along traditional card rails, Chip & Pin and an online authorisation for all transactions will no doubt be required by the major card schemes.
- The timeline for the change will be driven by how the transactions are formatted. Once the transaction formats are defined by both Visa and Mastercard this will need to be assessed, with any changes to statements and mobile banking displays completed. There are a number of stakeholders in the value chain – including acquirers, merchants, and Electronic Cash Register (ECR) software providers – who will need time to accommodate any changes required.

We expect any regulatory changes to be relatively simple and high level. The majority of changes that will be required are at a practical/implementation level. There are a number of points that members raised about the implementation that we can work through with the schemes (who we know are supportive of the cashback without purchase proposals in general). These include for example:

- Banks need a clear way to identify these transactions, and to ensure that statements/customer channels are updated to reflect a cashback transaction and not a purchase. At present, it seems that transactions would appear with a merchant classification code for the main retailer, rather than a cash MCC.
- Further work will be required to understand any changes in the disputes process for these new transactions.
- The current scheme limit for cashback withdrawals is £100. We expect that, at least initially, this would remain for cashback without purchase transactions. This can be reviewed in the future once uptake and appetite have been measured. A higher limit in the future may mean the cashback facility can be a better solution for lost ATMs, as these generally have higher daily limits. However, the issue of limits would need to be considered closely in conjunction with retailers, who may not wish to substantially increase float in this way, for a number of reasons.
- We understand that cashback without purchase can facilitate non-round amount withdrawals. We think this is an important element of the solution and something that makes it a better fit than ATMs in some use-cases, especially for customers on low incomes. Further work may be needed on engagement with retailers and to educate consumers to ensure that they are aware of this benefit. We are also aware of course that there are cost implications for retailers and the broader industry to support coin distribution (as noted elsewhere in our response). Non-round amounts are already available through, for example, the Post Office counter service in very high volumes, proving the need for non-round availability to be protected and possibly expanded for the benefit of many less advantaged consumers.
- Some members believe that, initially at least, cashback without purchase should be limited to debit cards only, particularly as retailers have to pay a percentage of the total for every credit card transaction, so they might effectively be providing customers with cashback at a loss with credit cards. However, it was noted by Standards 70<sup>3</sup> experts that the flow built into Point of Sale terminals requires the card to be presented and the product checked to ensure that cashback can be offered (e.g. it’s not available on Amex, Diners, JCB etc). Again, the

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<sup>3</sup> The messaging protocol used between the card acceptors and acquirers.

issue of card types and form factors is not for regulation but should be defined by the payment channels and schemes.

In general, where a cashback option is needed to fill a gap in provision, it might be necessary to support or incentivise the retailer to offer this, and to ensure that they are compensated for the additional costs.

We believe the role of regulation should be to facilitate the activity without undue burdens and should not be overly prescriptive about how it is implemented. Any change to regulation should also permit new channels to deliver the service. Mindful of the consultation questions around one “cash regulator”, we think some oversight of cash without purchase may be necessary and this will not be deliverable if the service is totally unregulated. Whilst novel, consideration should be given to the service itself being unregulated but only where the payee and payer each have a regulated PSP effecting the transaction. Similarly, regulation could ensure that authentication is a requirement but leave it open as to how that authentication method can develop in the future.

In terms of a role for government, we think the future success of cashback will hinge on customer awareness and trust. Therefore, efforts to broadly advertise availability and to ensure that retailers understand the benefits for them will be helpful. This could complement channel-agnostic information made available to customers more broadly by financial institutions (website/app/signage) on their options for cash withdrawal. Coordination with retailer bodies and consumer finance education bodies will also be vital, both to help to ensure that retailers understand the positive aspects of offering the service and so that any risks for mis-selling to the consumer are minimised.

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

We agree that deposit-taking is an important part of the access to cash landscape and believe that there is significant potential for more innovation on cash-deposit taking facilities, within retailers. In the Community Access to Cash Pilots work, new deposit solutions are being trialled and we look forward to reporting back the lessons learned from these trials (including how customers perceived the convenience/safety of different options). The FCA/PSR work on access to cash is also likely to come out with helpful insights into the current challenges and the options that can help solve those. Existing solutions will of course also continue to play an important role, including the Post Office, which has a broad infrastructure and relationships with the banking sector, supporting a significant and growing number of banking customers with fast-growing deposit services as SMEs seek and find the ‘last counter in town’. As noted above, bringing them within scope of appropriate oversight will be helpful to ensure the continued beneficial use of the Post Office for meeting many of the needs of banking customers.

In the first instance, we believe that more research is needed to understand the scale of demand, especially post-Covid, for this service and empirical evidence on cold-spots. Any future proposal requires the necessary frameworks to be put in place to ensure proper governance and a commercial framework, as well as the introduction of minimum standards that ensure cash deposit-taking for customers is both safe and efficient.

It is also possible that some of the existing ATM estate could do more by way of deposit-taking. However, more thinking is needed on the charging platform and dispute mechanism, the overall commercial model so that deposit-taking can earn a reasonable return while not impacting interchange rates, which machines can reasonably be upgraded without excessive cost, and what AML/KYC challenges there may be in terms of deposits from other banks’ customers. We would encourage Government to consider the benefits of all card-issuers being able to undertake a broader set of transactions in an ATM of a Link-acquiring member.

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

The Covid pandemic has led to many changes in consumers' payments habits and preferences. These are the result of a complex nexus of issues, ranging from concerns about hygiene, practicality, the discovered benefits of digital payments, the difficulty or ease of certain payment types, the requirements of retailers, the fact that many traditional cash-heavy businesses (bars, takeaways, sports arenas, window cleaners etc) were not operating, and sometimes the stigma associated with using cash.

We agree with the premise in the Call for Evidence that cash acceptance should not be mandatory. Ideally, a well-functioning cash ecosystem means it is easy for customers to get cash and for businesses to deposit cash, so that businesses can maintain cash acceptance.

Nevertheless, research we saw over the summer does suggest that for many consumers that have discontinued using cash or have used less, it is partly due to the fact that retailers have actively discouraged it at point-of-sale. Again, the reasons that retailers have done this are multifarious. In many cases, they have acted on the basis of government advice suggesting retail outlets and other areas of customer service operate 'less contact payments' (which incidentally has often been misinterpreted as requiring the use of contactless payments). For some retailers, it may have been part of a longer-term business strategy to accept less cash, because of the risks, costs and processes associated with accepting cash like cost of delivery and deposit, maintaining working capital, and the reconciliation process. For them, the pandemic has simply accelerated the process. However, it should be noted that the British Retail Consortium has stated that cash is still the cheapest form of payment for many businesses, and the return to more regular use once the pandemic recedes cannot be overlooked.

These changes in consumer habit and preference have had a marked effect on the cash ecosystem. From a wholesale perspective, there is continued dramatic disruption to inflows and outflows from cash centres. The disruption also applies to the economics of the ecosystem, and clearly with the kind of declines in demand we have seen, business models that were previously neutral or loss-making, are now even more so. Therefore, from the perspective of maintaining the cash ecosystem there is an argument in favour of considering ways to re-position more favourably the use of cash at point of sale.

There is also the critical issue of customer choice. UK Finance supports customers to pay in whatever way they choose. In the early days of the pandemic there was understandable worry about the use of cash. However, there was also a lot of misinformation about the infectivity of notes and coin. In some countries, the central bank has taken responsibility for rectifying this by making clear statements about the continued safe use of notes and coin. For example, the ECB published material reassuring consumers<sup>4</sup> earlier this year. Furthermore, the EU Retail Finance Strategy (published September 2020) talks about the importance of acceptance, while also acknowledging the work to support "the modernisation and simplification of EU merchants' payment acceptance facilities, enabling for example, cash registers to issue e-receipts. This support could be achieved through guidance and awareness-raising amongst retailers, particularly SMEs, about ways to modernise and digitalise, including through the use of Digital Innovation Hubs."<sup>5</sup> Finally, building on its 2010 recommendation, the European Commission has stated in the Retail Payments Strategy that it

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<sup>4</sup> <https://www.ecb.europa.eu/press/blog/date/2020/html/ecb.blog200428~328d7ca065.en.html>

<sup>5</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0592>

“expects Member States to ensure the acceptance and accessibility of cash as a public good”. Similar public statements have been made by e.g. the Bank of Canada<sup>6</sup>.

Given the importance of cash to many consumers, as well as the broader economic impacts limiting acceptance is having, we suggest that the industry and authorities work closely together to consider how cash acceptance can begin to be re-framed as a safe customer choice where all the usual hygiene precautions are followed. This may simply be a case of revisiting the guidance issues to retailers and service providers to elaborate that less contact payments can also be cash payments, where the appropriate precautions are taken. The Bank of England has a role to play in issuing a statement that counteracts the still prevailing misinformation environment around cash use. Ultimately, access to cash and cash acceptance are two sides of the same coin. Addressing the accessibility issues will only be really beneficial to consumers if the cash they withdraw can be spent where and when they choose. We are aware that the FCA is currently undertaking data collection on the trend of cash acceptance and this will be an important starting point.

One other important aspect to consider is the use of coin. Coin is undoubtedly a vital part of the cash payments experience. Nevertheless, it also remains an expensive and environmentally challenging product. The banking industry is committed to continuing to provide coin for those that need and want to use it. However, we also believe that a reasonable and objective approach to assessing, on a periodic basis, the utility and cost/benefit of coin is required, especially following the declines in use we have seen. One such example is the EU approach of undertaking its current evaluation process looking at rounding rules and the role of the 1 and 2 cent coins. Although a coinage review was carried out in the UK in 2018, we argue that a lot has changed since then, not least the impacts of Covid. An objective evaluation of the coinage will help to ensure the sustainability of coin for end users.

**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?**

Members are generally supportive of the proposal for the FCA to become the regulator with primary statutory responsibility for the cash distribution, especially given the other issues it already has responsibility for, such as ATM and branch closures. However, due to its historic nature, cash remains an area with a complex interplay of bodies and authorities. Therefore, continued coordination through e.g. the JACS group will be vital for ensuring that there is a joined-up approach on broader cash topics.

Single regulatory oversight of the UK’s cash system would help drive forward a comprehensive framework that truly delivers for banking customers. Critically, whoever the regulator is, it is important that this framework delivers better outcomes for customers and facilitates innovation and is applied in a proportionate manner.

The single regulatory oversight body for access to cash could be given a policy objective of ensuring that communities have appropriate access to cash (please see our response to Q1). It is important that the implementation of this policy reflects changing consumer need and does not stifle local led activity, innovation, and collaboration.

We note that the PSR may also need to be involved if e.g. a concept of further remuneration for certain merchants to offer cashback without purchase is to be pursued.

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<sup>6</sup> <https://www.bankofcanada.ca/banknotes/>

## UK Finance Contacts

We trust that this response is helpful and would be happy to discuss in more detail.

Please contact [peter.tyler@ukfinance.org.uk](mailto:peter.tyler@ukfinance.org.uk) or [rhiannon.butterfield@ukfinance.org.uk](mailto:rhiannon.butterfield@ukfinance.org.uk) in the first instance if you wish to discuss the response.

Ends