

Financial Inclusion Commission
HM Treasury access to cash call for evidence
25 November 2020

Executive Summary

Cash remains a significant part of the UK economy. Whilst card payments, apps and online banking have become increasingly popular, the evidence shows that a significant proportion of the UK population continues to rely on cash in their day to day lives. The Access to Cash Review estimated that, at the end of 2018, approximately eight million people (17%) said cash is an economic necessity.

The numbers have fallen during the pandemic, but those in this category probably still number five million. Those dependent on cash are subject to a poverty premium, paying more for goods and services and often unable to build a credit score that would help them access credit or insurance, should they need it. But the Commission is also concerned that vulnerable people are at risk of being unable to pay for essential products and services as they get locked out of using cash.

Some, who were used to carrying out their everyday financial transactions using cash before the pandemic will have been financially excluded as a result of an inability to access or use cash during the lockdowns. Unless access to cash can be restored for this group, or they can be helped to access alternative means of managing their financial affairs, this exclusion will become permanent.

Britain is not ready to go cashless because digital payments don't yet work for everyone. Consumers need a guarantee that they can access and use cash for as long as they need it. The transition to a cashless society must be carefully designed and managed to ensure that financial exclusion is not increased in the UK.

The Commission support calls for:

- **Better utilisation of the ATM infrastructure through the Post Office and legislation to ensure that this is provided consistently;**
- **legislation to allow provision of cash-back without sale, but prohibited through those premises which may lead to consumer harm;**
- **provision for small businesses to deposit cash in secure lockers rather than needing to make regular trips to a bank branch;**
- **legislation to allow the FCA to become the primary regulator.**

The Commission welcomes the Government's commitment to ensuring continued access to, and acceptance of, cash while supporting and encouraging those who can do so to make the transition to digital means of managing their finances.

The Commission welcomes the government's encouragement of initiatives, by banks and fintech companies, to help people make the transition from dependence on cash to digital means of payment and money management. There is, however, a limit to what the financial services sector can achieve in this respect on its own, without a major expansion of connectivity and the provision of both hardware and consumer education to help consumers access digital financial services with confidence.

About the Financial Inclusion Commission

The Financial Inclusion Commission (FIC) is an independent body made up of experts from financial services, businesses, the charity sector, academia and parliamentarians from all major parties <https://www.financialinclusioncommission.org.uk/>

Our mission is to champion financial inclusion as a policy priority for public bodies, businesses and civil society, and challenge exclusion wherever it occurs. Our vision is for a financially inclusive UK where financial services are accessible, easy to use and meet people's needs over their lifetime, and where everyone has the skills and motivation to use them.

Financial exclusion remains a significant challenge for 21st century Britain which prides itself on being a global leader in financial services.

Just over a million people in the UK do not have a bank account, one in four households lack insurance protection and one in five adults would not be able to cover more than one month of living expenses if they lost their source of income.

Financial inclusion is the means by which people can make their money work well for them, enabling them to maximise opportunities, move into employment, become more self-reliant, and enhance physical and mental wellbeing. Financial inclusion contributes to greater social mobility and levelling up, a more effective welfare system and greater national resilience from economic shock.

This means a United Kingdom in which:

- every adult is connected to the banking system, through having access to – and the ability to make full use of – a transactional account of his or her own;
- every adult has access to affordable credit from responsible lenders;
- every adult, young person and child is encouraged and enabled to save, even in small or irregular amounts, to share in the importance of a common savings culture, to help build up resilience against financial shocks and as an additional resource for retirement;
- every adult has access to the right insurance cover for his or her needs, at a fair price;
- every adult has access to objective, affordable and understandable advice on credit, debt, savings and pensions, delivered via the channel most suited to that individual;
- every adult and child receive the financial education he or she needs, starting in primary school and carrying on throughout life and into retirement;
- the overall level of pensions provision – state plus private – in the UK, does not lag behind other developed countries, especially for the low paid;
- every adult will have a clear picture of what their income in retirement is likely to be, so they can plan and get 'no surprises'.

Introduction

The Financial Inclusion Commission welcomes the Government's commitment to ensuring continued access to and acceptance of cash, while supporting and encouraging those who can do so to make the transition to digital means of managing their finances. The continued work through legislation, managing the immediate impact of Covid-19 on cash and collaboration with regulators are all vital pieces of the puzzle. In particular, we are pleased that ensuring financial inclusion for all parts of society forms an explicit objective of this review.

There can be little doubt of the importance of financial inclusion at this time. There are now millions more people facing economic hardship as a result of the COVID-19 pandemic. Yet, the environment was already difficult for many before the effects of the virus on our society took hold. The UK entered the crisis with half its population financially vulnerable: 12m categorised as financially struggling (generally on low incomes); and 13m as financially squeezed (better off but pretty highly leveraged). The virus has exposed the lack of resilience of UK households, businesses, particularly small businesses, and therefore the economy itself.

Cash remains a significant part of the UK economy and an integral component of financial inclusion. Whilst card payments have become increasingly popular, the evidence shows that a significant proportion of the UK population continues to rely on cash in their day to day lives. As recognised in the call for evidence, cash remains the second most frequent payment method in the UK (pre-Covid) and often the only option for those without a card or digital means. Currently, just under one million adults in the UK are without a bank account.¹

However as widely recognised, the pandemic has served to accelerate the shift towards cashless payments, with LINK reporting that in April 2020 transaction volumes were 60% lower than the same period the year before.² This has been accompanied by a growth in digital payments and during the second quarter of 2020 PayPal's payment volume amounted to \$221.7billion, a 29% year on year growth.³ We believe this has had a detrimental impact on the financial exclusion of the most vulnerable.

Pre-Covid, twenty million consumers had a degree of reliance on cash which was heavily skewed towards those with lower income levels. A number of reasons were found for this reliance on cash. However, low income is one of the main reasons for cash dependence. Furthermore, as a result of Covid-19, there may be many people who were previously comfortable with digital who will now welcome the security in budgeting given by cash. The Commission is concerned that vulnerable people are at risk of being unable to pay for essential products and services as they get locked out of using cash. A survey by Which? found that one in ten respondents were refused by shops when trying to pay with cash at a time when only shops selling essential goods were open.⁴ This is

¹ S. McKay and K. Rowlingson (October 2020). *The Financial Inclusion Monitor 2020*, The University of Birmingham. Available at; <https://www.birmingham.ac.uk/research/chasm/financial-inclusion/2020/index.aspx>

² LINK (2020). *Statistics and Trends*. Available at; <https://www.link.co.uk/about/statistics-and-trends/> [Accessed 24/11/2020]

³ Wallter (November 2020). *Cash Withdrawals in the UK fell 46% due to Covid-19 – Does this signal the ends of cash?*. Available at; <https://www.wallter.com/post/cash-withdrawals-in-the-uk-fell-46-due-to-covid-19-does-this-signal-the-end-of-cash-2>

⁴ S. McFaul (June 2020). *'Coronavirus cash crisis leaving vulnerable people with no way to pay'*, Which? Available at; <https://www.which.co.uk/news/2020/06/coronavirus-cash-crisis-puts-millions-of-people-at-risk/>

particularly concerning as this excludes people particularly dependent on cash, including many elderly and people on very low incomes, when purchasing essential goods like food and medicine. Urgent action is required to ensure this is tackled and the population can pay for essential bills and goods in the payment form most suitable for them.

Whilst it is too early to judge the impacts of the COVID-19 pandemic on cash usage, it is clear that it has had both a significant impact in the short term, and that it will likely accelerate the trend of declining cash usage over the medium to long term. But Britain is not ready to go cashless, because digital payments don't yet work for everyone. The Access to Cash Review found that by the end of 2018 17% of the UK population, over 8 million adults, would struggle to cope in a cashless society.⁵ The numbers have fallen further during the pandemic but still number an estimated five million. Although some of these are likely to reduce over time with more shops taking digital payments, other needs will require thoughtful and tailored solutions, including physical or mental health issues which make it hard to use digital services, the risk of overspending and going into debt and those who rely on others to buy things for them.⁶ It is important to recognise that, while they offer considerable advantages in cost and flexibility, digital payment methods do not replace the physicality of cash payments. This is significant for those with literacy and numeracy challenges, and for those on the lowest incomes, who rely on physical budgeting through cash.

The Commission welcomes the government's encouragement of initiatives, by banks and fintech companies, to help people make the transition from dependence on cash to digital means of payment and money management. There is, however, a limit to what the financial services sector can achieve in this respect on its own, without a major expansion of connectivity and the provision of both hardware and consumer education and support to help consumers access digital financial services with confidence.

In these circumstances, consumers need a guarantee that they can access and use cash for as long as they need it. The transition to a cashless society must be carefully designed and managed to ensure that financial exclusion is not increased in the UK. Maintaining a cash infrastructure is challenging, costing around £5 billion a year.⁷ Nevertheless, safeguarding the current infrastructure is vital. The infrastructure cannot collapse and must be carefully managed to ensure no one is left behind.

This is a significant opportunity to ensure access to cash is protected and sustainable in the long term, and to protect those most vulnerable to financial exclusion.

⁵ Access to Cash Review, (2019). *Access to Cash Review: Final Report*. Available at; <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

⁶ Access to Cash Review, (2019). *Access to Cash Review: Final Report*. Available at; <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

⁷ Access to Cash Review, (2019). *Access to Cash Review: Final Report*. Available at; <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

Q1: How can the government ensure the UK maintains an appropriate network of cash withdrawal facilities over time through legislation?

The ability to access cash through withdrawal at ATMs, the Post Office and bank branches is an integral component of the cash infrastructure. However, the ability of consumers to access this facility has been severely lacking. The University of Bristol's study of South Wales found that: 16% of neighbourhoods have no free ATM within 1km; 71% of neighbourhoods have no bank branch within 1km; 17% have no Post Office branch within 1km.⁸ This deficit in the cash withdrawal infrastructure has been found to have a more significant impact on those most vulnerable and as such remains a fundamental cause of financial exclusion. In a separate study mapping the availability of cash in Bristol, the provision of cash was found to be almost opposite to the geographical need for it. Communities most likely to depend on cash, in particular those who are older or from lower socio-economic backgrounds, appeared poorly served by current cash infrastructure.⁹

The issue of lack of access created by bank branch closures, fewer free to use ATMs in some areas, and the shift of financial services online, is not just a concern for consumers but also small businesses as digital and financial exclusion intersects. In a survey of Business Debtline clients, a quarter (26%) said they use mobile apps including banking apps and a quarter (25%) said they use e-banking, with 10% using online accounting. However, more than half didn't use any of these (53%) and of those who didn't use digital technologies, 1 in 5 (18%) said they lacked the skills to use them.¹⁰

As recognised, provision of free to use ATMs remains a concern for many local areas. Research by LINK demonstrates that the number of ATMs has been declining since 2006 and in 2019 there were only 60,662 ATM's in the UK.¹¹ Furthermore, the number of free to use ATMs has declined significantly, especially in more deprived areas where they have been replaced, if at all, by pay-to-use machines. In the last two years alone, 8,700 free-to-use ATMs have been removed with 25% of ATMs in the UK now charging up to two pounds per withdrawal as fees are passed on to the consumer.¹² Whilst we recognise the importance of pay to use ATMs as a component of the cash infrastructure, this is deeply concerning given that those most vulnerable customers need free cash access most. Establishing a sustainable cash infrastructure must also mean an affordable infrastructure, for both consumers and providers.

In the past, the measures to maintain this distribution of services focused on standardised geographical measures (i.e. one kilometre from a free-to-use machine) which did not capture the needs of some local communities. These measures often failed to account for access issues such as

⁸ J. Evans, D. Tischer and S. Davies (January 2020). *Geographies of Access to Cash: Identifying vulnerable communities in a case study of South Wales*, The University of Bristol.

⁹ D. Tischer, J. Evans and S. Davies (May 2019). *Mapping the Availability of Cash: A case study of Bristol's financial infrastructure*, The University of Bristol.

¹⁰ Money Advice Trust (August 2020). *At the business end: A spotlight briefing on the impact of Covid-19 on Business Debtline clients*. Available at;

<http://www.moneyadvicetrust.org/researchpolicy/research/Documents/At%20the%20business%20end%20briefing%20on%20the%20impact%20of%20Covid%2019%20on%20Business%20Debtline%20clients.pdf>

¹¹ LINK (2020). *Statistics and Trends*. Available at; <https://www.link.co.uk/about/statistics-and-trends/> [Accessed 24/11/2020]

¹² R. Green (August 2020). *UK ATM penetration will decline alongside cash usage due to the pandemic*, Business Insider. Available at; <https://www.businessinsider.com/uk-atm-penetration-cash-usage-will-plunge-2020-8?r=US&IR=T>

large roads and lack of bridges. LINK's more recent approach of starting with the commonly used metric of one kilometre and then assessing whether there are other barriers which would prevent access is an improvement and provides one way forward. We also welcome the work by Treasury with the FCA and PSR to establish the cash needs of consumers and SMEs, however more needs to be done to ensure that how we measure this need reflects the reality on the ground better. As the Access to Cash Review points out, whilst the current work to map cash access by the FCA, PSR and Bristol University is welcome, there is a concern that this has limitations. We must ensure that this work only forms one component of any review of current provision.

Furthermore, it is important to avoid simplistic measures of access to cash and instead take a community-centric approach to mapping, rather than one based on the cash infrastructure that already exists.¹³ Significantly, it is not enough to produce blanket rules based on measurements of deprivation. Rather, there needs to be an area and needs based approach to ensure fair access to cash. **The Commission believes that the provision of cash withdrawal facilities must be led by evidence of two elements: first, where people need access to cash, and second, where it is most efficient to supply this cash. The overlap provides a clearer idea of where facilities need to be placed.**

Bank branch closures have continued to disrupt the ability of consumers to access cash. Since 2015 there have been 3,770 bank and building society branch closures.¹⁴ We recognise the steps taken through the Access to Banking Standard alongside the recent requirement implemented by the FCA requiring banks, building societies and credit unions to keep the FCA informed of any plans for branch closures. However, there is an opportunity under new legislation to ensure that branch closures do not leave customers without access to cash. The Commission therefore supports the Access to Cash Review's call that the new legislation puts a legal obligation on retail banks to provide suitable cash access/ deposit facilities for their customers. This needs to include both notes and coins.

However, understanding the causes of these closures is also vital to legislating for sustainable and long-term solutions. We recognise the significant costs of maintaining branches and ATMs. The private, non-bank ownership of much of the ATM infrastructure is a major factor in the cost and geographical distribution of provision, which could be countered by better utilisation of institutions, such as the Post Office, which have a history of state-ownership or more effective regulation of ATM operators.¹⁵ The Post Office is a key part of the solution to access to cash and research by the University of Bristol found that the Post Office remains an important component of access to financial services, especially for those less well-served communities.¹⁶ However, we support calls that any legislation must clarify the role of the Post Office which has remained inconsistent. **The Commission support calls for better utilisation of the ATM infrastructure through the Post Office and legislation to ensure that this is provided consistently.** Although we recognise some form of

¹³ J. Evans, D. Tischer and S. Davies (January 2020). *Geographies of Access to Cash: Identifying vulnerable communities in a case study of South Wales*, The University of Bristol.

¹⁴ Which? (November 2020). *Bank branch closures: is your local bank closing?*. Available at; <https://www.which.co.uk/money/banking/switching-your-bank/bank-branch-closures-is-your-local-bank-closing-a28n44c8z0h5>

¹⁵ Access to Cash Review, (2019). *Access to Cash Review: Final Report*. Available at; <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

¹⁶ D. Tischer, J. Evans and S. Davies (May 2019). *Mapping the Availability of Cash: A case study of Bristol's financial infrastructure*, The University of Bristol.

oversight is necessary to ensure consumer and industry confidence, we do not subscribe to any particular form this takes.

Organisations have begun to look to alternative options for retaining facilities in communities such as the Post Office located in a number of supermarket chains or 'Post Office Banking Hubs'. The possibility of retaining a shared premise provides an efficient cost solution to providing this cash infrastructure. We welcome initiatives such as OneBanks, a banking service kiosk to deliver a core set of basic banking services (deposits, withdrawals, transfers and payments) via Open Banking to both consumers and SME customers. Its focus is on deprived communities, working with charities like Age UK to be accessible for a range of people. The kiosks will be located in convenient places such as supermarkets, shopping centres and train stations. It is vital that the regulatory environment enables these kinds of collaborative solutions which can combine services from multiple providers to ensure communities have continued access to the services they need.

We fully support the recommendation by the Access to Cash Review that consumer access to cash must be guaranteed and codified in legislation, although we believe a flexible approach through a variety of channels will serve consumers best.

However, the competitive nature of the market means current legislation fails to allow banks the space to coordinate. For example, whilst the current LINK Paypoint Cashback Pilot is welcome, this trial faced barriers due to concerns around anti-competition law. This is a problem, not just for cashback services, but also for wider access to cash. Coordination is needed between banks which is likely to be challenging under current competition law. **There needs to be supporting legislation to give banks clear guidance and tools to ensure banks are not breaching competition law if they cooperate on providing a service.**

Q2: 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?

Cashback is an integral part of the cash economy and last year shoppers received £3.8bn of cashback when paying for items at a till, making it the second most used method for withdrawing cash behind ATMs.¹⁷ We recognise that cashback can play a greater role in cash provision, providing a number of benefits for consumers. Cashback offered by retailers is indoors, face to face and offered widely for efficiency. As recognised by the Access to Cash response, there are also secondary benefits to the wider adoption of cashback including increased footfall for retailers.

At present, cashback is only permitted if associated with a sale. **Legislation will be required to allow cashback without sale, a measure which we would support.** In legislating to help promote the role of cashback we must recognise that there are a number of obstacles to the further adoption of cashback from both the perspectives of consumer and retailers. First, as outlined in other areas of the cash system, cost is a major concern for retailers. From a consumer perspective there lacks consistency on the consumer offer and standards of this offer, with some retailers requiring a minimum purchase. This is likely to stop many using this service, with many not aware of the service offered in the first place. It will be important to tackle these obstacles in order to help promote cashback as a component of the cash system.

However, we believe that this is based on a large assumption that the retail landscape will reflect the current form. It is widely recognised that the high street is in decline. This has been accelerated by the impact of Covid-19. In March 2020 the ONS found that high street retail employment fell in more than three-quarters of local authorities between 2015 and 2018.¹⁸ In recent months the country has witnessed waves of shop closures and job losses. If retailers continue to close at this rate promoting the further adoption of cashback will not be a sustainable solution.

There are also concerns about the nature of the outlets that might offer cashback, including bars and betting shops. Those dependent on cash, often vulnerable, could be placed at still greater risk if they need to access cash through such establishments. Furthermore, these locations may effectively exclude people whose religious beliefs or personal circumstances mean they are very reluctant to enter such premises. It is clear that to address this there must be an understanding not only of the geography of access to cash but also the socio-cultural factors that influence people's behaviour and choices. **Legislation needs to be framed to exclude cashback facilities in premises that might generate consumer harm. Such legislation should also consider whether it is appropriate to have fee-charging ATMs in such establishments.**

Nevertheless, we believe that an extension of cashback should remain one component of the wider access to cash system.

We echo the calls by the Access to Cash Review for a common code of practice for cashback services to support businesses to offer clear and transparent services, and to help consumers understand what cashback services are offered. In addition, the FCA should lead a review of

¹⁷ K. Peachey (October 2020). *Will we be getting our cash from shops, not ATMs?* Available at; <https://www.bbc.co.uk/news/business-54545830>

¹⁸ ONS (March 2020). *High streets in Great Britain: March, 2020.* Available at; <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/articles/highstreetsingreatbritain/march2020>

charging/ permissions for cashback so that retailers wishing to offer the service are incentivised to do so.

Q3: How can the government ensure the UK maintains an appropriate network of cash deposit-taking facilities over time through legislation?

Cash deposit facilities play a significant role in a well-functioning cash system. This is particularly crucial for businesses which are more likely to be working with large sums of cash and need access to secure deposit facilities. However, the facilities for consumers and businesses to deposit cash have been decreasing. The Post Office reported that in October 2020, the UK collectively deposited £1.91 billion, marking the first month since March that deposits have decreased month on month.¹⁹

There are a number of limiting factors for depositing cash. It takes time to deposit cash, and as a consequence of banks and building societies scaling back their branch networks, individuals and businesses may need to travel further to access deposit facilities, resulting in an increase in the time and cost of doing business in cash. Furthermore, there are other costs related to cash handling, sorting and transporting as well as storing securely. For example, banks charge in the region of seventy pence for every one hundred pounds deposited, with smaller firms paying up to one pound per one hundred.²⁰ This is crucial to the acceptance of cash as unless businesses can deposit cash easily and securely, fewer retailers are likely to continue to accept cash in the medium to long term.

To tackle the provision of the deposit infrastructure, there need to be creative solutions which allow businesses to bank cash securely and easily. In a similar way to the provision of cash withdrawal infrastructure, consideration should be given to the use of shared spaces where customers can go for electronic or cash transactions and safe repository for cash, which may help lighten the burden of costs associated with facilitating cash deposits. **We support the suggestions from the Access to Cash Review that small businesses could have the opportunity to deposit cash in secure lockers rather than needing to make regular trips to a bank branch.**

In addition, legislation must include a legal obligation on retail banks to provide suitable cash deposit facilities for business account holders. Expectations of what these facilities look like in terms of type of access and proximity is key for consistency. Ultimately, it should not cost more in time and effort to deposit cash.

¹⁹ Post Office (October 2020). *The Post Office cash tracker*. Available at; <http://www.corporate.postoffice.co.uk/cashtracker>

²⁰ T. Walne (September 2019). *Why do banks charge shops simply paying cash into their own accounts? We meet the traders hit by the cashless push*, This is Money. Available at; <https://www.thisismoney.co.uk/money/saving/article-7438265/How-banks-charge-shops-simply-paying-cash-accounts.html>

Q4: What are the key factors and considerations for maintaining cash acceptance in the UK?

The ability to pay in cash is essential to a fully functioning cash system. Whilst card payments have become increasingly popular, the evidence shows that a significant proportion of the UK population continues to rely on cash in their day to day lives. As such, ensuring retailers continue to accept cash payments is crucial to the sustainability of the cash infrastructure as a whole. As recognised in the Access to Cash Review, insight from Sweden and China demonstrates that issues with the acceptance of cash by retailers and merchants was more likely to drive the disappearance of cash. It is then particularly concerning that evidence suggests that during the Covid-19 pandemic some retailers have been refusing to accept cash payments. A survey by Which? found that one in ten respondents were refused by shops when trying to pay with cash at a time when only shops selling essential goods were open.²¹ This is particularly concerning as this excludes people particularly dependent on cash, including many elderly and people on very low incomes, from purchasing essential goods like food and medicine. It is possible that a lack of consistency in approach, with different retailers adopting differing measures, is partly responsible for this, with staff confusion and concern. **There is a need for Government guidance to lead retailers towards a consistent and joined-up approach, particularly whilst the pandemic continues. The Government must ensure that as a minimum, people should always be able to pay essential bills in whichever way suits their needs best, including cash.**

Access to cash and cash acceptance both remain fundamentally important for small and micro-businesses and self-employed people, particularly in sectors with low digital and/or financial inclusion. Doing so requires not only being able to accept cash payments, but also the facility to bank cash quickly and efficiently, to minimise the cost of cash transactions. A survey conducted by Amaiz, the business app, suggests that 50% of small businesses have either become cashless or plan to as a result of Covid-19.²² Various factors incentivise and disincentive businesses from offering cash as a form of payment, but this decision is likely to be driven by commercial factors. Businesses must consider whether there is demand for cash payments and balance this against the costs associated with facilitating cash alongside, or instead of, other payments options. There are a number of other hidden costs associated with depositing cash for businesses such as security costs and the time taken to travel to appropriate cash deposit facilities; branch closures mean it takes longer to travel to a branch to pay in cash.²³ The cost of handling and depositing cash is increasing, with banks raising fees for handling cash as well as monthly account fees for business customers. The Federation of Small Businesses reported that businesses were finding it more expensive to handle cash and on the current trajectory this is only likely to get more expensive as cash usage declines.²⁴

Nevertheless, it is not clear to what extent retailers will return to accepting cash once the pandemic is over. Many businesses have become accustomed to the use of digital payments and may not want to lose customers by switching back to cash, or to pay costs for both. Survey work by David

²¹ S. McFaul (June 2020). 'Coronavirus cash crisis leaving vulnerable people with no way to pay', Which? Available at; <https://www.which.co.uk/news/2020/06/coronavirus-cash-crisis-puts-millions-of-people-at-risk/>

²² Amaiz (May 2020). 'Nearly 70% of Small Businesses will be cashless', Amaiz. Available at; <https://journal.amaiz.com/nearly-70-of-small-businesses-will-be-cashless/>

²³ Access to Cash Review, (2019). *Access to Cash Review: Final Report*. Available at; <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

²⁴ Access to Cash Review, (2019). *Access to Cash Review: Final Report*. Available at; <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

Fagleman from September found that 38% of SMEs agreed that cash as a method of payment will be an essential part of their business's success as it recovers from the impact of lockdown.²⁵ More research is necessary to establish to what extent businesses plan to return to accepting cash in the future.

Acceptance of cash is not just crucial for businesses but also public bodies, and local authorities have often moved to cashless payments. **Ensuring that people can pay their bills through whatever means is most suitable, including cash, must be a key component of any legislation.** Whilst we recognise that the Government does not want to legislate to require cash acceptance, legislation can help incentivise businesses to accept cash and tackle the barriers to acceptance.

It is clear that costs are fundamental drivers in the level of acceptance of cash. The costs of handling and banking cash are rising due to underlying economics of handling and distributing cash. The current cash infrastructure was built for high volumes of cash. Rethinking this model for the needs of today will help make it lower cost and more sustainable.²⁶ We support the calls by the Access to Cash Review to rethink the economic model underpinning it to address the system as a whole.²⁷ Crucially, **ensuring that accepting cash makes commercial sense, or as a minimum does not cost more in time and money, is a vital component.** Taking a utility approach could reduce the cost of running the cash infrastructure, with need and efficiency evidence leading this to keep the costs down.

We need to make it affordable for retailers and providers to accept cash. Yet, more work is needed to understand the barriers to the acceptance of cash. This has become all the more critical following the impact of Covid-19. **We urge that the Government lead in collecting data on the levels of acceptance by businesses to inform this legislation.**

²⁵ D. Fagleman (September 2020). *Cash post-lockdown: Understanding the impact of Covid-19 on consumer use of cash*, Enryo.

²⁶ Access to Cash Review, (2019). *Access to Cash Review: Final Report*. Available at; <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

²⁷ Access to Cash Review, (2019). *Access to Cash Review: Final Report*. Available at; <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

Q5: 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?

The Commission recognises that the Access to Cash Review concluded that the lack of coordination between regulatory bodies was a key issue. Coordination has subsequently improved, with FCA and PSR working together to oversee industry initiatives in this area and HMT working on legislation to preserve access to cash. We welcome the inclusion of this as part of this review, as well as the work by the Government since the review.

We support the suggestion that legislation should allow the FCA to become the primary regulator. We echo the point raised in the submission made by the Access to Cash Review that the FCA is best placed to take up this role, especially since it has an organic relationship with PSR. The FCA already has oversight of the retail banks and those deposit takers offering current account services. But more importantly, the FCA already has a statutory duty to maintain a degree of consumer protection and a core focus on consumer vulnerability. Bringing oversight under one regulator will allow a more strategic leadership on the problems.

However, the FCA also needs the tools and resources to carry out this oversight.

Summary

The Financial Inclusion Commission welcomes this opportunity to review the cash infrastructure in the UK especially as Covid-19 has accelerated the transition from cash to digital. The use of cash continues to be a significant part of the UK economy and ensuring access to and acceptance of cash is vital not just for consumers but also businesses. Cash is an economic necessity for approximately 25 million people, and many are not ready to cope with a cashless society.²⁸ Although the trend towards digital payments is likely to continue, and is in some respects beneficial in increasing the financial well-being of those able to use them, we believe that ensuring the ability to use cash is crucial for those most vulnerable and financially excluded. Consumers need a guarantee that they can access and use cash for as long as they need it.

Ultimately, we believe that to maintain a sustainable cash economy for the future, access to and the acceptance of cash is key. This cannot be done without a cost-effective cash infrastructure which doesn't cost more than retailers and consumers are willing to pay. We need to lower the costs of accessing and banking cash. In addition to that, digital payments must be designed inclusively to work for everyone. Overall, the Commission support calls for;

- Better utilisation of the ATM infrastructure through the Post Office and legislation to ensure that this is provided consistently;
- legislation to allow provision of cash-back without sale, but prohibited through those premises which may lead to consumer harm;
- provision for small businesses to deposit cash in secure lockers rather than needing to make regular trips to a bank branch;
- legislation to allow the FCA to become the primary regulator.

²⁸ Access to Cash Review, (2019). *Access to Cash Review: Final Report*. Available at; <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

Furthermore, the Commission believes that the following basic needs must be met for consumers and businesses:

- My needs are of equal weight to others even if I don't have access to the internet or know how to use it.
- I should be able to pay for things easily and at the same cost as others, no matter where I live, the level or regularity of my income.
- I want a payment method that allows me to pay flexibly at no extra costs so I can manage my outgoings.
- I need a payment method that is safe and secure.
- I need a payment method that can support my financial and mental wellbeing.
- I should always be able to access my own money for free.
- I need a payment method that is reliable.
- I need the ability to deposit cash easily and securely.

The Commission welcomes the government's encouragement of initiatives, by banks and fintech companies, to help people make the transition from dependence on cash to digital means of payment and money management. There is, however, a limit to what the financial services sector can achieve in this respect on its own, without a major expansion of connectivity and the provision of both hardware and consumer education to help consumers access digital financial services with confidence.

The Commission believes that cash meets certain needs, but this must go alongside the inclusive design of digital products and services. We need to ensure that both cash and digital payments are safeguarded for the future to promote a financially inclusive UK.