ACCESS TO CASH REVIEW

Chair's Blog

Is the day of shops refusing to accept cash near?

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How would you react if a shop you used regularly stopped taking cash? Would you shrug your shoulders and use a card, or be irritated that someone else had decided how you should pay?

This might be something you've already experienced. Over the past 20 years we've been prodded to pay our bills by direct debit and use contactless cards for public transport. We now use contactless cards to pay for one in seven of all transactions, and even the Church of England now accept donations by contactless in many churches.

According to the banking trade body UK Finance, in 2017, debit card payments overtook cash as the main way we pay for things. And yet, the reality is that while more of us prefer to use cards, phones or even our watches, cash will be needed for decades to come. Many consumers want the option to use cash, more vulnerable people rely on it, and as a country it's the fall-back if parts of the complex IT networks that support digital payments fail.

However, we simply can't take our cash infrastructure for granted. As fewer consumers use cash, the economics supporting the provision of a cash infrastructure are under threat. The entire UK cash infrastructure costs around £5 billion each year. That includes: the printing of new notes, the running of ATMs and the distribution networks that supply ATMs and retailers with cash. This is an infrastructure largely run by commercial companies, and it's funded largely through fees per cash transaction paid by retailers and banks (not directly by consumer) – i.e. every time we withdraw money from an ATM, or each time a business deposits cash at its bank – the provider of the infrastructure gets paid.

Twenty years ago, when around three out of four of all payments were made using notes and coins, the high cost of storing and moving cash around made sense. All parts of the economy relied on cash payments, so paying for the security vans that moved the money to banks or topped up ATMs was shared across a massive base of transactions. In 2017, this volume has more than halved to just one in three of all payments, and it's forecast to halve again in ten years to just one in six. Fewer transactions means less income for the commercial providers running this infrastructure. But at the same time, costs are largely fixed, and don't fall away as cash usage drops. So basic economics tells us that either retailers and banks need to pay a lot more for using cash, or providers of the infrastructure need to radically cut their costs.

This is where the pressure points will develop. For retailers, as fewer customers pay in cash - particularly in towns and cities, and where there are fewer bank branches - the process of cashing in or collecting notes and coins at their bank becomes increasingly expensive. There will come a point (and there are many examples already) when the easiest thing for a retailer to do is to stop accepting cash. When only a small fraction of customers pays in cash, it's worth risking losing them to save on the costs of handling cash. Just as many retailers refuse to accept cheques or £50 notes, there is nothing to stop them from not taking cash at all. Legal tender is a concept based on paying a debt. It does not prevent a shop from rejecting a payment in cash. For companies providing ATMs, they will look to close the ATMs in areas with low transaction volumes.

This is not a theory. There is no single point of regulatory oversight that controls the way this infrastructure is managed. The distribution networks are run by commercial organisations who will make decisions based on their own commercial interests. In some parts of the cash infrastructure, there are only one or two companies playing a critical role. If they decide it's no longer commercially viable to undertake that activity, then cash in circulation could simply stop.

Sweden is a case study to observe closely. It is the poster child of a 'cashless society', with only 15% of Sweden's payments currently made using cash. Sweden's central bank forecasts the country could be cashless within a decade; others suggest it may be much sooner. Here, shops and transport accept payments through cards or via an app, and only a small number of banks handle cash. The issue is not just that cash is difficult to get, but that even if you have it, it can be difficult to spend. If you're someone who can't or won't use digital payment – for many reasons – you can be left excluded from many parts of society.

This should raise many questions for regulators and policymakers in the UK. First, how robust is the digital system when we have seen multiple IT failures in recent months alone that restrict access to online banking and card payments? Is cash actually an essential part of our UK infrastructure?

And critically, do we want to leave people behind? There are around 2.2 million people who are almost entirely dependent on cash to live their lives. These are vulnerable groups such as elderly people, the disabled, and people in debt or with low incomes, or those who live in rural communities where digital payments simply don't work. Improving our national infrastructure with better broadband and innovative banking solutions will help include some. But for many, this is not an answer - cash is vital. There isn't yet an easy alternative for the elderly person living alone who has a neighbour help with occasional shopping – giving over a £20 note limits their risk to £20, whereas handing over a card risks losing all their savings. Nor is there yet a digital alternative for the domestic violence victim who survives by squirrelling away cash from their partner who controls everything they spend online. Or, for someone living on the breadline, of making sure that they cannot go overspent – after all, with cash, you either have it or you don't.

As our society shifts 'digital', is it acceptable that people who depend on cash should have their choice of shops limited? To be excluded from certain activities? To pay more for what they buy? Or lose their independence because their ways of coping simply don't work in a digital economy? I don't think that's a society that many of us would want.

In fifteen years, changes to the payments landscape mean that we will pay for things tomorrow in very different ways than we do today. This change needs to be managed properly, not just by encouraging innovation which enables more people to participate in the digital economy, but also by planning for a viable cash infrastructure which means people aren't left behind. We can be creative in how this is done, and it's going to require us to bring together banks, government, the post office, charities and regulators to work together on solutions. Without this happening, a cashless future, and its negative consequences, could happen sooner than we think.

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