

Peter Murray (Access to Cash)
10 Old Bailey
London
EC4M 7NG

30th September 2018

Dear Peter

RE: FSB response to The Access to Cash Review Call for Evidence

The Federation of Small Businesses (FSB) welcomes the opportunity to respond to The Access to Cash Review Call for Evidence.

FSB is one of the UK's leading business organisations. It exists to protect and promote the interests of smaller businesses and the self-employed. FSB is non-party political and, with 165,000 members, it is the largest organisation representing small and medium-sized businesses in the UK.

Small businesses – those with less than 50 employees – make up 99.3 per cent of all businesses in the UK. Medium-sized businesses represent another 0.6 per cent of businesses in the economy. Therefore, 99.9% of all businesses in the UK are SMEs, and make a huge contribution to the economy. They contribute 51 per cent of private sector output, amounting to £1.9 trillion, and employ 60 per cent of the private sector workforce.

Thank you for considering our response to the consultation. We hope it is found to be useful. If you would like to discuss any of the points further please contact me via my colleague Lorence Nye, Policy Advisor, on 020 7592 8126 or lorencenyefsb.org.uk.

Yours sincerely,



Tony Baron

Chairman of the Finance, Tax & Economy Committee

Federation of Small Businesses

FSB is concerned that those in rural areas are being left in a “no man’s land” in terms of payment options. Cash is becoming increasingly difficult to access and process with the closure of bank branches and ATMs. Meanwhile, the digital infrastructure in these same areas is not yet reliable enough to support a comprehensive suite of digital payment options.

If this trend continues, small businesses and consumers will find it more difficult to transact, and this will have a negative impact on rural economies. The Government needs to move quickly to ensure that access to cash and strong digital connectivity are present in all parts of the country in order to prevent a further widening of the rural/ urban prosperity gap.

FSB is concerned that the costs of moving towards digital payments are being shouldered by small businesses. Government legislation has protected consumers from these costs, while card issuers and service providers are able to increase their fees and shield their profit margins because of their market dominance. This has left small businesses caught in the middle. More must be done in order to spread the cost of these advancements across the economy.

Small businesses that process high volumes of low value transactions suffer the most. The cost of processing card payments is still greater than cash, and card payment processing costs appear to be increasing despite government action to reduce them. Again, the fact that businesses have been banned from passing on these costs to consumers increases the burden they bring.

It is important for one body to have full responsibility for overseeing issues related to access to cash. The PSR should oversee access to basic payment services as well as bank branches and cash points.

Responses to consultation questions

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

It is impossible to ignore the changes in how consumers are choosing to make payments. The call for evidence document correctly identifies that digital payments recently took over cash payments in terms of volume after having a higher value than cash for a number of years.

The recent surge in low value transactions has been driven by the increased prevalence of contactless payments. The UK currently leads the world in the proportion of cards that are contactless, and this form of payment is now the easiest way to make low value payments.

Over the next fifteen years FSB expects the trend of growing digital payments and falling cash payments to continue. With the increasing ease of digital payments a negative feedback loop is being created when it comes to cash usage. As bank branches and ATMs close, cash is becoming less available, meaning its usage is dropping at an alarming rate, justifying further closures.

The closure of bank branches and ATMs is causing cash to be an even more difficult means of making and receiving payments. For businesses, processing cash through branches may involve greater travel time. For consumers, the lack of access to ATMs means they are likely to further rely on their cards to make a payment instead of always having cash. Businesses that turn away card payments and, to a lesser extent, those that have minimum charges, risk losing customers.

FSB strongly believes that there is a cash usage “floor.” There will always remain a certain level of demand for cash, though it is difficult to assess what level that might be. Around 16 per cent is the level currently being witnessed in Sweden, but the Swedish government have actively encouraged a move to digital payments in a way that would not be appropriate for the British economy.

The UK is much larger than Sweden in terms of population, so the likelihood of greater variety of needs should be considered. FSB research shows that a lack of digital skills presents a potential barrier to greater digital payment penetration. 12 per cent of small business owners feel do not feel confident about their basic digital skills.¹ These individuals are therefore likely to feel more comfortable with cash payments than digital means.

Digital infrastructure also presents an issue for digital payment penetration in the UK. There remains areas in the UK that have poor broadband and mobile connectivity. This holds back the use of mobile payments from both consumers and merchants.

In addition to these issues, consumer preference for cash might see the cash demand “floor” remain higher than the 16 per cent predicted in the review document.

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

The digital skills required to pay by card are currently no greater than withdrawing cash. Despite this, there is still a significant proportion of the public that rely on cash. Those that are paid in cash are an obvious example. Older members of the public who are still more familiar with cash also remain reliant on access to cash. Those on low incomes who need cash to better manage their expenditure are another group to consider.

Some consumers simply prefer to use cash. For some, trust in the digital system in terms of its security or capacity for failing plays a role. There is also, among some, a scepticism about the use of their data and a reluctance to be constantly tracked digitally.

There seems to be a proportion of the population that will for one or all of these reasons will always have a preference for using cash.

Whether it is through necessity or choice, consumers who use cash will always need to be able to easily access cash for free. Local ATMs that provide cash for free through smaller notes are vital. These consumers will also need the shops they use most frequently to accept cash and provide change. Convenience stores and supermarkets are likely to be places where customers need cash to be accepted.

The requirements for processing digital payments are straightforward to identify, but are more difficult to deliver across the board. A strong, reliable digital infrastructure is a necessity. In many parts of the UK, this is not actually the norm. Despite high levels of internet and mobile penetration there are many mobile signal “not spot” areas particularly in rural areas. This restricts consumers’ ability to use digital methods of payment.

One digital payment development which is yet to emerge is a method by which individuals can pay each other as effortlessly as they can do with cash. At the moment, the most frictionless means of one individual paying another still requires some information being exchanged between parties. PayM, for example, requires the recipient’s mobile number to be shared with the payee.

¹ “Learning the Ropes,” FSB, <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/skills-and-training-report.pdf?sfvrsn=0>

Using Near-field Communication technology so that small payments can be made with mobile phones using existing contactless systems offers a solution to this current gap in cash and digital payments.

Overall, FSB believes there will remain a consumer desire to be allowed the choice of what payment method to use. The infrastructure for both should be supported.

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

An advancement in the utilisation of NFC technology in order to use banking and payment apps to transfer money directly from one account to another – without a prior exchange of information – is one of the key innovations that will further encourage those using cash to use digital methods instead.

Crypto-currencies also offer an attractive solution to those individuals who would prefer to keep their payments unrecorded or untraceable. Further advances in the availability of crypto-currency is likely to decrease those individuals propensity to use cash.

Further ATM innovations will support the use of cash. Most UK bank branches host smart ATMs. These ATMs allow businesses and consumers to deposit cash and cheques, print statements and send payments, amongst other features. They also dispense cash, of course. FSB would like to see these ATMs made more available.

Embracing the model prevalent in European countries, such as Germany, of mini-branches that solely host ATMs alongside smart ATMs fills a gap in the market. Doing so would allow individuals to feel more secure when they are doing more complex banking transactions that take longer than a regular cash withdrawal.

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

FSB believes that central co-ordination is vital to ensuring good coverage of cash provision. The role of bank branches and ATMs, cashback and the Post Office needs reviewing in order to ensure all are working together to ensure free access to cash.

Currently, banking services offered by the Post Office are not well publicised. There isn't sufficient uniformity of the service so business owners are unclear what their local post office can provide, if they are aware of the banking features offered by the post office at all.

It is also very unclear to consumers which retailers offer cashback. Whereas in recent years it was common for large retailers to offer their consumers a card cash back service, this practice is notably less prevalent now, if it exists at all.

FSB was concerned about Link's decision to cut the interchange fee for cash withdrawals. Although the decision had some merit – it was made in order to maintain sustainability of the system in times of falling demand – it did threaten the availability of cash for those that are cash reliant. FSB and Which? are campaigning on the issue, believing that the market should have been properly reviewed before any cut in the interchange fee was executed. While the first reduction went ahead, we are relieved that Link has decided to postpone one of the cuts, pending review of the effect of the first, and cancelled another.

There is still work to be done in this area. What is really needed is an analysis of economic activity in areas that lose ATMs. An objective analysis of the customer and business behaviour in towns and areas that see a fall in cash availability has to be carried out.

Bank branches, of course, are the main hubs of cash transactions. Branches always have ATMs and always allow customers to deposit cash. With most major banks rapidly closing branches amid falling footfall, the impact of these closures have to be central to the analysis of how payments are conducted in the UK.

The PSR's remit does not currently cover bank branches or the Post Office. In order to get the full picture a body, perhaps the PSR, which covers other payment areas, should also have responsibility for maintaining a healthy branch and post office network.

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

FSB believe that access to cash is a vital public good.

How it will be funded in the future does represent a difficult question. What is clear that the burden cannot fall on the most vulnerable – either those who are more likely to use cash because of a low level of income, digital connectivity or skills, or those businesses operating on tight margins, who often serve these consumers. This means simply charging for cash withdrawals is not an appropriate option.

If the market struggles to provide an economic solution, government should stand ready to intervene to either compel or support the private to ensure free cash provision.

Protection of the interchange and LINK's program is one essential lever. Another potential policy is having a business rates exemption for ATMs. Government should be looking for innovative solution to support cash.