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Response to the Access to Cash Review 2018

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## Which?'s response to the Access to Cash Review - Call for Evidence

### Summary

- Which? welcomes the Access to Cash Review. It is essential that action is taken quickly to protect cash, and to ensure that consumers can continue to access their cash easily and free of charge.
- Choice of payment method should be driven by consumer need and not supplier interests. For as long as people need cash, the required infrastructure should remain in place. We are concerned that changes in cash usage may be driven by industry interests, such as profitability through cards, rather than consumer need or demand. While technological innovations such as contactless payments may offer benefits for some consumers over cash, others prefer cash due to issues such as privacy (some consumers may want to be able to make payments without firms being able to track their spending habits) and financial security (some consumers value being able to have physical cash if their financial situation is less secure).
- While there has been a decline in cash use, cash remains immensely popular and important for consumers. Which? research shows that almost three quarters of adults in the UK say they use cash at least two or three times a week, compared to only 5% who say they use cash once every three months or less.<sup>1</sup> Even if the predicted decline in use continues, cash will still be the second most frequently used payment method in a decade's time.<sup>2</sup>
- The majority of consumers still rely on cash. Our research found that 57% of people say they experienced a situation in the last three months in which they could only pay by cash. Further to this, there are consumers and businesses that continue to rely on cash because either the necessary infrastructure is not available or because

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<sup>1</sup> Which?, *Access to Cash - Everyday Finance September 2018: Topline Findings*. Populus, on behalf of Which?, surveyed 2076 UK adults online between 7-9th September 2018. The data were weighted to be demographically representative of the population. See Appendix.

<sup>2</sup> UK Finance - UK Payments Summary

the costs of accepting digital and card payments (e.g. scheme fees) are prohibitively high or are increasing.

- Without a wider strategy for cash, the closure of bank branches, post offices or ATMs could reach a point where maintaining the system ceases to be viable. There are also potential systemic risks. Recent IT failures at RBS, for example, have highlighted that the distribution of cash can be a critical national infrastructure, and often the only viable alternative.
- That is why Which? is calling on the Government to take urgent action to protect cash by placing a duty on the Payment Systems Regulator (PSR) to protect access to cash and to ensure the sustainability of the UK's cash infrastructure. This would:
  - support consumer choice;
  - prevent financial exclusion;
  - ensure there remains access to a secure non-digital form of payment; and
  - promote effective competition across all payments.
- The Review's Terms of Reference should also be extended to cover more immediate issues, such as the planned changes to the ATM interchange fee over the next four years. This is particularly concerning in light of new data that shows LINK's Financial Inclusion Programme (FIP) is failing to protect vulnerable consumers.

### **Detailed Response**

1. Which? welcomes the Access to Cash Review. The Review provides an important forum to consider how to protect the UK payments infrastructure, and in particular the cash network, in the interests of consumers. It is also important to consider these issues in the context of the wider retail banking and payments markets. While this Review is welcome, Which? has raised concerns about the lack of regulatory scrutiny of LINK's decision to cut interchange fees for ATMs, particularly its impact on the free-to-use ATM network. The PSR is uniquely placed to conduct a market review of access to cash and should have initiated this Access to Cash Review.

### **Which? research shows that cash is still an important method of payment for most consumers**

2. Cash remains popular and important. Which? research has shown that almost three quarters of people (73%) use cash at least two or three times a week, including 60% of 18 to 24 year olds. Only 5% of people use cash once every three months or less.
3. Cash use is declining relative to other forms of payment. However more consumers feel negatively (46%) than positively (26%) about a future in which they would only

be able to pay for goods and services using digital payments.<sup>3</sup> It is therefore essential that access to cash is protected not just for the 2.2 million consumers who were almost entirely reliant on cash in 2017,<sup>4</sup> but for the vast majority of consumers who use cash on a regular basis.

4. While technological innovations such as contactless payments may offer benefits for some consumers over cash, others prefer cash for reasons including privacy (some consumers may want to be able to make payments without firms being able to track their spending habits) and financial security (some consumers value being able to have physical cash if their financial situation is less secure).
5. Cash is also used for purposes other than paying for goods. Unlike other methods of payment it is a physical store of wealth, and has been found to be relied upon by some consumers for budgeting. It can also be used for donating money, or for gifting to friends and family. Almost nine in ten (86%) consumers said they used cash for purposes other than paying for goods and services.<sup>5</sup>
6. While cash use is in decline, Which? is concerned that it is being overlooked that the majority of consumers still rely on cash in some circumstances. Which? research found that 57% of consumers say they have experienced a situation in the last three months in which they could only pay by cash. Two thirds (67%) of people say cash is important for making small purchases and six in ten (61%) say it is important for paying for occasional professional services, such as babysitting and cleaning. Cash is still, therefore, a widely used payment method. It is relied upon not just by consumers, but by those receiving payments, with 52% thinking it is an important way of being paid.<sup>6</sup>
7. We also know that some consumers and businesses rely on cash either because the necessary digital infrastructure is not available (e.g. in rural areas) or because costs, such as card scheme fees, are prohibitively high. This has been highlighted by the recent British Retail Consortium figures which show card scheme fees increased by 39% in 2018.<sup>7</sup>

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<sup>3</sup> Which?, *Access to Cash - Everyday Finance September 2018: Topline Findings*

<sup>4</sup> UK Payment Markets Report 2018

<sup>5</sup> Which?, *Access to Cash - Everyday Finance September 2018: Topline Findings*

<sup>6</sup> Which?, *Access to Cash - Everyday Finance September 2018: Topline Findings*

<sup>7</sup> <https://brc.org.uk/media/354508/payments-survey-2018-snapshot.pdf>

## Cash is an important part of a secure and reliable payments infrastructure

8. There have been a number of problems relating to the processing of payments this year alone, including the outage of VISA payments<sup>8</sup> and IT failures for RBS, Barclays, TSB, Co-op and Cashplus.<sup>9</sup> We know from engagement with stakeholders that incidents of this nature can increase demand for cash and could therefore already be putting strains on the UK cash network. Over reliance on card-based and digital payments could represent a systemic risk.
9. It is therefore important to protect access to cash and to ensure a UK-wide cash infrastructure so that consumers can use a secure, non-digital form of payment. Any move away from cash needs to be offset by an increase in the reliability and robustness of digital alternatives, including appropriate redress for consumers when systems fail. Cash needs to be protected as the only viable back-up at present.
10. Which? is also concerned that changes in cash usage may be driven by industry interests rather than by consumer need or demand. In particular, we are concerned that dominant firms in the payments industry are pushing consumers towards card-based payments and away from cash without having properly assessed whether, especially without the appropriate infrastructure in place, this could have negative impacts on consumers. These impacts could include:
  - an increased likelihood of cash-users being financially excluded;
  - an increased likelihood of consumers and businesses that use only card or digital payments being unable to cope in the event of a system failure; and
  - increased sensitivity to rising costs of accepting digital payments for retailers who no longer have the ability to revert to accepting cash, potentially due to reduced access to cash and cash services.

## The Government should work with regulators and stakeholders to protect access to cash and to support a sustainable cash infrastructure

11. Given the reasons above, the government should act to protect access to cash and a UK-wide cash infrastructure in order to support consumer choice, to prevent financial exclusion and to ensure there remains access to a secure non-digital form of payment.

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<https://www.theguardian.com/world/live/2018/jun/01/visa-outage-payment-chaos-after-card-network-crashes-live-updates>

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<https://www.theguardian.com/business/2018/sep/21/rbs-natwest-ulster-bank-customers-locked-out-latest-banking-glitch>

12. The government should place a new statutory obligation on the PSR to protect access to cash and to ensure the sustainability of the UK's cash infrastructure. While some of this infrastructure is outside of a strict payment context, for example the creation and distribution of cash, this infrastructure is essential for maintaining cash as a reliable and sustainable form of payment. So a single regulator should be given responsibility for monitoring and protecting the whole of the UK's cash infrastructure. The PSR's existing remit would need to be expanded, which is likely to require new powers. It would also require significantly increased cooperation across industry from several stakeholders, including with HM Treasury, Bank of England and providers of cash services.
13. As well as the costs of regulating access to cash, protecting access to cash will have both infrastructure and processing cost implications. As cash use is declining relative to other payment methods, innovation and changes in the market may be needed to provide an affordable, secure and sustainable cash infrastructure. Which? is concerned that without action from the government soon, the necessary protections and changes in the market might not be achieved in time to protect consumers from the potential harm created by reduced access to cash and a rapid move to digital payments.
14. While access to cash and running cash services carries a cost, Which? would be concerned about the impact of any proposals that would see consumers directly charged on a routine basis for accessing or paying with cash. The recent introduction of a ban on surcharges for using cards means that, except for in some limited cases, consumers cannot be charged extra by merchants for using a card.<sup>10</sup> Which? research also shows that consumers are already unclear of how access to cash is funded and how card services are funded.<sup>11</sup> Government and regulators must therefore consider how the various cost implications of any changes for both consumers and the wider payments and retail markets will feed through to consumers.
15. Our preliminary research has indicated there is a clear preference for the cost of access to cash to be covered by all consumers using banking services, not just by those accessing cash. 73% are in favour of a social subsidy while only 6% say individuals should pay directly based on usage.<sup>12</sup>

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<https://www.gov.uk/government/news/card-surcharge-ban-means-no-more-nasty-surprises-for-shoppers>

<sup>11</sup> Which?, *Access to Cash - Everyday Finance September 2018: Topline Findings*

<sup>12</sup> We asked people to choose between two principles: a subsidy so that individuals who rely on cash do not have to pay fees for using ATMs; or individuals who use ATMs paying fees to access their cash based on their use of the machines. Notably 21% said they don't know - it is a hard question to answer. We also asked people to choose from a list of specific options for funding access to cash. The single most popular option, by some distance, is for individuals taking out cash from an ATM not

16. Which? is concerned about two issues regarding the current state of the cash and payments markets, both of which relate to how access to cash via ATMs is funded. First, the failure of LINK's Financial Inclusion Programme to use interchange fees to maintain a UK-wide network of free-to-use ATMs. Second, that if dominant firms in the UK payments market were to be putting pressure on the current interchange fee model, subsequently increasing the likelihood of ATM closures, it could lead to a higher reliance on card-based payments which might not be in the consumers' best interest.

### **Competition issues in the wider payments market may be impacting negatively on consumers**

17. Cash should be considered within the context of the wider payments market. It is currently the main alternative to card-based payments and is the only widely used non-digital form of payment. The Access to Cash review should consider what is driving changes in the payments market including whether there are factors that may be driving a reduction in cash use when it may not be in the interests of consumers. Which? has raised concerns with the Treasury<sup>13</sup> that industry forecasts represent an ever-increasing consolidation of the UK payments market in the hands of two firms: Mastercard and Visa. Which? strongly questions whether this will lead to the best outcome for consumers and other payment users.
18. For all the above reasons, a single entity should have a remit to look at the entire payments market, including cash and cash services. Within the current regulatory environment we would expect this to be the PSR. The PSR should review potential competition issues across the whole payments market and, as a priority, look at the provision of cash via ATMs.

### **The scope of the review does not take into full account the impact of changes to the free-to-use ATM network happening now**

19. Recent data published by LINK shows that protected free-to-use ATMs are closing.<sup>14</sup> This is likely to be a direct result of the recent changes in interchange fee rates. The Review's Terms of Reference say that this issue has been settled for the next four years. We do not believe this is the case. Each time the last free-to-use ATM in a local area closes, consumers' payment choices are limited further, they are at greater

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to pay extra fees at the cashpoint or through bank fees - but to have free access paid by all those who use a banking service (40%). The next most popular way to fund access is for individuals taking out cash from an ATM to pay a per-withdrawal fee to their card provider (11%). Which?, *Access to Cash - Everyday Finance September 2018: Topline Findings*

<sup>13</sup> [Which? responds to the government's review of cash and digital payments](#), June 2018

<sup>14</sup> LINK, [Status of Protect ATMs from 1st February 2018 - July 2018 Report](#), September 2018

risk of financial exclusion and may lack access to a secure, private and non-digital form of payment.

20. If cash-only businesses, including self-employed and small businesses, are forced by the loss of an ATM to start accepting cards, the costs associated with introducing and operating card payments will be passed onto consumers. The Review should therefore consider whether the current ATM funding mechanism is being monitored and implemented in a way which will continue to protect 'free' access to cash for all consumers in the UK, now.
21. Which? welcomes the fact that the impact of bank branch and post office closures on access to cash is within scope. The Review must consider how access to cash can be protected in the event of such closures. LINK's September publication on the status of protected ATMs highlights that, between February and July, 76 protected ATMs were closed. LINK has planned no further action for the 43 ATMs where there is a post office available within 1km and the 12 ATMs that were not accessible to the public.<sup>15</sup> However it is unclear what would happen if a post office were to subsequently close in one of those 43 areas. It is therefore essential that this review looks not only at access to cash, but at how it can be monitored and protected when there are several organisations responsible for its distribution.

**LINK's Financial Inclusion Programme is not working. More must be done to protect free-to-use ATMs, which remain important to most consumers**

22. As highlighted above, data published by LINK shows that between February and July 2018, 3% of ATMs protected under the FIP ceased transacting, leaving vulnerable areas across the UK with restricted access to cash. This is in addition to the hundreds of ATMs closing each month that are not currently protected under the FIP.<sup>16</sup> Many of these closures will have been a direct result of LINK's decision to alter the interchange fee structure. Which? has campaigned to protect the free-to-use ATM network as it plays an important role in providing consumers with easy access to cash.<sup>17</sup>
23. Given that LINK's Financial Inclusion Programme (FIP) is not working, the PSR should urgently review the FIP and push LINK to publish the full details of the FIP, including regular, up-to-date, information on protected ATMs.

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<sup>15</sup> LINK, *LINK Scheme ATM Footprint Report*, September 2018

<sup>16</sup> <https://www.which.co.uk/news/2018/09/250-free-to-use-atm-machines-disappearing-every-month/>

<sup>17</sup> As part of our 'Save our Cashpoints' campaign we have been calling on the PSR to review: the free-to-use ATM network and the short and long-term implications of LINK's decision; LINK's financial inclusion policy to ensure it meets the needs of consumers; the long-term alternatives which are available to consumers if free cashpoints are removed.



24. While there has been a notable decline in the volume of ATM transactions, the value of transactions has remained fairly consistent.<sup>18</sup> Demand for cash by value does not appear to be significantly weakening and access via ATMs obviously remains important. It may also be important to determine what is driving an increase in the average value of withdrawals, particularly whether this is a result of the reduced availability of cash.

25. ATMs, therefore, form part of a vital network of bank branches and post offices, which can also provide other essential banking functions for consumers. Protecting access to cash necessitates protecting ATMs. But more work must also be undertaken to determine the future shape of cash access and basic banking services. This could include reviewing the role of Posts Offices, smart ATMs and shared banking hubs.

### **About Which?**

Which? is the largest consumer organisation in the UK with more than 1.3 million members and supporters. We operate as an independent, a-political, social enterprise working for all consumers. We are funded solely by our commercial ventures and receive no government money, public donations, or other fundraising income. Which?'s mission is to make individuals as powerful as the organisations they have to deal with in their daily lives, by empowering them to make informed decisions and by campaigning to make people's lives fairer, simpler and safer.

**For more information, contact Justin Prottts, Policy Adviser:**  
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**September 2018**

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<sup>18</sup> <https://www.link.co.uk/about/statistics-and-trends/>



## Appendix I

### Access to Cash - Everyday Finance September 2018: Topline Findings

#### Introduction

Populus, on behalf of Which?, surveyed 2076 UK adults online between the 7th and 9th September 2018. The data were weighted to be demographically representative of the population.

Please note that totals may add up to more than 100% due to computer rounding or multiple responses.

#### Key Findings

##### ***Use of cash***

Almost all of those in our survey say they, at some point, use cash as a payment method (98%), with nearly three-quarters using it as frequently as two to three times a week or more (73%). This includes one in twelve (13%) who use cash every day.

According to our poll, only 5% of people say they rarely use cash (i.e. use cash every three months or less).

Use of cash increases with age, as a greater proportion of older respondents than younger consumers use cash frequently. Income is also a factor, with more of those in the lowest quartile using cash than average.

More than 4 in 5 (86%) of those surveyed use cash for other purposes such as gifting and charity donations, including one in five (21%) who do this at least two to three times a week.

##### ***Use of digital payment methods***

Of the digital payment methods, contactless debit/credit card is the most commonly used, with four in five using these (80%). Nearly two in three respondents (63%) use cards frequently. This is followed by online transfer systems, with 21% using them frequently, and electronic app transfer systems, with 18% using them frequently.

Overall, mobile payments are the least commonly used form of digital payment method. Cash, which is used by 98% of those surveyed, is the most commonly used payment method, followed by card.

In general, digital payment platforms are more likely to be used by younger consumers than older ones, with mobile payment systems the least used among older generations.

***Attitudes towards cash use***

Two-thirds (67%) of respondents feel it is important to be able to use cash for purchases of less than £5 and half (52%) feel it is important for transactions between £10-20. While this tapers off for purchases of £30+, over a third (36%) still say cash is important as a payment option.

For occasional services like babysitting and for gifting, three in five (61% and 62% respectively) feel cash is important as an option. Furthermore, half (52%) say cash is an important way of being paid for goods or services they have provided. This differed little by age and geography, but there were some variations by social class on this last point.

***Situations where cash payment was the only option***

Almost six in ten (57%) of those surveyed experienced a situation in the last three months when they could only pay for something by cash, with the majority of (82%) these occurring as the vendor/recipient would only accept cash.

One in seven (15%) experienced the opposite situation during the same period, whereby they wanted to pay in cash but couldn't.

People describe the likely future use of cash with some certainty. Three-quarters (75%) of consumers are certain or likely to use cash as a payment method in the next month, including 39% who are certain about it. This contrasts with the 2% who are certain not to pay by cash.

***Attitudes towards changes in the payment system***

We told people that official figures show that the use of cash for payments has dropped by a third over the last ten years and asked them how concerned, if at all, they are about this change.

Opinion is split but, on balance, more people appear unconcerned (54%) than concerned (41%) but it's still two in five who are concerned, which is a sizeable minority.

The most common reason given for being concerned is simply liking having the choice to pay by cash (64%). It is clear that people want a choice of different payment options depending on the situation. The second most popular reason given is wanting to minimise scams made through cards.

Notably, 49% of those who frequently use cash say they are not concerned.

People who are not concerned like the convenience and speed of digital payments.

***Attitudes towards future scenarios***

More people are negative (46%) than positive (26%) about a future scenario in which they are only able to pay for goods and services using digital payments like credit or debit cards or other electronic payment services (e.g. mobile phones or smart watches).

However respondents are generally more negative about the idea of a totally cashless society, with 61% negative about the idea of all notes and coins ceasing to exist altogether and with only 15% positive about the possibility.

### ***Understanding of how free access to cash is funded***

When we asked how free access to cash is funded, a third (32%) admit they don't know. Most commonly, people think the banks or card companies pay for this – either out of their operating costs (44%) or by offering lower interest rates to their customers (14%).

We asked the same question about the funding of card and contactless payments and again, a third just don't know (32%). At least for this question, a quarter (24%) identified that cards and contactless are funded by businesses taking card or contactless payments (funded through increasing the prices of goods or services). A sizeable minority think digital payments are paid for by banks and credit/debit card companies either as part of their operating costs (28%) or by offering lower interest rates to their customers (10%).

### ***Attitudes to future funding of free access to cash***

Thinking about a future scenario whereby LINK no longer operated as it does, we asked consumers to choose from a list of specific options for funding access to cash. The single most popular option, by some distance, is for individuals taking out cash from an ATM not to pay extra fees at the cashpoint or through banking fees – but to have access paid by all those who use a banking service (40%). The next most popular way to fund access is for individuals taking out cash from an ATM to pay a per-withdrawal fee to their card provider (11%).