

Access to Cash in Rural Communities

Report for Link

Professor Russel Griggs OBE

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## Introduction

In June 2018 I appeared, with others, in front of a Committee of MSPs at the Scottish Parliament in Edinburgh who were looking at the effects of both bank branch closures and the reductions in the number of Automatic Telling Machines (ATMs) in Scottish communities. At the end of the session, which had covered not only the two issues above but also how other retail outlets delivering other services had an impact on or could mitigate these services, I was asked an interesting question namely:

'Is it the Post Office or other retailers who offer this service that we should be trying to protect rather than ATMs and bank branches per se we have been discussing?'

That question leads to many others but in essence will be the basis of the journey and the question on which this report will seek to express an opinion on. Hopefully it also might offer some thoughts and recommendations on what are the critical things that we need to do to allow small rural communities to continue to access or use cash in some way for those that live there.

In doing so this report will also look at:

- The impact of multiple changes affecting rural areas on cash usage and access to cash
- The impact of digital on rural communities and how the withdrawal of physical services impacts them – pharmacies, post offices et al as well as banks, plus the different needs of new people moving in from urban areas
- The importance of cash and access to cash through ATMs and other channels
- Options to mitigate the impacts of changes to cash.

However, all the above needs to be done within the context of changes within rural communities and what appears to be a growing friction between them and urban areas as the demographics and attitudes of both change. Much has been written about the state of rural communities across a broad canvas in recent years so there is plenty of information to look at in drawing evidence around all the above. Indeed, the challenge may be that there is too much so, in terms of this report, I will draw only on information that I believe to be relevant to what I have been asked to examine.

Also, to look at cash in rural communities there is a need to look at trends in and usage of cash generally not just in the UK but overseas and how that impacts on rural areas.

It is also not my intention to reference individually every report or reference site I have used or the footnotes would outweigh what was written on the page but thank all for inputting into my thought processes while writing this report.

Much has been written on the subject of cash and a cashless society recently so this report forms part of that confluence. Interestingly all seem to be pointing in roughly the same direction in terms of where we are going and what needs to be done to ensure a smooth passage for us all in that change. In this report I will try to offer some practical suggestions that might help that process.

To try and create some structure to my own thoughts as well this report is split into 6 sections namely

1. Some General Facts about Rural Areas in the UK to set a context for that environment today
2. The state of Digital connectivity in rural areas
3. How we pay for things to set a context in terms of the wider framework of our financial management
4. Is Fraud really an issue for us all to worry about as much as we appear to
5. What is cashlessness and where are we on that journey
6. Where can we get cash from and what are the issues that challenge us all and those in rural communities especially

Recommendations that I will make will be in each section and I will highlight in bold as well as bring all together in the summary at the beginning.

In doing that I need to explain my own particulars in terms of who I am, where I live and how that has changed over the almost 30 years I have lived there. I turned 70 last year and live in a small rural community in South West Scotland. The nearest large town is about 30 miles away although there are larger settlements about 15 miles away. When we moved here almost 30 years ago the High Street was bustling and we could get most things we wanted without going outside the community should we wish to. Today it is a much quieter High Street but busy compared to many others and still has a variety of retail and fast food outlets but not to the same size and variety that were there before so you need to go elsewhere to get all that you require. We have one bank left, a variety of ATMs in various places, and the oldest operational Post Office branch in the world.

## Summary

That much is changing generally for us both as individuals and as businesses in the world we live in is a fact whether we like it or not. Most of us adapt (even though the irritation of the change may linger) and indeed one of the strong traits of Homo Sapiens is our ability to adapt to changing situations and move on when things do change. That does not mean that we may still not get annoyed at things we used to do that we no longer can, but we learn to accept and move on, as most of the changes add benefit to us. In doing that though we need to make sure that those vulnerable minorities or small constituencies of people who cannot adapt to a particular change are protected or helped to be part of that change. We should also ensure that the mitigation for them does not deter or prevent the majority moving forward as they would wish, or indeed helping those vulnerable members of our population change as well should they wish to.

The Access to Cash Report, chaired by Natalie Ceeney and published in the last few weeks focusses on how we help those that cannot become cashless. That we should do that is correct but we should also make it easier for people to change if they wish to. We should also ensure that the current system runs as well as it should now which I do not believe is the case so we need to look at what else could be added to make it better.

That report made a number of key recommendations namely:

- Government and regulators to step in urgently to ensure cash remains viable
- A “Guarantee to Cash Access” for all, including those in remote and rural areas
- Those providing essential services to be required to allow consumers to pay by cash
- A more efficient, effective and resilient wholesale cash infrastructure to ensure that cash remains viable as its use declines.

I do not disagree with any of the principles behind any of those points but we also need to address I believe some practical issues that we could do now as well which would make some of the challenges or inefficiencies that led to some of the recommendations better or indeed disappear.

In essence, the debate should not be about cash but about how we can give everyone the access to what they need to allow them to make personal choices that are right for them. For those of us that could change but choose not to then I believe that this is their choice so they then have to adapt to whatever that means for them, unless as is stated above there are barriers in the way of doing that which then need to be removed.

The recommendations that I make cover a wide variety of issues but all focussed around the making access to cash easier for all of us that need it but also trying to more generally help the process that allows us to look at issues like this in a different and better way

#### Recommendations

- **Rural communities wish to be listened to, understood and respected with policies for them.**
- **Government either nationally or locally look at expanding the 'learning' programs that both raise awareness to individuals and businesses of the benefits using the internet can bring and enhance what they do. It should not just be Government but those who want more of their customers to look at and use their digital offerings have proactive education and learning programs to do that. This could include for example the banks ensuring that in every branch there is someone, which is not always the case currently, who can do that on site.**
- **That banks continue to look at how they can bring more low-income consumers into the type of banking service that most of us have access to by expanding the services of the Basic Bank Account to encourage more to use, should they wish to, to manage and budget their finances.**
- **That all those who can influence what we do in this area of fraud highlight the positives as well as the negatives in terms of digital and other financial transactions by making the data they publish simpler and easier to read and access.**
- **That for issues where working together on key issues either with vulnerable or challenged parts of the population or where a single solution would encourage greater and better usage which would help us all in total that the financial institutions working with Government, the regulators etc look at ways of putting in place something that will help them to identify and then find solutions to issues that would be better solved or promoted jointly to help us all to move forward.**
- **Banks should consider ways to encourage more stores to promote cashback and what they could do to help that process if required.**
- **The Post Office is the provider of the service I feel that they should be promoting the banking and cash services they offer generically to the population at large.**
- **Either jointly or individually banks should be making all of their customers – not just those served by branches that have closed – aware of the services that the Post Office can provide for them.**
- **All parties involved should produce a single way for individual and business customers to pay in cash to their account at the Post Office that would make it easier for all and therefore encourage both staff and customers to use the system more.**
- **The banks and the Post Office should work together to look at ways of reducing the time that it takes for cash paid into all types of Post Office to reach their account with the aim of reducing it to the same as it would**

**be if they paid the money in at a bank branch or at worst into an ATM that accepts cash deposits.**

- **If the Post Office and banks want Post Offices to be able to service their customers well then they need new or extra equipment to do that and note counting and coin weighing machines would be a start so that needs to become part of the obligation around service provision that the Post Office offers and again is something the banks with the Post Office need to sort out.**
- **The Post Office and the banks investigate as a matter of urgency how new technology might be applied to alleviate some of the challenges that currently exist.**
- **If Post Offices, and especially those now in local convenience stores are to be the alternative to bank branches as is stated then both the Post Office and the individual banks have to work together better to make that happen.**
- **The banks work with their rural or in other ways remote SME customers to look at how to put in place preferably a universal collection cash collection service that uses new technology to make it operate simply and effectively**
- **Businesses of all types who have vulnerable people and groups as their customers who should know them better and what their needs are that so have to have an obligation to make sure those needs are addressed.**

If all the above, or even some of the above are put in place or started quickly then I do believe that the rural convenience store with or without an embedded Post Office is the critical piece of infrastructure to answer many of the issues raised in this report or elsewhere. I also believe that putting these recommendations in place will also help others change the way they manage their finances and become part of the digital financial community. However, that they have that choice is key and currently in certain areas I do not believe there is enough being done to safeguard that choice.

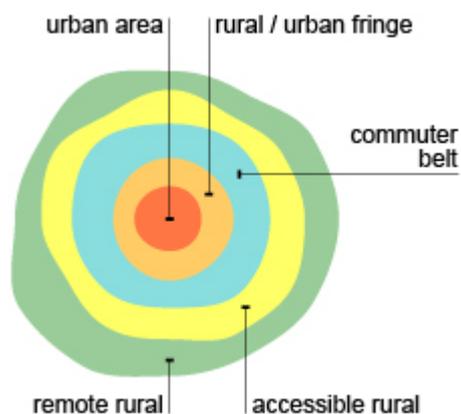
I am sure the question 'who will pay for this all' will arise but, with all changes there is a cost. If we truly want these changes to happen or offer everyone the best service they can have to make that choice then those involved in providing that service whoever they are either private or public will have to see the advantages in making the necessary financial commitment.

## Rural UK

Before looking at the challenges of cash on rural communities specifically it is important to create a context around rural communities in general.

Around 80% of the land mass of the UK is officially classified as rural and about 20% of our population lives in rural areas – over 12 million people. Rural areas embrace a wide range of people and communities. Many of their concerns overlap with those of urban areas and some reflect the interdependency of urban and rural communities.

The nature of the term 'rural' varies though from place to place as do the definitions of 'What is Rural'. It often just refers to areas in the country which are less densely populated. There are different types of rural areas, depending on how accessible they are from urban areas. These range from the rural urban fringe, to the extreme (remote) rural areas. The diagram below shows this.



Rural areas can also change over time. These changes are caused by:

- Economic factors - tourism income, farming profitability, primary sector jobs
- Environmental factors - land use, pollution, conservation
- Social factors - population change and migration, leisure time, retirement population

Also from discussions I have had with people from communities which were once rural and had at one time clear delineation from the cities or large towns near them but have now become joined not just physically to them but in terms of post codes etc. many do not like that change and see their communities now being dealt with in urban rather than a rural context. The main reason for that is they now become part of the decision-making around that larger town or city and not about their own community which has been subsumed into the larger geography.

On the other hand, most towns with populations under 10,000 are seen as rural which in some cases they do not like either as in some cases they would like to have the services that larger towns or cities have which have moved elsewhere.

The rural economy though does have a similarly diverse mix of sectors as the whole of the UK. Exceptions are the higher proportion of agri/forestry/ fishing businesses in rural areas and the lower proportion of info/comms and professional/technical businesses. Some rural areas are able to capitalise well on the attractiveness of the local countryside which leads to a vibrant tourism and recreation economy. Other areas may have to focus on a stronger manufacturing, agricultural and other sectors.

Whilst agriculture may not be the largest sector in some rural areas, it continues to be strategically important especially as agriculture is becoming more mechanised and efficient thanks to innovative technologies. Whilst advances in technology would likely increase productivity and food security, it could and has reduce people employed in this sector.

Over the last decades many things have closed or changed in rural high streets and indeed in the communities themselves with reductions or total closures of many retail shops, pharmacies, bank branches, job centres, GP and other facilities, as well as Local Council offices and services. From other work I have done over the past few years it is also clear that where two rural communities are close together one may suffer more than the other. That is usually due to where the large key food retailers and others of the same retail ilk situate and the extra footfall for others near them that brings. It has been one of the key reasons for example of why a community has kept a bank branch while others have not.

Having said that there are still almost 764,000 registered businesses in rural areas of which

- 90% of are micro businesses with 9 employees or fewer.
- 29% of rural employees work in in micro businesses versus 19% in urban.
- 22% of rural workforce works from home rather than 12% in urban
- 20% of rural business turnover less than £50k compared with 17% generally
- Rural areas contribute £300 billion to GVA - £20,500 per resident versus £25,400 nationally.

The above statistics mainly apply to registered business so is likely to be far more if sole traders are added as given that the majority of businesses in rural areas are small or micro businesses then the numbers will be much higher.

There are over 19,000 rural shops operating across the UK, employing over 143,000 people. The majority of rural stores operate entirely on their own, with no other business or service provider nearby.

In 2017 there was £315Million of investment in rural retail so they are not standing still. That was mainly in local convenience stores, and 76% of their owners were independent. Rural convenience stores are a third of all convenience stores in the UK. Over the last year, there has been growth in the breadth and depth of service provision among rural stores. More rural retailers now offer free to use cash machines, home grocery deliveries, parcel pick up and collection, and recycling services than last year. Investment in rural stores is crucial in maintaining relevance and appeal to consumers.

Rural shops also have unique challenges when compared to their more urban counterparts. Lack of high speed internet infrastructure, mobile data coverage, effective rate relief and support for Post Offices within rural shops remain areas of concern, although there has been progress made with the Government's commitment to make the Universal Service Obligation for broadband speed a regulatory requirement, and it is moving towards that now.

However, to the outsider the rural community may look largely unchanged but in reality it is very different from what it was say 20 years ago as migration both in to and out of rural communities as part of general population movements has had an impact as well.

Those that have moved into rural communities tend to be better off and older than those that have moved out so may have brought with them the demand for the type of services that they were used to in more urban areas. Therefore, while I am not saying

that rural areas do not have challenges as are outlined in this section of the report the pressure on those existing services and the increased demand on them has probably been greater due to population movements than it would have been without that.

Currently

- Less than 50 per cent of those living in rural areas are aged below 45 years, compared with almost 60 per cent in urban areas, and overall there are proportionately fewer younger people living in settlements in a sparse area.
- The proportion of the population aged under 45 years tends to decline the more rural the settlement type.

So rural communities face a range of interconnected opportunities and challenges. Some of these are specific to rural areas, such as dispersed populations and connectivity to a range of services (both physical and virtual). There are also issues that, whilst common to both rural and urban areas, have the potential to affect rural areas differently, such as ageing, population growth and affordable housing.

As I have been working with the Scottish Government and others to create the new economic development for the South of Scotland perhaps the single biggest cry from the population has been 'how can we keep more of our young people here'. That does not mean that they want to stop young people developing or moving away for betterment but where a young person wants to learn and live locally then that should be available to them which is not always the case for a variety of reasons. There is no doubt if rural areas could keep more of their younger population then that would help many things in the digital, access to finance and cash space as young people tend to be early adopters and users of new technology or alternative ways of doing things which others not so young – like me – can learn from.

The appeal of living in the countryside, coupled with the current limited supply of housing, especially affordable ones, will continue to put upward pressure on property prices. The provision of flexible, affordable housing in rural areas is a key current issue and will continue so into the future. However, a 'one size fits all' approach to affordable housing may not be sufficient for the specific needs of those living in rural communities. It can also not just be about finding housing but going further to helping those new tenants to find jobs locally, integrate into the community etc. and there are now some good example of where local Housing Associations are adopting this more holistic approach to allocating their properties to ensure it brings have a wider positive impact on the community as a whole.

New technologies could also help to deliver public services in innovative and sustainable ways to rural communities, particularly in the healthcare sector.

So, in summary - in rural areas

- Employment rates higher and unemployment lower in more rural areas but wages lower.
- Average house prices are less affordable to local workers in rural areas than in urban
- Levels of home working and self-employment in rural areas are above the national average
- Business units employ fewer people in rural areas
- Most agriculture and forestry is in rural areas
- Internet access is higher in rural areas but maybe not speed and reliability

- Crime is lower in rural areas
- Rural areas have smaller populations of young adults and above average levels of middle class people, children aged 10-14 and people aged over 60

Official figures also show that the rural population will increase by 6 per cent over the next decade as more people choose to leave cities and settle in the countryside.

All the above could raise an interesting question namely: is the concern that some of the rural population have around access to and use of cash a symptom of a wider concern that rural communities have of not being considered in many of the decisions that the wider world, which is mainly urban dominated, is making about issues that affect them perhaps in a different way?

It is clear that many communities and/or individuals who live in rural parts of the UK are feeling more excluded than they were and that is as much of a concern to young people as it is to other members of that population. The feeling of remoteness for many in rural communities has increased over the past decade since, as is stated above, many of the parts of what had been established rural communities over many decades have gone or changed materially. It is not just the shops and banks but also pubs, churches, local council and Government offices that have closed or reduced services so individuals and businesses have had to travel further to do things that they could previously have done locally.

From a number of studies carried out in recent times some in rural communities feel now that the general public do not value rural communities as much as they did, and value the rural landscape but not the communities or people. They feel invisible and off the national radar. It may not be actually true but from all those I have spoken to in the last couple of years in rural communities on a number of subjects that feeling is there in many. Remote living is seen as a choice so some rural people feel blamed for any difficulties they experience and the majority of real rural issues are hidden from view because green space equates to peace, holidays and relaxation, not poverty, deprivation and service loss.

**Rural communities wish to be listened to, understood and respected with policies for them.** In speaking to many as I have in the last year principally, across the South of Scotland but also elsewhere, rural communities want more say in how their areas develop and not to be led by urban areas elsewhere.

## Rural Connectivity

There are a plethora of statistics on usage and coverage of Broadband and mobile across the UK but for this report I have used as a base Ofcom's Connected Nations Report for 2017.

Ofcom is concerned that around 1.1 million homes and offices, or 4% of properties, still cannot get the broadband speeds needed to meet their typical needs but that had reduced from 1.6 million premises last year. Broadband speed is currently defined as broadband offering a download speed of at least 10 Mbit/s, with an upload speed of at least 1 Mbit/s which is the specification for the Government's proposed broadband Universal Service Obligation (USO). The inclusion of a minimum upload speed reflects the growing importance to people and businesses of services such as videoconferencing and video sharing, which need good upload, as well as download, speeds.

The report showed broadband speeds and access remain worse in rural areas, where properties are often situated a long way from the telephone exchange or local street cabinet. Around 17% of rural premises are not getting decent broadband services as defined by Ofcom.

Lack of decent broadband is also particular concern for small businesses. Small businesses increasingly rely on broadband, but a disproportionate number cannot access even a basic service. Ofcom estimate that almost 230,000 small businesses (7%) cannot receive decent broadband. A key benefit of the USO will be to address this concern.

In terms of superfast broadband similar pattern emerges, where around 500,000 small businesses (16%) do not have access, compared to 9% of premises as a whole.

Geographically the picture varies across the nations currently with premises in England having better access to broadband than those in Scotland, Wales and Northern Ireland. While superfast broadband coverage in England is 92%, the equivalent figure for the other nations varies between 85% and 89%. Similarly, 3% of premises in England do not have access to decent broadband, while the equivalent figure for the other nations varies between 5% and 7%. Having said that on a year on year basis the report also shows that the percentage of premises not having broadband is falling and given the investment each of the four nations are making should continue to improve and by 2020/ 2021 the picture should be much better with perhaps just isolated pockets of poor connectivity remaining.

In terms of mobile coverage Ofcom state that they are trying to make sure that the way they measure mobile coverage reflects the actual experience of today's mobile users. Their expectation of mobile services is changing as we become more dependent on mobile services and need to access them wherever we are – indoors, outdoors or on the move. At the same time the devices we use to access mobile services have changed, with increasing take-up of smartphones and tablets, which require stronger signals than older, simpler phones. They therefore define mobile coverage now in a way that is likely to deliver a decent experience to smartphone users by

- Telephone calls: Nearly all 90-second telephone calls should be completed without interruption;

- Data services: Nearly all connections should deliver a speed of at least 2Mbit/s. This is fast enough to allow users to browse the internet and watch glitch-free mobile video.

Taking the above the findings on the state of coverage of the UK's mobile networks in 2017 are:

- Most, but not all, people have coverage in their home or at their offices: 90% of UK premises have indoor telephone call coverage from all four mobile networks, while 85% have indoor coverage for mobile data services. These figures are up from 85% and 80% respectively last year.
- Coverage away from home has improved, but is still poor: 70% of the geographic area of the UK has telephone call coverage from all four networks, while 63% has mobile data coverage. These figures are up from 63% and 52% respectively last year.
- Coverage on roads also needs to improve. It is possible to make a telephone call from all four networks while inside a vehicle on just 68% of A and B roads, while 58% of A and B roads have in-vehicle data coverage. These figures are up from 56% and 45% respectively last year. Motorists increasingly rely on mobile connectivity for a wide range of services, from entertainment to navigation, but also safety and this reliance will increase as 'connected cars' become more popular.
- Urban areas have better coverage than rural with English rural areas having better coverage than the other nations. While people inside 90% of UK premises can now make telephone calls on all four mobile networks, this falls to 57% in rural areas. People can make outdoor telephone calls from 70% of the geographic area of the UK, but only 40% of the geographic area of Scotland although this is improving.

However, having stated all the above facts and figures in rural areas specifically it should be understood that connectivity is not just about broadband or mobile phone connections but also about how people feel connected on many things that they need to do on a day to day basis. Having an integrated public transport system is therefore as important to many rural communities to allow them to continue to be able to access easily the things they need to do and that may be coming less easy to do locally. That is why mitigations for access to cash are not just about ATMs or other way of accessing them but making sure that wherever that access point is it can be reached in a sensible way.

However, returning to digital connectivity which is where I have been asked to focus, mobile connectivity in many rural areas is at least if not more pressing than internet connectivity. This is due to the need for people to be connected in rural areas where they may be working or living remotely and the need for them to be able to be connected to others even just for safety reasons in many cases is critically important. While the internet has been getting the main push from Government the need to have 4g and 5g connectivity introduced or enhanced in many areas, many think it needs a bigger push behind it.

Also, rural areas and indeed areas within urban areas need to understand better through the myriad of facts and figures that are always quoted around digital connectivity why connectivity has such large variations in time to connect even in areas next to each other. From my own experience, this is generally due to difference

in the existing BT technology platforms but consumers and businesses need to have that better explained to them.

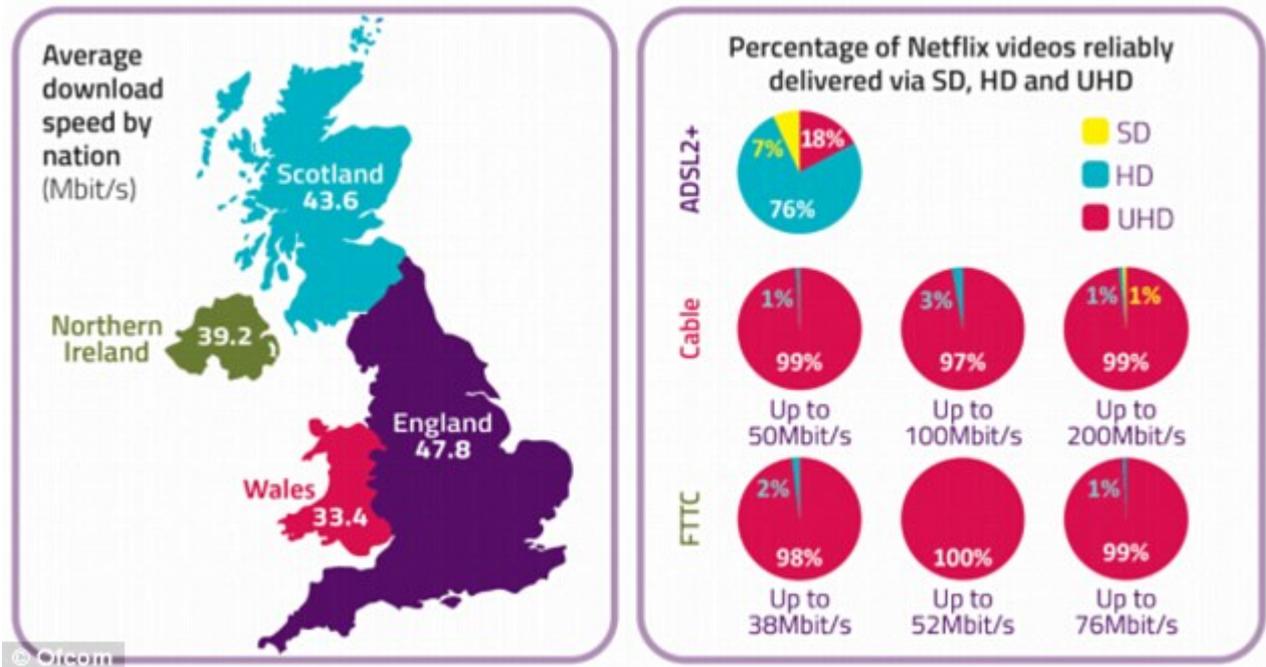
However, the issue is not just to do with connectivity but also with use. BT and others have evidence that shows that even where broadband connectivity is high or has increased significantly with new installations of faster cabling etc. there has not been the increase in usage that might have been expected. Some areas especially in parts of the Highlands of Scotland and in parts of England (e.g. North Yorkshire, West Yorkshire Combined Authority, Newcastle, Durham) have had funded programs to show what benefits that increased connectivity can bring to encourage individuals and business to use it more and these have shown an increase in usage. Therefore, connectivity in itself does not bring increased usage so Government and indeed providers should examine how they can promote and 'teach' potential users in an area to make use of their increased connectivity.

For example, this was highlighted in the work done by UK banks around closures of branches where they had to introduce specialist staff into areas where they were shutting down a branch to help teach customers how to use the internet and connect to adequate broadband. Some have done that with encouraging results and it should be extended to all branches perhaps and not just those closing down.

While many will say that you can learn all you want to know about the benefits – and challenges – the internet can bring you on line through sites like You Tube etc. and from providers themselves you first need to know how to use and access the internet in the first place, and have the equipment to do so, and it was at that basic level that banks and others found a significant portion of their customers had problems. Also, slow speeds may have nothing to do with connectivity but issues to do with hardware etc but again you need to know and understand about that to take action.

**Therefore, I recommend that Government either nationally or locally look at expanding the 'learning' programs that both raise awareness to individuals and businesses of the benefits using the internet can bring and enhance what they do. It should not just be Government but those who want more of their customers to look at and use their digital offerings have pro active education and learning programs to do that. This could include for example the banks ensuring that in every branch there is someone, which is not always the case currently, who can do that on site.**

Also, fibre broadband is great but isn't necessary for everyone. For browsing the web, checking emails, uploading the odd photo to Facebook and even streaming from BBC iPlayer or Netflix, you don't need a superfast or ultrafast connection. For iPlayer you need 2Mbps of sustained bandwidth to watch standard-definition content or 3Mbps for high-definition, while the minimum recommended broadband speed for Netflix is 1.5Mbps. The charts below show the average speeds across the UK today and also the speeds you need to get for example Netflix videos. The reason I highlight these is if you can get these you will be able to do all that you need to access the internet to do the majority of other personal and business interactions that anyone should need.



I, until recently, have also been as big a sceptic as most in terms of the promises that have been made to get connectivity at a good rate across all rural areas even though my own has been more than fine in my little town for some years now. My own feeling now has shifted and believe that in 2-3 years' time connectivity probably will be OK across most of the UK including in rural areas as national and local government schemes like R100 in Scotland plus more investment by the private sector kick in so I think broadband connectivity will not be such of an issue going forward. It will never be perfect and we all have got to admit that but the challenges will be isolated and for reasons we and the consumer affected understand. Mobile connectivity though is the one I feel still has to be pushed harder especially in rural areas and again while a lot of the 'City or Growth Deal' funding is being targeted at that it needs to remain a priority and have the same Universal Coverage outcomes as internet connectivity.

## How we pay for things

This section of the report looks at the facts about how the way we pay for people and things and how that has changed over the past decades which sets the scene for why all the discussion around a 'cashless society' has become foremost at the front of many peoples thoughts and why that change to the way we pay things has in many ways been driven by us as consumers. While many say that we have been driven that way by financial institutions and others my experience over a long time is that for those things that become universal and we all use it is unlikely that they would have happened if there had not been consumer support for them. History is littered with things which companies have tried to push as universal things that have not worked because we the consumer have decided we do not want to do it or have found better ways of doing them. There will always be minorities in everything who want to do things differently or for other reasons just cannot do them but it is the majority that have driven most of these changes. That does not mean to say that we should ignore some of those minorities, especially where for whatever reason they cannot do it, but do so in a way that helps all to get to where they want to be.

When I started my working career about 50 years ago my salary was paid into my bank account, I paid most things by cheque, if I wanted cash I had to go to a bank, and standard payments were just being thought about. While 50 years may appear a long time the changes that we have seen over that time in the way we pay for things have developed and accelerated at a pace that no one would have expected. These have been driven mainly by advances in technology as well as our – the consumers – desire to want to make things simpler and faster. So today I can pay for what I buy in a myriad of ways but strangely can still only access cash in a few ways, so while some parts of the way we manage our finance have advanced greatly others have not, and perhaps especially for small business have not.

So how we pay for things at the end of 2017 looks like

- 38.8 billion financial payments were made in the UK in 2017. 90% of those came from individual consumers.
- 85% of those consumers purchases were still spontaneous with only 15% being for regular bills and commitments.
- 98% of the population now have debit cards which have replaced the cheque cards we all used to have probably only a decade ago.
- 64% of adults have a credit card
- 119 million contactless cards in 2017 of which 78% of all debit cards are contactless and 62% of credit cards contactless.
- 5.6 billion contactless payments were made which was up 97% on the previous year.
- 13.2 billion debit card payments were made in 2017 which was 14% up on the previous year.
- 3.1 billion credit card payments were made which was a 13% increase on the previous year.
- During the first quarter of 2017 debit cards overtook cash for the first time as the most frequently used payment method and there is no indication that this trend will be reversed.

- Cash payments continued to decline in 2017 and were down by 15% to 13.1 billion payments. A large part of that decrease came from cash being replaced by contactless since they are small payments.
- 90% of consumers use Direct Debits with 4.2 billion payments being made in that way in 2017
- Use of faster payments increased to 1.6 billion in 2017. Many small contractors now routinely put their bank account details on their invoices and encourage their customers to use direct payment
- 583 million standing orders in 2017.
- BACs Direct Credit remain the most frequently used method for business to make payments in 2017 with 80% of employees paid by BACs credit. All state benefits and pensions are paid by BACs credit to the recipients' bank account.
- CHAPs payments account for 0.1% of all payments in volume and are used mainly by financial institutions so while low in volume represent 91% of the total value of payments
- Newer payment methods mainly, but not only through mobile devices namely PayPal, Apple pay, Google pay, Samsung pay etc. reached 561 million in 2017 with rapid growth.
- Cheques were down to 401 million in 2017 which was 15% down on the previous year. It will be interesting to see over this year and next whether faster processing due to imaging introduced in October 2017 will stop or reduce that decline.

It is against those above facts that the debate about cashlessness has developed and grown to the point where we all need to make some decisions about what we do next. What is not in question though is that things are changing - and rapidly - and will continue to do so as we demand more things from financial institutions and others and want to access them in the simplest and fastest way.

Interestingly while all this data exists in this part of our lives many of us still rely on what our family, friends, and peers do to make our own decisions. I will elaborate on that in the section on cashlessness itself but highlight it here as one of the reasons why some still do not participate in some or any of the above is the fear of fraud which has come to them from others so the next sections looks at that specifically and tries to put it into context in terms of the billions of transactions that are done in this area each year.

## Fraud

As I have put this report together, I have asked many people why they do or do not use cash. I have also listened to phone-ins on the subject plus read many items. It is clear from all of those that in terms of the reasons for why individuals and indeed small businesses do not use electronic or digital ways of making payments is mainly through fear of fraud or system failure. From what I have heard and read it does not really have much to do with age or social class but either personal experience or, as I stated in the section above, through word of mouth from their peer groups and friends. That is not to say that the media who have a tendency to report what goes wrong, not right, do not have a role. From what I can hear and see, what you hear from others close to you appears to have the strongest affect and impact.

I saw that clearly when I conducted focus groups as part of the work I did on reviewing the protocol used for bank branch closures. The groups were a good cross section of ages and social classes and it was interesting watching the more mature listen to how well and easily the younger members used mobile and internet banking and how it helped them to manage their resources better, and how by the end of the group some of the more mature had started to think about moving in the same direction as it now appeared not so frightening.

As human beings listening to our fellows and what they do and use is a key determinate of what we may use and also what we deem as credible and safe as well. The more time the same thing is done or used the more times others tend to use it as well and as long as there remains choice in what we do then as human beings we tend to follow and listen to what others do as a key part of our decision-making process. Therefore, the more positives we hear or see about something will tend to drive us in one direction and the more negatives we see or hear can drive us away from things that actually may be very safe and useful. The media, as I have said, tends to focus on the negatives rather than the positives as in truth we also do as human beings who tend to tell our fellows what went wrong rather than all the things that went right but the media could do more to accentuate what works well most of the time.

So, what are the real facts about fraud in this sector.

£2 in every £3 of fraud is stopped before it happens which meant that £1.4 billion was stopped in 2017 with only £732 million in fraud happening. Each year there are more new protocols and regulations being introduced by the financial institutions to help them and us prevent fraud so the number goes down. The use and continued development of biometrics be it for example face, voice or fingerprint recognition is also helping as well and interestingly appears to be tying more people back to their bank that may be appreciated. Again, in talking to customers as I have in recent years, on a number of subjects, I have been told more than once, and mainly by more mature customers, that these biometrics make them feel more connected to their bank than perhaps the old telephone call to the general call centre did. That 'they know who I am' through these biometric devices appears to restore some of that safety and confidence link that many customers felt had been lost through the general call centre telephone connectivity. That can only be good for all sorts of things and not just fraud.

Therefore, for example, fraud from card losses were £566 million in 2017 which was 8% down on the previous year. As a percentage all fraud in 2017 was only 0.07% of

all debit and credit cards value. So in simple terms for ever £100 that was spent through cards only 7p was fraud which was down from 8.3p the previous year and a huge drop from the 12.4p in 2008. In terms of where the fraud is 55% (£310.2 million) is on e-commerce with 76% of all fraud being a remote purchase in total including e-commerce.

Therefore, the likelihood of fraud is getting smaller so should not deter people from using the system.

My own personal experience is that I use internet for banking and to purchase many things. I also now use contactless more and more for small purchases and have an Oyster card for the days I am in London even though I live many hundreds of miles away because it makes it simpler to travel when I get there. Now I do that having had experience of fraud three times personally and once had my email and identity stolen. In both the cases my bank or the credit card company spotted the fraud before it became a problem and it did not cost me anything but I learned good lessons from each which meant I am more careful now in certain circumstances. On my email hacking it was a real nuisance but again once I knew how it had happened and the reasons it has helped me make sure I will guard against it in the future. None of those stopped me doing all the other electronic and financial things I do as it is like anything we use or do in that they do not work perfectly all the time so as long as you learn from each then you make yourself more and not less secure.

My own view is that Government, Financial Institutions, and the media could do a lot more to highlight how safe the ways we do our banking and buy or pay for things now is as for example, the airline industry has done by highlighting how safe air travel is compared with other forms of travel. Fear of the unknown is something our species has always worried about so helping to take that fear away should help many who could run their financial life better by joining what most of us do would be a benefit to them. That does not mean that we should not help those who for whatever reason cannot participate in how the majority of us do things but do so in a way that makes them feel part of, not isolated from the rest of us.

**Therefore, I recommend that all those who can influence what we do in this area highlight the positives as well as the negatives in terms of digital and other financial transactions by making the data they publish simpler and easier to read and access.**

That is not to say we should minimise in any way our focus on stamping out fraud in all its forms but should not let it stand in the way of those who with more understanding and knowledge might well move happily towards doing things differently.

I have also only focussed on fraud rather than system failure in this section as 'things' breaking down is a normal part of our lives across all we do and while some of those situations cause more personal or wider impact are, what they are and as long as they can be fixed, we learn from them which then hopefully means we can mitigate them happening again should be accepted as that. We all put up with our household appliances breaking down occasionally or being caught up in traffic jams being caused by others breaking down so occasional financial system breakdowns should fall into

the same category. As long as it does not cost us anything and we are compensated for it where appropriate then we should accept it for what it is.

## Cashless

Much has been written both in the press and in a variety of reports on the role that cash plays in our society today and where that is going. The recently published Access to Cash Review report covers all that ground well and what is recommended is sensible and I would support.

What is cashlessness though is a debate in itself and there appear to be a variety of ways you can measure that from the simple to the elaborate.

What everyone seems to agree on is that there has been a general trend in the last decade across the world to look at how cash can be less used. The reasons for looking at reduction have been many and mainly around the alternatives that the internet, card, mobile, and contactless payment have brought for many. In recent years the issue of cash as a probably one of the biggest transmitter of disease worldwide has become a publicised issue both in the UK, India and elsewhere with the discovery that serious and contagious diseases were found present on many coins and notes examined including the new 'plastic' notes in the UK.

Cash today still accounts for 85% of the worlds' transactions but many countries are attempting to move away. Singapore under one measure is the most cashless society with 61% being made by card or electronic. Netherlands is 60% UK at 52% and the US 45%.

In another 'cashless ranking' where the rankings were based on six metrics: the number of credit cards per person; the number of debit cards per person; the cards in issue that have contactless functionality; the growth of cashless payments over the past five years; payment transactions made using non-cash methods; and the number of people that are aware of what mobile payments options they have available to use it was Canada that came out top. Sweden was second, UK 3rd, France 4<sup>th</sup>, and the USA 5<sup>th</sup>.

However, whichever way you look at it Britain is already one of the least cash dependent societies in the world.

So, looking at the simple facts in terms of cash usage itself at the end of 2017 there are

- 3.4 million consumers who almost never used cash at all
- 2.2 million still use cash mainly which is 4% of adults. Most of those are not against going cashless or unwilling to use other methods. Indeed 75% of those already use other methods as well to usually pay their regular bills, and 90% of them have their own debit card.
- Only 622,000 people or 1% of adults used only cash for their shopping and regular bills. Again, the vast majority have debit cards. It is not clear whether it is choice or circumstance that drives them to cash only
- Only 45,000 people, less than 0.1% of all UK adults only used cash for everything. Income appears to be a critical factor with those with an income of less than £10,000 more likely to use cash only. On why they do that it is unclear as while there is a view that at that level of income budgeting becomes easier if it is cash only from a personal viewpoint I am not sure that this part of our population has ever been offered a simple or affordable way of using other methods of managing their finances therefore until there are real alternatives

for those in these circumstances I am not sure we can reach a real conclusion. Those of us who are not in that situation may find it difficult to understand the lack of choice there is until you experience it. Also from listening to many there is a real divergence of opinion on whether cash or some of the new digital ways of access and managing your cash are the best ways of controlling and budgeting your finance.

**I recommend that banks continue to look at how they can bring more low-income consumers into the type of banking service that most of us have access to by expanding the services of the Basic Bank Account to encourage more to use, should they wish to, to manage and budget their finances.**

- In the last decade payments by cash under £1 more than halved with contactless and debit cards replacing
- Businesses make fewer cash payments than consumers with only a small fraction of total cash payments being made by business. Businesses also make relatively few cash machine withdrawals (26 million). However, whether that is true for micro businesses who may use their personal accounts for their business as well is difficult to say but there are challenges that rural small business face which will be discussed later in this section.

In terms of where most cash is used the table below sets out a selection of sectors as a percentage of all consumers using cash where that is over the last 2 years

Sector	2016	2017
Newsagents	85%	81%
Convenience Stores	78%	72%
Charitable giving	73%	70%
Pubs and clubs	79%	64%
Discount Stores	66%	55%
Travel and Transport	56%	47%
Bookshop	47%	45%
Supermarkets	44%	37%
Petrol Station	27%	24%
Electrical Goods	26%	18%

As can be seen all are heading in one direction and some at some speed in certain circumstances.

In looking for examples outside the UK Sweden has been moving towards a cashless society and is now very cashless with market stalls, churches and homeless people accepting card payments. Part of that move to using less cash the Government has encouraged itself through things like Swish which is a mobile app for quick payments and has been very successful.

It is worth taking a few paragraphs to look at Swish further and what it has achieved and looking at what happened in the UK at the same time.

Swish, as is stated above, is a mobile banking system in Sweden using mobile phones as its base. The service was launched in 2012 by six large Swedish banks, in cooperation with the Central Bank of Sweden and had 6.5 million users as of September 2018.

Swish was originally intended for transactions between individuals, but soon it started to be used for flea markets and collections at church services, and by sports clubs and other organisations as payment at small events where a credit card reader would be too expensive or otherwise impractical. Small companies who wished to avoid credit card charges and simplify online payments soon followed suit. In January 2017 Swish was launched for web based sales which quickly became popular, for example being used by the main train operator.

Prior to the implementation of Swish, cash was the primary means for many of these types of real-time transactions. As such, Swish is used for transactions that used to be mostly cash-based. Until now the service is free for private users.

The introduction of the Swish mobile payment service enabled immediate digital transfers person to person and person to business. The use of Swish has increased very rapidly in recent years. In 2014, around 10 per cent had used Swish during the past month and in 2018, around 60 per cent have used Swish. In rural areas, the use of Swish is somewhat lower in 2018 and is around 50 per cent.

From all the information I can find Swish has been credited with much of the move to using less cash in Sweden as it was a single brand and app supported by both the public and private sector and gained trust and credibility through everyone using the same thing.

Apart from the unanimity of all the banks in promoting it that it was being used by everyone encouraged retail outlets to go cashless or mostly cashless as well and it was the combination of those two things that I gather helped Swish become so popular and so well used in Sweden. Building confidence in any new device or process is key to its success and the more people that use it that more that builds.

However, to be balanced, concerns have been raised recently by a Government Minister on going totally cashless and are mainly to do with crisis namely:

- What happens if all the electronics go down for any reason
- What happens if hackers get into the network.
- Could it bring more fraud and scams.
- Banks or those that produce the cards would be in control of everything.

While I suspect it will bring about a pause for reflection on what are good points raised and may slow the pace down I doubt it will change the general direction of travel for them although safeguards may be now added in.

In 2014 a similar system was launched in the UK called PayM by the then Payments Council which I believe could have had the same impact had it been driven and marketed the same way as Swish was in Sweden. The reason it was not is that it appears that the individual banks involved could not agree to use a single brand or app and wanted to use their own apps which has meant that it has not had the universal 'push' as Swish had in Sweden so neither PayM or indeed the individual

bank apps launched by some of the banks to do the same things have not had anything like the uptake or use as Swish has had in Sweden. Indeed I am sure if you asked the UK population what PayM was I doubt many would know whereas I would think everyone in Sweden knows what Swish is and what it does.

The importance of a single brand and ease of use in introducing and developing financial tools like this is key since as is stated several times in this report we as human beings still rely greatly on the opinion of others as to whether we use something or not and the more people who use something and can tell others then the more likely it is to expand. The Oyster Card or the way Direct Debits were introduced are also good examples of a single brand being created that people learned to trust so its usage grew as well.

In my opinion PayM usage would have been much higher and a lot of the debate around cashlessness would be in a different context if it could have been marketed and used in the same cohesive way that Swish was in Sweden.

Therefore, banks and others in the financial and public-sector co-operating better on key issues like this needs to happen more and it is a theme that will occur more than once in this report.

The cohesive working together of the finance community around key payment methods is also seen in the Netherlands where iDEAL was established in 2005 by all the banks coming together to provide an e-commerce payment system based on online banking. It was introduced in 2005 and allows customers to buy on the Internet using direct online transfers from their bank account. iDEAL remains by far the most popular method for online payments in the Netherlands, well beyond credit card use, and was used for 54% of all Dutch online payments in 2014. Starting in 2005 it processed 4.5 million transfers in 2006 and as at April 2016 had reached 282 million.

Therefore, unlike Sweden and the Netherlands only 1% of us in the UK think they will see a cashless society in their lifetime, and there are still 30% of all transactions in cash but that is half of what it was a decade ago.

When I did work on the Access to Finance Protocol and met with a good cross section of people it was clear that young people make more use of apps to control their cash than I and indeed a lot of people still do today so I believe our next generation may be more financially aware of their own financial situation than this generation is. Also, they are obviously more ready to use apps like Swish or iDEAL but the more generic they can be the better as can be seen through the single brands and apps that dominate much of social media. Having said that the more mature members of our society are not totally anti as some people think and having listened to many they are looking at reducing their reliance on cash as well.

Among the general population, almost everyone uses cash (98%), with almost three-quarters (73%) using it frequently to pay for goods and services. Only one in 20 (5%) said they rarely use cash. Card payments are the second most common payment method, used by four in five (80%), with six in 10 (63%) using contactless or card payments frequently. I still use cash but much less than I ever did and am using contactless and online transactions now more than I ever did and find them very simple and safe and the safety issue is one I will return to later.

Much has been made of the rush to digital payments in cities, yet only one in 10 (11%) of Londoners said they rarely use cash, which may suggest many consumers in our biggest city still consider it an important payment method.

While just over half of people (54%) in studies have said they were not worried about moving towards a cashless society, more than two in five (41%) said they did have concerns. Of those who were concerned, more than half (54%) were worried about the increased scope for scams with credit and debit cards. This follows a series of IT collapses at the major banks. Almost half (46%) had concerns about the reliability of electronic payment systems.

This again highlights the point made in the Fraud section of this report the need for us all, the media, and the Government in all its guises, and the financial institutions themselves to show that the vast majority of electronic transactions work well for those that use them.

The pace of change on all this has been such that many people feel they are being forced into it but in reality, in many cases it is the pressure from their customers that drives many financial institutions to move more of what they do on line or onto mobile. Those that want this quick change have to be aware that it leaves many behind and perhaps a pace that suits us all might be a better way of tackling this. We appear to be in a world that is rushing to do everything and in doing that occasionally do not get it right which does not help the trust and credibility that some others need to embrace on board.

Six in 10 (57%) of us had experienced a time when they could only pay by cash in the last three months. Four in five (82%) said this was because cash was the only method of payment accepted by the vendor. Along with consumer demand, this highlights the importance of cash for businesses that often rely on it as their primary payment method. In fact, over half (52%) of businesses preferred to be paid in cash for goods or services they had provided.

Consumers are also keen to cling on to cash for low-value transactions, as two-thirds (67%) felt it was important to be able to use cash for purchases less than £5, while just over half (52%) said the same thing for purchases between £10 and £20. Part of this may be driven by the charges some retailers still charge for low value card transactions so there is not a consistent picture for the consumer to see.

In terms of businesses in any sector and especially retail there is no legal obligation for any retailer, pub etc to take cash. That they chose to do so is their choice. There are though a growing number of retailers, pubs etc going cashless for a number of reasons. Some have been because they are in areas where access to cash for them or the depositing of it are challenging but the majority have done it for reasons of business. They believe being cashless costs less to run the business and need less staff, less safety issues, and cheaper insurance in some cases. Most have reported that it has had little impact on their business once their customers got used to it and feel it has freed them from some worries they no longer have. As information on the advantages grows and there are more peer to peer exchanges I am sure others will follow. It appears from having looked at the information I can find on individual businesses that did, the big step was making the initial jump and once done it appears it presented fewer challenges than they had expected. Also, it is clear that this is not just happening in big cities or with 'groups' but also in rural areas and interestingly in high density tourist areas where going cashless has been seen to add benefits as it negates the need to be concerned about multiple currency exchanging.

However, people with lower incomes or on benefits tend to rely on cash more so if there are more cashless businesses we need to ensure that those disadvantaged members

of the population receive more help in finding methods and products that keep them paced with the rest of society.

A survey on behalf of Which found that over three-quarters (78%) of consumers in the two lowest household income groups rely on cash the most – using it at least two or three times a week, while this group is less likely than average to use a card with just over a quarter (26%) never use card payments. Part of that is their inability to join the general current financial world as banks and others have still not found ways of dealing with people in this situation the same as they do with us all.

Among older generations, perhaps the most at risk of social exclusion when bank branches and cash points disappear, four in five retirees (80%) are reliant on cash, using it at least two to three times a week. Just half of over-65s (52%) use a card this much. However, as I say elsewhere in this report my feeling, having spoken to many in this group, is that they are prepared to change if they are shown how and offered viable alternatives.

The issue of the UK Banks cohesiveness of being collegiate at working together in addressing many of the issues is raised in the section above and elsewhere in this report. It does not appear to be as good as elsewhere in the world and I am not sure why as having spoken to them over the years about many issues I do not get the feeling that there is resistance if it is seen to be sensible. I did wonder if it was to do with their fear of the regulator post the 2008 crash seeing collegiateness as anti-competitive but again I do not think that is the case. I have also been told it is because our banking sector is more aggressive than those elsewhere but even if that is true, and I am not sure it is as much as perhaps it once was, that does not mean that from time to time when they need as a sector to move something forward that is in all their interests to do so that they should not do so. Other sectors do it around similar issues.

It simply could be that the sector needs a better way or ‘device’ of dealing with situations that they all have to deal with in roughly the same way and work out ways of doing that. Leadership therefore is what is required and whether that comes from individual banks, UKFinance their trade body, LINK, the regulators or the government I am not sure matters but they have done it before over things like cheque processes, direct debits, lending standards etc. They can do it voluntarily so there needs to be a ‘device’ for issues like those highlighted in this report that where coming together would be the best way of resolving something. I would worry about that being built into regulation unless it has to be as those have not always had a good outcome. It is also as much to do with education as it is to do with process as many of the processes already there are fit for purpose but not everyone is aware of them or how to access them.

**I recommend that for issue where working together on key issues either with vulnerable or challenged parts of the population or where a single solution would encourage greater and better usage which would help us all in total that the financial institutions working with Government, the regulators etc look at ways of putting in place something that will help them to identify and then find solutions to issues that would be better solved or promoted jointly to help us all to move forward.**

This does not mean that there should be a drive to make everything the same which would reduce competition and innovation but there needs to be a more general way of identifying and resolving such issues other than the waiting for individual issues like cashlessness, access to cash for vulnerable communities etc, to come along and to be

dealt with individually as many are linked and would benefit from being tackled together as part of a more holistic solution.

## Where can we get cash from?

There are a variety of ways that we as consumers and businesses can get and deposit cash

### ATMs

In the UK ATMs come in two types free-to-use (FTU) and Pay-to-use (PTU), where the customer pays an up-front fee.

All FTU ATMs receive interchange, a fee from the card issuer, and this pays for the ATM, including rental to the site host at a remote site. Interchange is currently around 26p for a remote cash withdrawal and 17p for a balance enquiry (bank branch ATMs receive a bit less) but the fee is scheduled to reduce over the coming years as is explained below. The average FTU ATM does around 3,000 cash withdrawals per month.

This fee structure has been the main reason that the ATM market has grown up in reality more on the basis of profit than on supply and demand especially since banks and building societies started to outsource or sell their off-site ATMs to third parties who would only be interested in taking them if they could make money from them as an independent item rather than as part of the overall service that a bank would offer at its branch. Therefore that good profit can be made from ATMs has until recent times grown the number of ATMs – Annexe 1 - rapidly and to a level that was probably unsustainable in itself and with the reduction in use of cash it has made them even more susceptible to closure especially as the fee is being reduced to align better with supply and demand. What the real number of ATMs in the UK should be I doubt is really known as we never started with that in mind given that it has never really been a demand driven market. As the fees reduce so will the numbers as they settle more into what a normal supply and demand market would normally have.

The total number of ATMs is therefore probably still too large, focussed where there is expected to be demand, and as that demand decreases and the amount they get for each transaction reduces as well so the numbers in the areas of least usage will fall first.

FTU account for 53,000 ATMs of which 16,000 are in or through the walls of bank branches. The remainder, c.37,000 are so called “remote” and are in supermarkets, convenience stores, railway stations etc. Some of these remote ATMs are operated by banks but around 27,000 are run by independent operators, so called IADs. Annexe 2 gives a breakdown of ownership of ATMs in the UK.

PTU ATMs are all run by IADs and there are around 12,000 of them, all remote. The number of these has been falling rapidly in recent years as they are unpopular with consumers and don't attract many transactions, although 2019 has seen this reversed with numbers rising again. At these machines the customer pays an up-front fee, usually around £1.75 (very rarely over £2.00) and this is added to the transaction, ie  $£50 + £1.75 = £51.75$  debit to their account. These machines average only 360 cash withdrawals a month and are usually in places so remote that a free machine can't be justified, such as a remote convenience store, or city centres where customers can't be bothered to find a free machine (pubs /clubs etc). These machines do not get an

interchange fee for cash withdrawals although they do get it for balance enquires, which are free. If you include on-us transactions (free withdrawals at the customers own bank), PTU withdrawals only account for around 2-3% of total cash withdrawals.

Rental varies and is a commercial agreement between the ATM operator and site host. However for a free to use the average rental is £6,000 per year on a total cost of running an ATM of around £20,000. However this will vary enormously depending on how busy or attractive the site is. A large supermarket, railway station or airport might receive over £20,000 per year while a small convenience store may only get a few thousand pounds or even less if no-one really wants the site.

On PTU assuming a similar share of the income (30% of £1.75) around 52p per withdrawal would not seem unreasonable and therefore on 360 cash withdrawals a month an annual income of £2,250 would seem possible.

For the landlord it is a matter of balancing the lower volumes of a PTU, with the higher income, and how much he wants to face customer complaints about a charging ATM.

Where the ATM is in a bank branch, the vast majority of these are owned by the bank itself and therefore rental is not incurred and the lower interchange they receive reflects this.

Strangely ATMs have only been part of all our lives for less than 50 years but have now become the principal way we access cash. In 2017:

- There were 69,603 ATMs in the UK, a slight reduction from the record 70,020 at the end of 2016.
- There was a 2% increase in the number of free-to-use cash machines to 53,885, the highest level on record
- free-to-use cash machines accounted for 79% of all cash machines in the UK but over 98% of all cash machine withdrawals (in volume and value)
- There were 52,104 ATMs located off-site (not at a bank or building society branch), a slight increase from 2016
- 2.6 billion withdrawals – 5<sup>th</sup> year of decline - £187 billion withdrawn – again down 3.4%.
- 41,213 now independent – up 3.2% - mainly due to them continuing to take over estate from banks. Bank and Building Society estate continuing to fall – 28390.
- 22,924 – 44% - of the off-site (non-bank) ATMs in convenience stores. 64% when supermarket and other retail added.
- 59% of cash machines in the UK were provided by independent ATM deployers (IADs) rather than banks and building societies

Recent research shows cash machines are shutting at a rate of 250 a month.

On the plus side the number of more modern ATMs that accept deposits as well there are 10,000 of those now in service but all I understand still in bank branches.

### Bank Branches

In terms of cash withdrawals through bank branches either through cheque or credit card.

- 57 million transactions – 12% decline - £12.4 billion – declining consistently especially in cheque cashing.
- Average over counter transaction - £216 versus £72 at ATMs.

However the cost of cash payments is rising in terms paying into banks while cost of card payments is falling so that is again pushing individuals and businesses into to looking for alternatives. Therefore even if the branch remains open in a rural community the cost of depositing cash is increasing

### Cashback

This is free to the customer and is added to the value of their shopping, ie £32 of goods, plus £10 cashback equals £42 debit to their account. My understanding is that the fee the store pays to acquire debit card transactions are flat, or mostly so, so they don't incur an extra cost for giving the customer the cash. However they don't receive any payment. However cash back can help them a bit as it reduces the amount of cash they have to bank. Last year there were only 196m cashback withdrawals compared to 2.6bn ATM withdrawals.

Stores can be reluctant to offer it, in case

- they run out of cash,
- it increases queue length
- they would prefer the customer to use the on-site ATM for which they get rental. The larger supermarkets always pushed cash back when it first started but now you hardly ever hear them doing so as they make more money from customers withdrawing money from the ATMs most have installed on their premises.

Some customers also don't like it because they are wary of increasing the total spend at the till with the potential embarrassment of it being declined in front of a queue of people. Some stores do promote it, but this seems to be getting less common.

Credit cards have a higher fee so the store would incur an additional fee for giving the cash and therefore they won't do it.

Having said this all the above cash back at local rural convenience stores especially in rural areas may be one of the key protectors for those who would find it difficult to access cash from further away. While that would still be inside a store and therefore not 24/7 having looked at the data very few if any withdrawals from ATMs in rural areas appear to take place outside of the 7-10 opening band that many rural convenience stores now operate so is a viable alternative in terms of cash withdrawal.

To encourage more local convenience stores especially in rural communities to do that there are things that could be done to mitigate some of the issues that are set out above. A cap say at the same level as contactless - £30 – could be put on cashback at small convenience stores which would keep the amount of cash they had to have available at a manageable level. Also, the store could be paid a fee and it is interesting to note that Lloyds bank have announced a limited pilot looking at this and it will be interesting to see how many stores take up that offer and also if others follow suit. My only concern about that is again this is one bank doing this on their own and it would be much better if there was a simple universal offer which all banks had in this area

which will be covered more in the section below on Post Offices where they exist either within a convenience store or on their own. **Therefore, banks should consider ways to encourage more stores to promote cashback and also what they could do to help that process if required.**

### Post Office Counters

Currently all major banks allow their customer to get cash advances using their card at Post Office counters, effectively a “human ATM”. The banks promote this, but perhaps not as well as they could, as an alternative to branch access when closing branches but generally keep pretty quiet about it otherwise. It is free to the customer and the bank pays a fee, which is confidential, to the Post Office for each transaction. I believe that the fee pad is bilateral (arranged separately by each bank) rather than multilateral and it is higher than the ATM interchange fee. This has led to some ATM operators complaining that Post Offices steer customers away from the on-site ATMs towards the counter where they can earn higher commissions. At present most ATMs in Post Offices are operated by Bank of Ireland who have “first refusal” for ATMs but where the Post Office is embedded in a store they are by IADs and even a few which charge.

In the last year or so many reports and articles plus statements from Government and indeed the financial institutions themselves have stated that they see the Post Office as the replacement for banks in rural and other areas where branches have closed. As is stated above the Post Office has offered its own banking service for some time so this would add to what they already do.

While I can understand why that should be said and have a lot of agreement with it a number of things will have to change or be added to make that a reality. Firstly and maybe most importantly they cannot be seen as a replacement for each branch of a specific bank on their own but for them all to be used as a ‘universal’ branch that all bank customers can use. In simple terms that means that all customers can use it and do things in the same way which is not the case today. That difference in the way things are done, especially paying in cash for individuals but mainly businesses is in my opinion key to why more customers do not use them and why the store with the embedded Post Office or the small post office itself finds it more difficult than it should to provide a service in an efficient manner which encourages more people to use it.

I also think the solutions to that are not complex.

While I know that the Post Office and banks spend a lot of time discussing these issues my understanding is that it tends to be more about money in terms of how much the banks pay the Post Office for things they want to do rather than discussing how to make the service better and get more people using it and making pay ins simpler and easier.

To do that both sides have to realise that they both have responsibilities and that both may need to spend time and resource in getting those solutions into place. Specifically the Post Office may need to lead on more than it does because in the end it is their retail operation and while I am not saying that others should not help both provide

solutions and resources to help those I believe the Post Office will need to lead and drive most of that if they want their franchisees and others to respond positively.

The reason for this is that in my opinion Post Offices either as stand-alone Post Offices or as where most of them are now embedded in other stores, especially in rural areas are a key source of cash for everyone plus could also solve some of the cash deposit issue that individuals and businesses have. They also can serve the most vulnerable as well.

The issues that in my opinion cause Post Offices of all sorts and in all places not to perform as well as they could in terms of usefulness for customers are

- The service is not promoted enough and whether that is the Post Offices fault or that of the banks I am not sure. **Since the Post Office is the provider of the service I feel that they should be promoting the banking and cash services they offer generically to the population at large. Either jointly or individually banks should be making all of their customers – not just those served by branches that have closed – aware of the services that the Post Office can provide for them. I am sure all the banks will say they have that information available if asked for at branches or on their web sites but I believe they could be more proactive than they are in making both individual and business customers aware.** I am sure part of this is all to do with finance and who will pay for that promotion but as we move towards a different society where different people and entities will be our prime source of service for things that we used to do elsewhere, of which this is a classic example, then we need to make people aware of that and also make it as simple as it can be which leads me on to the point below.
- Given there are a variety of ‘types’ of Post Office in various surroundings and that some staff will be store staff doing other things most of the time it would be useful if the financial institutions could put in place one method of paying in and withdrawing cash. From my understanding withdrawing cash does appear to be fairly common but there are variations for individuals and especially businesses in how they pay cash in. That can make it more difficult and slow down processing at the Post Office, especially where they are embedded in small stores, as the member of staff has to recall the process for a particular bank and then apply it. **Therefore all parties involved in this should produce a single way for individual and business customers to pay in cash to their account that would make it easier for all and therefore encourage both staff and customers to use the system more.**
- Cutting down the time it takes money that is paid in at Post Offices to reach the accounts of the individual or business would also help. Currently, and again not for every bank as it does vary, there can be a delay of a day or two in the time the money reaches your account compared with paying it in at a branch of your bank. That does put some businesses off using the Post Office since they manage their cash flow tightly so anything that could help that would be good. **Therefore the banks and the Post Office should work together to look at ways of reducing the time that it takes for cash paid into all types of Post Office to reach their account with the aim of reducing it to the same as it**

**would be if they paid the money in at a bank branch or at worst into an ATM that accepts cash deposits.**

- There is a more general issue on time taken to do things in a Post Office which is mainly to do with small businesses paying in cash. The best way of describing it is to narrate a story told to me by a small business when I was speaking to customers about bank branch closures. One of the businesses this customer had was a car dealership and over the weekend he sold a car for £10,000 which the buyer paid him in cash. His local bank branch had closed in recent times so he decided that he would be at his local Post Office for opening time on the Monday morning. He was there at 9am and was the first in the queue so paid in his money. Twenty minutes later he was still waiting with a now disgruntled queue of locals behind him all blaming him for the delay. The delay was caused by the fact that the Post Office did not have cash counting machinery so it all had to be counted by hand and special checks done on high value notes. This is not the only story I heard of this sort as I spoke to customers and 'being blamed for queues' has put some off using the Post Office to pay cash, especially significant amounts, into. **Therefore if the Post Office and banks want Post Offices to be able to service their customers well then they need new or extra equipment to do that and note counting and coin weighing machines would be a start so that needs to become part of the obligation around service provision that the Post Office offers and again is something the banks with the Post Office need to sort out.** It may like others in this list sound simple but some of the solutions to why as many people as could do do not use the Post Office for their banking I believe are.
- In a lot of what I have written in this report I come back to the beliefs of us as normal people being the reason that we do things and this area is no different. From the work I have done on a number of issues in recent years and especially on branch closures and why people worry about doing things elsewhere privacy and safety come up many times. Whether it is true or not we see bank branches as being safe places where we can discuss our financial issues and transact them privately. Whether that is actually the case or not does not matter as it is our belief. When that it is gone the only other place that really gives us the same safe feeling is another bank branch or mobile bank so we have to compromise. Post Offices do have some of that 'safe' feeling built into them when they are Post Offices on their own so are somewhere that you could transact as before. However once a Post Office is embedded in a shop then it changes especially with small businesses but for individuals as well. One of the main issues that local small business gave to me as I asked them about their lack of desire to use Post Offices within convenience stores to deposit their cash was that 'people will know my business' and also 'it might help my competition'. Rural communities by their nature have gossip and 'everyone knowing each other's business' at their hearts which is one of their strengths but not in this environment it appears. Therefore to make this environment feel 'safer' it will need some changes in how that environment is. **The answer is a mixture of better training, clear delineation within the stores as to what is the PO, smart safes, deposit ATMs or other technology to make that happen more**

**easily which again will have to be led by the Post Office itself or in combination with the financial institutions concerned.**

New technology like smart safes, cash recyclers and more sophisticated ATMs that accept deposits as well as dispense cash could help streamline the cash operations of a retail store.

Smart safes for example automatically record all transactions, keep an accurate count of deposits fed into the safe, and provide the reporting needed for all parties.

A cash recycler is a complex machine that handles a couple of simple, but important tasks—accepting and dispensing cash. It also stores money securely, keeps an accurate accounting of cash on hand, and automates the cash cycle. In a cash recycler, banknotes are placed into a feeder and passed through a bill identifier to determine the denomination and validity of the banknotes. This cash is then stored in separate cassettes or modules for dispensing in future transactions. So, it's the very definition of recycling, the cash that is deposited to a recycler is the same cash dispensed from it.

If you go now into some of the new 'branches of the future' that many of the individual banks have scattered across the UK you will in general see now ATMs that take deposits – notes and cheques - as well as dispensing cash. My understanding is that they also pay the deposit quickly into the customers account. They though are again bank specific and while now I understand that 10,000 of the 16,000 ATMs in branches in the UK can do that I do not know how many can outside of branches and suspect it is not many. It would be good if we could also get them in Post Offices and especially those in local stores.

I am not expert at all on all the technology around this and suspect that there may be issues in this but **I recommend that the Post Office and the banks investigate as a matter of urgency how new technology might be applied to alleviate some of the challenges outlined above.**

**If Post Offices, and especially those now in local convenience stores are to be the alternative to bank branches as is stated then both the Post Office and the individual banks have to work together better to make that happen.**

## **Small Business Cash Depositing etc.**

While all the above would help part of the challenge that small businesses have raised about how they deposit their cash it will still not satisfy or be practical for everyone so what else can be done.

Again when I did my review of branch closures this was discussed frequently and a number of solutions were proposed and the best and most practical one came from a combination of the businesses and the banks themselves.

All the banks currently have to service their ATMs networks across the UK as do the independent providers as well. To do that they employ security companies for this. While some do 'share' those services privately they are not universal or are co-ordinated in any way together.

Over time when these types of universal issues have arisen – like cheque processing including now image processing – the banks have come together and put in a universal service that works for them all.

From what I have heard and seen there appears to be a similar solution for cash collections from SMEs in rural areas.

The security company employed to service ATMs will be travelling these areas anyway, or close by, so it would be possible that if all either used the same contractor or had a central collection point then collecting cash from SMEs could be a solution. Indeed when I discussed this with one of the banks during my branch closure review they came up with what I thought was a simple and great idea. The banks produce jointly a mobile app that all SMEs use in terms of cash collection. Each individual SME agrees a day in the week that cash can be collected from them in that area. To do that I know SMEs in an area may have to agree the same day but for many that would be better than none at the moment. Once that day was agreed that would become their collection day and that would be their default in the app. Each week they would just press the app to say they have cash to collect and it would be collected on their agreed date. If the SME wanted to change that day for a specific reason in one week then they could do that through the app but they would pay for that change. All cash collected would be taken to a central resource where it would be processed and the money paid into the customers account. Everyone acknowledged that this could mean there could still be a delay in getting the money to their account of a day or two as with the Post Office but it would be better than the SME having to travel far to pay in the cash. **Therefore I recommend that the banks working with their rural or in other ways remote SME customers to look at how to put in place preferably a universal collection cash collection service that uses new technology to make it operate simply and effectively.** I know this would not answer some of the complaints that have been raised about getting 'change' when needed but again the Post Office may be able to look at how that might be achieved better.

## Was I correct in my answer?

At the outset of this report I asked the question about should it be the convenience store in rural areas we are saving and not bank branches or ATMs and having gone through all the above then I still think the answer is yes. They are the one outlet that can provide everything that a local community or individual should require and can do so in a flexible way that meets the stores and the customers needs. Whether they are privately owned, part of a franchise like Nisa or Spar, or community owned in a sense does not matter as it is what they are that is the key. What the focus of all those organisations and bodies I have mentioned above in my report, especially the financial institutions, the Government – in all its forms, the Post Office etc., should be is to ensure that the services that are provided through them are done in a way that makes it desirable for the store owner to want to do them, and simple and speedy for the customer to use them. Ideally that would be a convenience store with a Post Office embedded in it if there was not one nearby but a convenience store without a Post Office that still offers cash back or a means of accessing cash on site would suffice as well. If we can resolve the collection on business cash in another way as is outlined above that would negate greatly the need for either for of store to take deposits but if that cannot be achieved some simple and effective way of allowing deposits to happen within them should be in place.

If all that are in the previous sections of this report were implemented then I think it would alleviate most of the issues that remote customers have. It would also I think help a lot of vulnerable customers as it would provide local solutions to what they appear concerned about.

However vulnerable customers fall into many categories and have different challenges and I think that trying to find a universal solution for all those in that category is dangerous and may reach a consensus that may not fit with all or indeed any properly. **In the end it is those businesses that have those vulnerable people and groups as their customers who should know them better and what their needs are that have an obligation to make sure those needs are addressed.**

Even if we do all the above there will be those who will still not be satisfied or happy as they do not want the change that is taking place but in the end as long as they are offered alternative that shows how they can do what the want effectively then if they chose not do it that is their choice and they may need to accept that as long as what is offered gives them an outcome that is acceptable.

Finally, all the above will have a cost to it and who pays will be the discussion. However the suggestions I have made mirror what the Access to Cash Review said in its report that you have to deal with cash as a utility as indeed is how we treat most ways we pay for things these days and so like other utilities it is how you get it to me or help me access it by providing those who are the wholesalers or retailers with the equipment and processes to do that. My own view in terms of who should pay is that it will be across a number including Government either national or local in terms of some of the connectivity and general education bits, and with the Post Office and the banks for a good bit of the others. If the Post Offices are to deliver their promise to be the answer to banking locally then the Post Office itself must have a part to play in the funding of

this and not just rely on the banks to do all of it. In convenience stores without Post Offices where it relies on cash bank or other forms of access re machinery then either the industry has got to provide universal solutions that work for all and pay for that in whatever way they find appropriate or the stores themselves have to get a bigger reward to help them fund all they will need to do.

## Annexe 1

	ATM Numbers - thousands Y/E		
	Free to use	Pay to use	Total
1998	24.6		24.6
1999	27.5	0.2	27.7
2000	28.5	3.0	31.5
2001	29.3	7.1	36.3
2002	31.7	10.3	42.1
2003	32.2	15.3	47.5
2004	33.0	21.9	54.9
2005	33.1	24.8	57.9
2006	34.5	26.3	60.9
2007	36.9	27.1	64.0
2008	38.6	25.3	63.9
2009	40.0	23.1	63.1
2010	41.6	21.7	63.3
2011	43.9	21.2	65.1
2012	45.6	20.4	66.0
2013	47.7	19.8	67.5
2014	50.2	18.8	69.0
2015	52.8	17.8	70.6
2016	53.9	16.1	70.0
2017	54.6	14.0	68.6
2018	52.0	11.1	63.2

## Annexe 2

## June 2018

	ATMs Branch (Free to Use)	ATMs Remote (Free to Use)	ATMs Remote (Pay to Use)	Total ATMs
AIB Group	18	60	-	78
Bank of Ireland	35	2,502	-	2,537
Bank of Scotland	430	-	-	430
Barclays Bank UK	2,175	1,564	-	3,739
Barclays Bank	12	1	-	13
Cardtronics	-	10,900	5,118	16,018
ChangeGroup	-	37	12	49
Citibank	4	-	-	4
Clydesdale Bank	148	226	-	374
Cooperative Bank	93	19	-	112
Coventry Building Society	61	8	-	69
Cumberland Building Society	20	-	-	20
DC Payments UK	-	2,540	1,789	4,329
G4S Cash Solutions	2	2	-	4
Halifax	1,793	-	-	1,793
HSBC	1,578	33	-	1,611
Lloyds Bank	2,198	-	-	2,198
Moneycorp	-	130	-	130
Nationwide Building Society	1,366	1	-	1,367
NatWest	2,768	4,476	-	7,244
Northern Bank	91	100	-	191
NoteMachine	525	6,989	2,852	10,366
PayPoint	-	2,218	1,811	4,029
Raphaels Bank	-	263	28	291
Sainsbury's Bank	-	1,829	-	1,829
Santander	2,392	9	-	2,401
Travelex	-	360	2	362
TSB Bank	776	-	-	776
Yorkshire Bank	227	193	-	420
YourCash	-	2,384	910	3,294
	16,712	36,844	12,522	66,078

## December 2018

	ATMs Branch (Free to Use)	ATMs Remote (Free to Use)	ATMs Remote (Pay to Use)	Total ATMs
AIB Group	18	55	-	73
Bank of Ireland	35	2,457	-	2,492
Bank of Scotland	432	-	-	432
Barclays Bank UK	2,057	1,550	-	3,607
Barclays Bank	12	2	-	14
Cardtronics	-	10,450	4,952	15,402
ChangeGroup	-	43	1	44
Citibank	4	-	-	4
Clydesdale Bank	149	80	-	229
Cooperative Bank	-	-	-	-
Coventry Building Society	56	8	-	64
Cumberland Building Society	20	-	-	20
DC Payments UK	-	2,068	928	2,996
G4S Cash Solutions	2	2	-	4
Halifax	1,781	-	-	1,781
HSBC	1,579	19	-	1,598
Lloyds Bank	2,170	-	-	2,170
Moneycorp	-	138	-	138
Nationwide Building Society	1,376	1	-	1,377
NatWest	2,704	4,447	-	7,151
Northern Bank	90	103	-	193
NoteMachine	490	7,258	2,680	10,428
PayPoint	-	2,159	1,689	3,848
Raphaels Bank	-	257	24	281
Sainsbury's Bank	-	1,850	-	1,850
Santander	2,356	8	-	2,364
Travelex	-	360	2	362
TSB Bank	786	-	-	786
Yorkshire Bank	227	79	-	306
YourCash	-	2,294	844	3,138
	16,344	35,688	11,120	63,152