Barclays response to HMT Access to Cash: Call for Evidence

Introduction

Barclays welcomes the chance to respond to *Government's Access to Cash: Call for Evidence.* It is a timely opportunity to consider the role of cash in society and the responsibility of cash actors to provide it.

Trends in cash usage and decline, linked to the shifts towards digital payments, are well documented. Only a small minority of the UK population are understood to currently be frequent cash users, while the National Audit Office's last report forecasts a 65% reduction in the use of cash between 2018 and 2028.[1] We do not foresee that such trends mean the UK is headed towards a totally cashless society – in fact, we would expect the trend away from cash to 'bottom out' at some point, with those groups most wedded to cash unwilling or unable to switch over. Our own customer insights suggest this level of resilience – for example during the peak of the pandemic– 25% of our customers continued to use cash in the same way as before the pandemic started

Nevertheless, the continuing reduction in the use of cash is putting acute pressure on the cash system in view of the high, largely fixed-costs, of cash infrastructure. Without action to address this dynamic there is a risk that much of the current cash infrastructure will become unsustainable. This is problematic for the future financial inclusion for consumer groups who may continue to rely cash.

We note here the important role played by digital payments, and specifically access to digital financial services to help solve some digital financial inclusion. Barclays, and banks more generally, are clear on our role to promote and enable digital inclusion but this task is wider than financial services alone. Access to good internet and mobile connectivity is also a key part of this for example. We would encourage Government to consider this wider dynamic as part of a long-term strategy to ensuring a sustainable payments landscape in the UK.

Barclays recognises its responsibility to provide access to cash for customers where it is *needed.* We do not see the problem statement as how to improve current cash access in the UK, as might be defined by ubiquitous geographic coverage, but rather how to ensure cash continues to be available into the future for those who *need* it. A strategic cash framework grounded in solving for consumer needs will not just mean a more intelligent and targeted service provision, but will simultaneously support the commercial viability of cash provision in a climate where the majority of consumers increasingly favour other payment methods.

But ensuring cash user needs are met is not a firm-specific challenge – all high-street banks are grappling with a challenge of how to balance meeting customer cash needs with commercial factors. One potential approach, recognised in the consultation, is a shift towards greater shared cash services where some infrastructure is provided on a cross-

[1] National Audit Office, https://www.nao.org.uk/wp-content/uploads/2020/09/The-production-and-distribution-of-cash.pdf, p.5.

brand basis. As Government describe, cash will likely need to move towards a '*utility-based model'* to promote coverage in areas with limited demand.[2] We agree that new shared infrastructure arrangements will be critical to enable the industry to meet broader cash needs sustainability, and will be particularly important in areas where there are unlikely to be any branches.

We are encouraged by the initiation of the FCA/PSR cash work and the progress of the Community Access to Cash Pilots (CACP) in this context. The FCA/PSR work is crucial to provide the necessary facilitation for the development of an industry-led cash framework for the future and agreement on long-term joint solutions. While the CACP pilots are helpfully trialling innovative cash-access solutions that respond to needs at a local level. We believe that Government should allow industry-led initiatives time to bed in ahead of any future legislation.

The Post Office also plays an important role in helping to deliver cash access through the services it provides under the Banking Framework agreement. Further, a proposal for an enhanced cash-service offering through a new 'Post Office Banking Hub' model is being trialled as part of CACP, and elements of this pilot could inform the basis of a broader enhancement to the network's service offering. However, we believe for the Post Office to play a more central part in the UK's cash distribution network, changes to the arrangements today will be required. At present banking services provided at the Post Office are governed by a commercial arrangement, the Banking Framework 2.0. Going forward, we believe these services must be subject to proper regulatory oversight, covering service elements, pricing and the control framework. This is critical to give Banks greater certainty in using the Post Office as part of a long-term cash solution, and would promote consistent customer protections and standards across the cash access landscape.

While considering the value of utility-style cash provisioning, we also recognise the bigger picture around the sustainability of physical banking more generally. Cash is not a distinct issue, but part of a more fundamental challenge as to how high-street banks can continue to serve those customers who need access to physical services or risk being excluded, while general trends towards digital banking put cost-to-use pressures on the physical network. More broadly, we believe that in order to protect 'access to banking', industry will need to come together to deploy some physical shared services where there is need, supported and overseen by Government and regulators.

On this view we see the role for Government and legislation as three-fold:

1. To define the strategic ambition for the UK's cash network (retail and wholesale). How that ambition is practically achieved is the concern of the regulator, with implementation to be led by firms. A high-level legislative approach avoids becoming out-of-date as cash usage and behaviours continue to evolve.

[2] HMT Access to Cash consultation, p.9.

2. To address specific legislative or regulatory blockers that inhibit better cash outcomes. Enabling cashback without purchase within the regulations is a prime example of how Government can facilitate firm-led activity.

3. To ensure legislation supports competition where the market can deliver good consumer outcomes, balanced with a potential role for Government to act as facilitator where some joint industry solutions may need legislative or regulatory underpinnings.

<u>1.How can Government ensure the UK maintains an appropriate network of withdrawal facilities over time through legislation?</u>

The challenge:

Overall, we consider that a combination of industry initiatives and regulation has ensured there are currently good consumer outcomes on cash. Industry has worked particularly hard to ensure sufficient protections exist to protect access to cash in communities where it could be at risk. To provide just one example, in April 2020 a number of Banks and Building Societies, including Barclays, pledged to maintain or replace any critical ATM (covered by LINK's protected ATM commitment) at risk of being lost as a result of the Covid-19 strain on the free ATM network. This protects access to cash in all 6,500 high streets and at all 3,800 free ATMs in remote, rural and deprived communities without another source of cash nearby. In fact, that a good network of cash withdrawal facilities exists is testified by the FCA's recent analysis that even during the peak of the Covid-19 pandemic, just 0.1% of the UK population lost convenient access to cash.[3]

Nevertheless, such a general and contemporary picture masks a number of increasingly pressing challenges concerning cash access into the future:

- There is a **preoccupation with single-channel access**, in particular ATMs. PSR's research found that 80% of cash users prefer using ATMs to other free alternatives.[4] Such entrenched preference is problematic when we think of the overall volume of ATM withdrawals dropping, which stretches the commercial viability of running such fixed-cost infrastructure.

  The consultation suggests a particular issue with incentivising free-to-use (FTU) ATMs in the most remote or rural areas. This perspective overlooks the fact an ATM may not be the most suitable channel for an area with very low footfall/volume, and that instead alternative lower cost channels may be more appropriate.

[3] The FCA's study of cash access during the first UK lockdown found that 99.9% of the population had free access to cash within 3 miles of their home. https://www.fca.org.uk/insight/cash-and-covid-identifying-gaps-provision-during-covid-19

[4] PSR, Access to Cash Call for Evidence, https://www.psr.org.uk/sites/default/files/media/PDF/CP19-6-call-for-views-cash-access_0.pdf p.6.

- Some of the **most used cash channels are single-brand only**. For example, 36% of all visits to a Barclays branch are to withdraw or deposit cash[5]. We earlier referenced the challenge around the long-term commercial viability for single-brand physical banking. Instead, more cash access points need to be available on a cross-bank basis so all bank customers can use them. To this end, we expound the benefits of cashback without purchase in response to Question 2.

- A historic strategy pursuing **ubiquitous coverage** of cash access has led to over-supply in some areas where actual demand doesn't reflect this. A future-proofed framework should focus on getting cash to the right place i.e where it is needed, not just ensuring it is evenly spread.

Recommendations for legislation on access to cash:

We understand Government is considering legislation to support the development of a suitable cash network, with particular attention being paid to the idea of a Universal Service Obligation (USO) on cash. We set out below a number of important considerations for any new legislative commitment, bearing in mind the challenges aforementioned about cash access into the future.

1. Any obligation should be grounded in ***real* user needs**. We are encouraged by the Government's emphasis in the consultation on 'proportionality' as a key criteria concerning cash, as this will be key to ensuring cash services can be provided on a sustainable basis into the future.

   We welcome the current work of the FCA/PSR cash programme to delve into consumer and SME dependencies and the differences between these groups. This evidence-gathering is crucial to inform how cash infrastructure could be re-prioritised to meet these needs, and that any future solutions fulfils all of these needs.

   Any obligation should be overlaid with the particular needs of **vulnerable consumers**. Their needs for cash services may be differentiated, and indeed potentially more acute, compared to other cash users, and who could experience harm if they were not able to access it.

2. A one-size fits all obligation on cash will not be responsive to different **local demands**. Inherent to the concept of a USO is to make available a minimum level of service provision across a whole population. If we take the recent broadband USO as an example, it can reasonably be expected that there is a unanimous need for broadband across the whole population. By contrast cash demand is highly heterogeneous depending on the user group (as above in point (1)), and the local area in which it is used – for example urban centres with a high proportion of retail

[5] From July 2020 to September 2020 Barclays observed that 36.3% of all branch interactions included only cash deposit and/or cash withdrawal, demonstrating this is a significant reason for customers visiting branches.

will have very different cash demands than posed by mostly residential or remote areas. In short, what matters is getting cash to where it is spent.

Only by working closely with local communities to understand their specific cash needs can the UK develop an intelligent and responsive cash framework. We are already seeing this approach emerge, for example with the CACP pilots, or more widely with Barclays 'Your Bank' initiative which was designed to gage local needs to influence how we provide our banking services.

We would therefore caution against any nationally-set targets, which would also unlikely be commercially sustainable.

3. Any obligation should be **channel agonistic**. A range of different cash channel types are utilised by firms depending on the nature of local demand. Firms should continue to have the flexibility to decide on the implementation of any new obligation to ensure the most appropriate, effective and cost-efficient channel can be deployed.

4. Any obligation should be **flexible** to reflect the evolving nature of cash usage and behaviours. Creating a statutory objective on cash runs the risk of becoming out-of-date as consumer behaviours change, and legislation is hard to change. Any legislation should therefore be high-level, for example defining a strategic ambition, but avoid including targets based on current needs that cannot be adjusted.

5. The **scope of any obligation** should ensure responsibilities for cash exist across the retail cash market. There are providers in the cash ecosystem which currently sit outside the regulatory perimeter, and we would encourage Government to consider these dynamics in the cash market to help protect access.

   Separately, we note the broader role a good cash network plays in providing a crucial resilience mechanism in the event other payment systems go down. A much wider set of firms than just cash providers stand to benefit from this safety net, so an appropriate contribution should be considered by Government.

6. We note a more complex consideration with regards to a USO around cost share. The recent USO for broadband provides a legal right for a UK resident to request a broadband connection of a minimum level (10Mbps) up to a cost threshold of £3,400.[6] If it will cost more than £3,400 to connect a home, typically because of rurality, the resident will have to pay the excess costs. This mitigant poses interesting considerations if we transpose it to cash, where too there are instances of excessive costs for provision in the most remote areas.

Shared services

[6] https://www.ofcom.org.uk/phones-telecoms-and-internet/advice-for-consumers/broadband-uso-need-to-know

As noted by Government, there is emerging recognition that if industry is to solve some of the cash challenges, in particular the sustainability of physical infrastructure which has high fixed costs that are increasing as overall cash usage declines, then greater consideration will need to be given to shared services provided on a 'utility-style' basis.

In the shorter-term joint solutions can be used to plug 'cold spots' or gaps in the market where it is commercially unviable for firms to deploy cash solutions on an individual basis. We are already seeing activity in this direction through the Community Access to Cash Pilots which are trialling a number of innovative joint solutions, and the FCA/PSR work is also looking at a 'provider of last resort' mechanism where industry could jointly fund a cash solution in areas with no other viable options.

While the shape of further shared provision is still to be defined, where there is a utility model element this may require suitable government legislative or regulatory support since it will necessarily require cooperation between providers that otherwise compete.

<u>2. What is the potential for cashback to play a greater role in the provision of cash withdrawal facilities, and how can legislation help facilitate further adoption of cashback?</u>

Barclays wholeheartedly welcomes Government's intention to remove the legislative barrier that currently prohibits a cashback without purchase solution. We see cashback without purchase as a vital tool to help diversify cash access beyond other cash infrastructure that is either unviable due to low footfall (e.g ATMs), or inefficient for cash withdrawal (e.g branches).

In particular, we see a critical role for cashback to help plug the gaps posed by more remote or rural localities where demand does not justify an ATM, but there is a local shop that could provide cashback.

We highlight a number of consumer benefits from cashback without purchase:

- Increased convenience through a new access channel
- Option for cardholders to access their 'full' bank account balance unlike with an ATM (i.e can access low values or non-round denominations)
- The potential for longer retailer opening hours compared with branches or Post Offices
- Provides in-person/face-to-face transacting ability
- No longer required to make a purchase

It can also be advantageous for retailers:

- It provides a new revenue stream through rebate from the transactions
- If advertised correctly it could increase footfall
- It could help reduce cash handling costs via increased cash recycling

We know it is hard to change entrenched habits around cash even where there are other options, in particular the overriding preference for ATMs. We would therefore encourage further consideration to be given to promoting public awareness, including Government coordination with retailer bodies and consumer finance education organisations to ensure the benefits of cashback are well understood.

In the meantime, until a collective cashback scheme can be enabled via a change to the regulations, parts of industry have begun to trial partial solutions. These will be important to provide valuable lessons that can inform broader future implementation of cashback without purchase.

- As part of the Community Access to Cash pilots, LINK is undertaking a limited trial with Paypoint to provide cashback in certain underserved local communities. This was only launched in October 2020 so we await the results, but we would expect significant customer uptake given the solution was developed directly in conjunction with local needs.
- Barclays has also been developing its own cashback without purchase solution to be offered to Barclays customers until a scalable industry proposition is possible[7]. It has been challenging to stand up the proposition during the Covid-19 pandemic when much of retail was affected, but feedback so far from potential retailers has been instructive, including a strong preference for a cashback offering that is available more widely than for just Barclays customers. We have also learnt that marketing of local availability for cashback is crucial to make retailers and cardholders aware, and we anticipate this will be true for a national scheme also.

The consultation touches on a number of practical, regulatory and scheme considerations that will need to be considered. We highlight the most pertinent, and a few more, below.

- While cash with purchase is unregulated it has an inbuilt protection – the purchase itself is a regulated activity, requiring a PSP on the payee and payer end. Enabling cashback without purchase creates the possibility that no PSP must be involved in the distribution of cash, which in theory could allow unregulated players to enter the market. This would have implications for consumer protections and ability for redress associated with a transaction. Consideration should be given to whether some kind of perimeter, or guardrails, be added into the regulations so that only regulated entities can offer cashback without purchase, even if the service itself is not regulated. This would facilitate cash distribution (by removing existing regulatory barriers) but provide assurances to consumers that the service is provided by a regulated entity.
- Barclays agrees that authentication must be required at the point of withdrawal. This serves as an important fraud check. Given that Chip & Pin is currently the most secure authorisation for other cash withdrawal, including cashback with purchase, it follows that this should be a requirement for any card scheme, at least for ‘day one’ transactions.
- On the other hand, the regulations should also be adjustable to respond to changing behaviour payments into the future, including contactless and mobile banking.

[7] Barclays is uniquely a merchant issuer and a merchant acquirer hence we are able to offer cashback without purchase within the current regulations. The regulations do not enable a collective solution where multiple-firms can offer cashback without purchase through a single nationwide scheme.

These could be encompassed once fraud and security mitigations have had more time to be worked through.

- Banks will need to work with the schemes on a clear way to identify these transactions to we can record them appropriately. For example, customer statements should reflect a cashback transaction and not a purchase.
- It will be up to the scheme issuer to set the cashback limits. This should be done in consultation with retailers to understand their perspective on cash floats and security, while also being mindful of the need to ensure responsible consumer behaviour.
- Government is right to touch on the need for commercial incentives for retailers to adopt cashback. Retailers are compensated through a transaction rebate – VISA has spoken of a 20p per transaction fee.[8]
- Firms will be reliant on merchants using the cashback service responsibly and properly, and merchant behaviour should be monitored closely to mitigant against gaming (undertaking multiple low value withdrawals to drive up interchange revenues), nudging (forcing customers to take cash and pay in cash rather than card), or substitution (pushing card transactions through as withdrawals). We believe a controls framework will likely be required to ensure sufficient regulatory oversight of this service from a merchant perspective, and where these types of fraud or inappropriate activities are identified suitable courses of action need to be defined.

<u>3. How can the Government ensure the UK maintains an appropriate network of deposit-taking facilities over time through legislation?</u>

It is important to recognise that the demand for deposit facilities comes primarily from businesses, as opposed to personal customers. As we see with consumer cash usage trends, the number of businesses using cash and requiring deposit facilities is going down over time[9], but we would expect persistent use from a cohort that remain cash accepting. It is important the needs of this user group are met now and into the future.

Barclays business customers can currently make deposits via a number of ways, including over-the-counter or via an ATM in-branch, at a Post Office, or through Barclays Collect. Barclays Collect is a flexible and secure pay-as-you-go service whereby G4S pick up business cash and cheques and deposit at Barclays processing centres. We have over 2700 SME and over 1000 corporate client registrations for the service. However, the most popular deposit channel is branch – accounting for over 64% of all business deposits.[10]

We recognise however that the current preference for SMEs to deposit cash in bank branches is unsustainable given the trend of branch closures in response to overall footfall reduction. Therefore, it is likely shared services will need to play a pivotal role in achieving a sustainable network of deposit taking facilities for the future. This could include shared

[8] https://www.thisismoney.co.uk/money/cardsloans/article-7912935/New-Visa-incentive-shops-cashback-customers.html
[9] As of October 2020 we have seen a 39.1% value and 56.8% volume reduction in business cash deposits YoY.
[10] From January 2020 until now, 64.02% of all Barclays business customer deposits are in branch. Of that, 52.8% are over-the-counter.

premises where businesses can have all of their cash needs met under one roof. Good progress is being made here already, including the Community Access to Cash Pilots (CACP) which involve trials of joint-bank automated deposit hubs housed within a Post Office and 'bag drop' cash deposit services in safe indoor spaces, offered out of hours. We look forward to the learnings from these trials to help inform any future joint-Bank deposit initiatives that could be scaled up more widely. Likewise, the current FCA/PSR initiated working group is currently looking further at SME needs, including coin and cheque deposit facilities, as well as security concerns and service-quality considerations with the Post Office facilities.

Further, we are investing in innovative solutions such as remote deposit-taking ATMs, targeted in communities impacted by branch closures and see these as playing a greater role in our physical footprint into 2021. We note Government's suggestion that SMEs don't find external deposit-taking ATMs a satisfactory solution given security considerations, but our own insights don't align with this conclusion. During the initial Covid-19 lockdown we saw a 300% increase in use of our external deposit-taking ATMs, so we are positive these channels will continue to provide utility for our customers.

At present deposit-taking ATMs are single-bank only, but there is emerging industry consideration of this potential solution. We believe this existing infrastructure could be utilised via a multi-lateral agreement between banks, to enable customers of different banks to utilise these deposit-ATMs. This would increase the optionality for SMEs needing to make deposits in particular.

In the future these machines, subject to a new multi-lateral agreement, could also enable an even broader set of transactions to be conducted, such as bill-payments or transfers, becoming fully 'Smart ATMs'. This fuller utility-style ATM model would serve to support not only access to cash, but also access to banking more widely, particularly in areas with reduced branch presence. This approach inevitably involves certain commercial considerations to be worked through. We would encourage Government to consider the benefits of a multi-ATM solution.

<u>4. What are the key factors and considerations for maintaining cash acceptance in the UK?</u>

We note that the issue of cash acceptance is closely tied to the aforementioned issues of cash access and cash deposits. In theory, a well-functioning cash ecosystem should mean it is easy for customers to get cash, easy for businesses to deposit cash, and by consequence easy for businesses to be able to maintain cash acceptance.

Nevertheless, we recognise increased trends away from cash acceptance by certain retailers, particularly as a result of the Covid-19 pandemic and concerns about hygiene. This shift contributes to overall less cash usage, which has a knock-on effect on the economics of wholesale cash provision. We recognise the need for change to create a sustainable cash processing estate in light of declining volumes, fixed costs and rising unit costs. This is reflected in Barclays support and involvement in the Bank of England Wholesale Distribution Steering Group work currently underway.

To help address this issue, we would encourage Government and authorities to work together to reassure retailers and consumers that cash is a safe payment method. Encouraging retailers, where possible, to continue to accept cash will also be important for the new cashback without purchase facility to have the desired impact.

As a universal bank Barclays supports customer and business payment choice so do not believe legislation mandating cash acceptance would be appropriate. We advise that if Government wishes to consider this issue further, a first step could be further research into those retailers deemed to provide essential services or a public good, and then if further protections are needed in that regard.

5. Should Government give a single regulator overall statutory responsibility for maintaining a well-functioning retail cash distribution network? If so, with which regulator should this responsibility sit?

Barclays supports Government's proposal to give a single regulator overall statutory responsibility for the retail cash network. We also agree with Government's suggestion that the FCA is best placed to take on this role.

We identify a number of potential benefits with this approach.

- Empowering a single regulator could affect faster regulatory responsiveness in the context of rapidly evolving cash trends.
- It will enable more streamlined engagement for firms, particularly in view of the interlinked nature of access to cash and other regulated banking elements such as branches. Firms already engage with the FCA on branches and ATMs.
- A single regulator may be able to take a more holistic view of cash which could lead to better and more effective regulation.

We highlight one additional considerations:

- There is important co-dependency between an effective wholesale cash network and a well-functioning retail cash network. It is important that the new single retail cash regulator continues to work closely with the Bank of England to ensure a joined-up approach to these two challenges.