Introduction

Cash usage amongst consumers and SMEs in the UK has steadily declined since 2000 as online, card, and, more recently, mobile contactless payments, have become the most frequent methods of transacting. To illustrate, amongst Barclays customers, since 2017 we have observed a 10% year-on-year reduction in cash withdrawal volumes across all channels. Industry statistics paint a similar picture, evidenced by the drop in LINK ATM cash withdrawals by 37% between 2019 and 2020 alone.[1] By contrast, mobile contactless payments nearly doubled in 2020.[2]

A similar, but less pronounced trajectory, exists with SME cash usage. The proportion of outgoing payments using cash – already low compared to consumers – fell from 9% to 4% of all business payments from 2012 to 2018 (and by 40% in absolute terms). For incoming payments the drop was from 30% to 14% of all payments (down 45% by volume).[3] Covid-19 has prompted a further significant downward shift in cash use, accelerating a well-established long-term trend.

Despite these broader shifts, cash remains an important channel for a minority of consumers, including vulnerable customer groups, and certain SMEs. However, as the economics of the market have shifted with changing consumer demand, society is faced with a challenge to ensure that cash continues to be available to those who really need it now and into the future.

We therefore welcome the Government's intention to legislate to protect Access to Cash, and the opportunity to respond to this ambitious set of legislative proposals. We summarise our response to the consultation below.

Executive Summary

We support the aims of the legislative proposals, in particular the emphasis on proportionality, flexibility and cost-effectiveness for firms. We believe a one-size-fits-all approach to cash access is inefficacious, and this legislation should encourage a menu of different solutions tailored to specific local needs.

However, we think there are two key elements of the legislative proposals, in particular, which need further consideration in order to ensure that the Government's policy objective – to protect cash needs sustainably into the future – is able to be met effectively. These are:

1) **Designated firms:** Access to Cash is a societal challenge that requires a collective response. While we agree that the largest retail banking providers should be expected to make the most significant contribution, there is a risk that placing responsibility for meeting cash needs solely at the door of those providers could exacerbate the fragility of the cash network and lead to adverse consumer outcomes. In particular, it does not facilitate a collaborative approach to coming up with shared and cost-effective solutions.

   Given the strategic benefit of a resilient cash network for all current account providers and their customers, responsibility to contribute to the maintenance of the underpinning physical infrastructure needs to be shared fairly and proportionately across the industry. This is vital if the policy framework is to be fit for the future and the rapidly evolving market of financial services provision.

[1] LINK, Consumer Data, 2020 https://www.link.co.uk/about/news/consumer-usage-2020/
[2] UK Finance, Payments Market Report, 2020
[3] UK Finance, Business Payments Survey, 2019

Additionally, in view of the systemic roles played by Independent ATM Deployers (IADs) and the Post Office in enabling access to cash for consumers and SMEs, we recommend these cash access suppliers should also be brought into scope of the new legislative regime.

2) **A coordinating body:** To address the need for a collective response to resolving cash access, we agree with the Cash Action Group (CAG) that a new central coordinating industry body, to work under the direction and oversight of the FCA, is required. Working to government and regulatory standards on cash access, this body could maintain a cross-industry view of locations, identify potential 'cold spots', and manage the seamless and effective deployment of shared services – funded on an equitable basis between firms – to address gaps. It should be referenced in the legislation.

Section 2 – Cash Access Requirements

1) **Do you agree that legislation should provide the government with powers to set geographic requirements to ensure the provision of withdrawal and deposit facilities to meet cash needs through time?**

At present there is no single set of governing requirements applicable to consumers and SMEs around access to cash withdrawal and deposit facilities. If calibrated in the right way, legislative requirements will provide welcome clarity and consistency for consumers and firms alike.

Barclays also welcomes the indication that these requirements will be reviewed through time to reflect evolving cash usage and demand. The COVID-19 pandemic threw into sharp relief the rapidity with which consumer payment behaviours can change. During the course of the pandemic restrictions ('lockdown 1.0'), Barclays saw a 44% drop in cash withdrawals across all channels. While withdrawal volumes started to recover from May 2020 onwards, they have levelled off at 68% of pre-pandemic levels, suggesting that a significant proportion of customers have adjusted their long-term behaviours away from cash. Barclays' cash deposit volumes have similarly only returned to 65% of pre-pandemic levels. It is therefore vital that the requirements are responsive and easy to adjust if cash facilities are to remain sustainable. However, we note that the consultation doesn't indicate the frequency of review envisioned. Given the pace of change in the cash market, we propose that an annual review of requirements by the lead regulator would be appropriate.

We would also recommend a statutory review of Government's new cash powers more generally, three years after introduction, to ensure the policy is meeting its aims of proportionality, flexibility, cost-effectiveness, efficiency, sustainability, as well as supporting competition and innovation.

2) **Do you agree that legislative geographic requirements should target maximum simplicity?**
3) **Do you agree that geographic requirements should initially be set to provide a level of reasonable access to all areas, reflecting the current distribution of cash access facilities?**

While simple headline requirements to ensure reasonable access to all areas have clear consumer appeal and ease, it is vital that such a straightforward approach is also proportionate to customer needs and commercially sustainable for industry.

We note material variation between different regions, and urban and rural areas, both in terms of demand for cash access, but also the respective ease for firms to provide access solutions. To illustrate, the incidence of cash deposits by Barclays SME customers varies significantly by geography - in 2020, deposits were twice as high in Wales than in the South East of England. We therefore recommend considering a more granular differentiation in access requirements between urban and rural requirements.

We are also clear on the significant differences between demand for, and provision of, withdrawals and deposits respectively. While it is welcome that the proposals recommend separate headline requirements for these types of cash access, we are concerned that setting a single standard for deposits – to apply to both personal customers and SMEs – is too simplistic, and may lead to unsustainable outcomes for the firms responsible for provision.

To elaborate, there are very material differences in deposit needs between personal and SME customers, not least variation in the frequency, value and utilised access channel. Broadly speaking, deposit demand from SMEs is considerably more complex, often involving a mix of notes, cheques and coins, often at high-value and/or high-volume. These differences necessitate a different set of deposit infrastructure, and in turn, greater investment by firms to deliver SME deposit channels sustainably. To illustrate, from 2018-20, the average value of cash deposits for Barclays business customers was almost double that of personal customers. Further, for fraud and risk purposes, it is important that high-value deposits continue to be driven to access points where additional appropriate controls for AML are in place.

There is a risk that if a one-size-fits-all deposit requirement is set too high, industry will be required to provide deposit access facilities that are not commensurate with true demand in certain local communities (e.g. those with few SMEs). Consequently, we do not recommend that a simple single deposit standard is set on the face of the legislation. Instead, Government should direct the FCA to work with industry to develop appropriate access standards for deposits, and we think this is an area where a new central coordinating body could play a key role.

4) Do you agree it is necessary to allow for requirements in Northern Ireland and Great Britain separately?

Barclays notes the differences in demographics, cash needs and market structures between Northern Ireland and Great Britain. We support an approach that considers the unique requirements of Northern Ireland.

However, we think the requirement is broader than this. The example of Northern Ireland and the differences between disparate parts of Great Britain, including Scotland and Wales, reinforces our consideration (as outlined in response to Question 3) regarding different urban and rural access standards.

5) Do you think that requirements in Northern Ireland and Great Britain should be set at a consistent level?

See response to Q4.

<u>Section 3 – Designated Firms</u>

6) Do you agree that requirements should be targeted at the largest payment account providers?

No. We believe this a fundamental flaw in the current legislative proposals.

Barclays recognises our responsibility to ensure all our customers and communities have access to cash that meets their needs. However, we are concerned that the proposed approach, focused on capturing only the largest retail banking providers with physical infrastructure (i.e. High-Street banks), will reduce the effectiveness of Government's policy intent to protect Access to Cash on several counts.

We are concerned that designation is underpinned by a simplified assessment of the current market and consequently may not be fit for purpose for the future. As the proportion of cash payments continues to fall, maintaining the right level of access and infrastructure not only fulfils consumer and vulnerable consumer needs, but also has a strategic benefit of providing a fall back payments mechanism in the event that digital or other payment types fail. Although it is true that large firms with physical infrastructure represent the mainstay of customers with day-to-day cash needs, customers of digital only banks also withdraw and use cash, and could be reliant upon it as a payment method. As the market share of other, non-physical, banks continues to grow, and the cash needs of customers continue to evolve, this policy framework creates no incentive for these firms to contribute to the maintenance of the cash system, putting cash provision at even greater risk.

The inclusion of additional criteria for designation – 1) a firm's geographic coverage; 2) distribution of a firm's customers – are similarly problematic in their underlying focus on 'a point of time' assessment of the market. For one, as retail banks continue to evolve their business models to reflect customer demand for more digital services, these firms' geographic coverage is constantly in flux. A secondary, related, concern exists regarding the perverse incentive this could create for firms not to be the provider of last resort in a community if geographic coverage equates to a burden on an individual firm to fulfil residual cash needs.

More profoundly, this approach to designation is not conducive to a sharing of responsibility for cash needs across the market. Criteria such as geographic coverage not only *de facto* exclude the possibility of firms with no physical coverage contributing to the resiliency of the cash network, but they also fail to create the right conditions for a collective responsibility between current account providers to ensure cash needs are met into the future.

We therefore do not agree that the requirements should be targeted at the largest payment account providers and instead should be shared amongst all payment providers on a proportional basis. We discuss how this collective responsibility could work in further detail in our response to Q8.

A separate concern relates to the omission of cash access suppliers in the proposed legislative framework. As it stands today the cash services of some cash access suppliers, such as Independent ATM Deployers (IADs) or the Post Office, currently fall outside of the regulatory perimeter. This means their cash activities or conduct aren't subject to regulatory scrutiny and there is no redress for consumer harms caused by their actions. Despite this, many of the largest current account providers partly rely on these suppliers to ensure access in communities where individual firm provision is commercially unviable, and may further do so in the future to fulfil the legislative requirements.

In the case of IADs, their role in the cash access system is significant. In fact, around 72% of all cash withdrawals by Barclays customers are via a LINK ATM. Despite this, we are observing an increasing number of instances of withdrawals of free-to-use ATMs from communities, or the switching of a free-to-use ATM to a pay-to-use. Between 2018 and 2020, the number of pay-to-use ATMs has increased by 6%.[4] By virtue of their market dominance, such decisions by IADs have a greater impact on the emergence of cash 'cold spots' than the decisions by banks in relation to their physical estates by an order of magnitude. Whilst in such instances LINK can step in to either offer incentives

[4] University of Bristol, Mapping access to cash across the UK, http://www.bristol.ac.uk/geography/research/pfrc/themes/finexc/where-to-withdraw/

to the operator to remain in-situ free of charge, or directly commission a free-to-use ATM, this is only a retrospective mechanism to protect communities free access, and there are no regulatory or legislative powers to prevent this situation from occurring in the first place.

A similar concern relates to the Post Office. As the relative importance of the Post Office banking provision grows, it is critical that its role is subject to appropriate central oversight. Formal regulatory oversight, for example via the new lead cash regulator the FCA, would enhance the Post Office's accountability and provide customers using these services with greater protections and assurances of service quality. In addition, it would also provide the certainty and confidence required by banks in order to leverage the Post Office as a strategic long-term cash partner, in turn boosting the commercial sustainability of the Post Office.

For Government's legislation to work effectively we recommend that both IADs and the Post Office are brought into scope of the FCA's regulatory remit.

7) Are there other factors beyond those listed that Government should take into consideration when designating a firm?

See response to Q6.

<u>Section 4 - Role of the Regulators</u>

8) Do you agree that the FCA should be the lead regulator for monitoring and enforcing requirements on access to cash?

While Barclays supports the FCA's appointment as the lead regulator for the retail cash network, we are keen to ensure that it is best enabled and supported in its role to achieve Government's policy intent effectively to engender a sustainable cash framework into the future.

As currently envisioned, the FCA would take on direct operational oversight for ensuring the geographic legislative requirements are met through its existing monitoring and supervisory role, and would assess compliance on a firm-by-firm basis. These mechanics have two key limitations:

1) It is unclear how the FCA could operate at a sufficiently local level to gauge genuine community needs to determine whether access solutions provide reasonable access for cash users, in order to qualify for meeting geographic requirements. This is particularly important given the significant variation in needs and demand between different communities. There is currently no mechanism for the FCA to engage directly with local communities to understand these nuances, or to identify 'cold spots' before, or as they emerge, on the basis of local insights.

2) An approach that evaluates whether cash needs are met on a firm-by-firm basis does not take into account the ability of shared cash infrastructure to enable a greater proportion of cash users to meet their needs, on a sustainable basis. The fact that less than 30% of all Barclays customers withdraw cash via a Barclays access point (e.g. Barclays ATM, Barclays branch), attests to the need to evaluate cash access on a cross-industry view. Taking a 'vertical' firm-by-firm approach is also problematic vis-a-vis 'cold spots' where individual firm cash infrastructure is proven to be commercially unviable, and solutions where costs are shared are necessitated. As cash demand continues to decline, the imperative to shift from individual firm provision to a model of shared cash infrastructure becomes even more critical.

As noted earlier in our response, the Cash Action Group (CAG) has identified an opportunity for a new central coordinating body to be set up, to support the FCA's role in ensuring the new standards can be met effectively at a cross-industry level, in adherence with competition law rules. We believe the creation of this new body is critical to the successful delivery of outcomes sought by the Government, particularly the ability of industry to coordinate sustainable and efficient solutions. We envisage it could work as follows:

- In line with the Government's proposals, the FCA would still set the macro standards on access to cash that industry is required to meet.
- It would provide a mechanism for a cross-industry view of local need in individual locations, including the emergence of 'cold spots'.
- It would enable deployment of appropriate provision at a cross-industry (rather than individual firm) level where necessary. For example, a shared Smart ATM.
- It would develop a fair-funding basis for shared solutions, with costs agreed and shared on a proportionate basis.
- To augment its view of local locations provided by firms, it could also have an additional mechanism for communities to flag if their specific needs aren't being met.
- The coordinating body could act as a conduit between the FCA and the designated firms to demonstrate how the legislative requirements are being met and any cold spots addressed.

We illustrate how this model could work in practice using the hypothetical case study of 'Community Z.'

> Community Z is relatively rural, with some economic activity via local retailers and a significant proportion of home-workers. It has a free-to-use standard ATM provided by an IAD, no remaining bank branches, and a Post Office located over 1km away. All designated firms have a relative share of current account customers in the vicinity, but no firm has significant geographic physical coverage locally. It could be considered a 'cold spot' according to the legislative requirements. Under the current proposals, the FCA would need to go via every single designated firm to identify an appropriate solution and oversee its local delivery. Alternatively, under the CAG model, the coordinating body could investigate the needs of the local community and collectively agree with designated firms a shared solution on a fair funding basis. For example, a shared Smart ATM which enables a range of everyday banking capabilities (delivered through a multilateral agreement allowing customers of any bank to use it) could provide the most effective solution.

This model also has the added benefit of enabling other, non-physical current account providers, to be brought into scope for ensuring a resilient cash network. The coordinating body could draw on central funds, accrued via a proportionate annual levy of all current account providers, to finance the cost of collective solutions as required.

We would urge the government to recognise the practical necessity for a coordinating body in the legislation, to enable industry to provide services efficiently, coordinate solutions where appropriate, and innovate to meet consumer and small business needs.

Separately, we wish to comment on the proposed FCA power to '*direct designated firms where appropriate (to refrain from taking specified actions, to take specified actions, or to take remedial action in respect of past conduct*' (section 4.5, p.17) as warranting further and careful consideration.

As described, this power is potentially extremely far-reaching, and consequently must be accompanied by a prescribed set of robust guardrails:

- The FCA must set out in advance a clear and consistent basis on which this intervention may be justified. This could be done via a set of regulatory principles, subject to consultation with designated firms.
- It should be accompanied by a specific proviso that it is to be used only as a last resort, for example: if firm-initiated activity is proven unable to meet demonstrable consumer needs; where all other collaborative dialogue between the FCA and the new coordinating body has been exhausted; or if a firm action is directly contributable to outcomes of material consumer harm.
- It should not be used to direct a specific commercial action, for example dictate a particular channel of provision.
- Any decision by the FCA to direct firms to take specified actions must be subject to rigorous review, including whether the decision is proportionate for firms.
- The FCA should consider a proviso for recognising mitigating exceptional circumstances that could prevent a firm from meeting the obligations for a temporary period. For example, the Access to Banking Standard contains a clause referencing unplanned external or emergency events.
- It is unclear what appeal mechanism is in place for a firm to challenge an FCA decision.

9) Do you agree with giving the FCA discretion on additional requirements for qualifying cash facilities?
10) Are there any other factors, beyond those listed, that the FCA should consider as part of evaluating qualifying cash facilities?

We agree that the Government should provide the FCA with discretion to set the standards for qualifying solutions to meet the legislative requirements. The FCA should set out the qualifying criteria in a clear framework, agreed in consultation with industry.

It is vital the FCA adopts a flexible approach so that the criteria are responsive to changing customer demands and behaviours. To do so, we recommend the criteria focus on principles rather than rules which are intrinsically more inflexible.

Such flexibility is also vital to ensure that the qualifying criteria don't inhibit new methods of access and innovation. We note that the consultation suggests that considerations for evaluating cash facilities as providing reasonable access are '*expected to reflect existing standards of cash access' (p.17).* However, we would caution against assessing new access solutions by reference to criteria developed with legacy infrastructure in mind. If we take the example of cashback without purchase, a new method of provision that should significantly boost access to cash withdrawals across the UK, particularly to non-round amounts, it is reasonable this should be evaluated on its own merits.

In line with the Government's emphasis on proportionality, sustainability and cost-effectiveness for firms, it is also important that the FCA seek to distinguish between real user needs and preference when considering criteria to qualify for reasonable access. To illustrate with a case study:

> Personal customer X who lives in Y community and likes to withdraw cash over the counter because it provides an element of socialisation, they like the branch staff, and they have formed an emotional attachment to the habit of withdrawing cash this way. However, they have not informed us of any specific vulnerability which prevents them from withdrawing

cash in an alternate way, e.g. via an ATM, cashback without purchase, or at the local Post Office. In evaluating reasonable cash access in Y community, the focus must be on how customer X can continue to have their cash needs met via alternate reasonable solutions, as opposed to the customer's preference to withdraw cash over a counter.

We also note that the consultation identifies 'cost to end user' as a qualifying criteria. As part of the mix of cash access solutions, alongside free-to-use provision, it is reasonable for firms to operate paid-for cash services where there is a clear justification for doing so. For example, Barclays Collect is a convenient cash-collection service for SME deposits, with a simple pricing structure levied for small deposits.

11) If geographic requirements are being met at a national level, do you think there are any circumstances in which the FCA should nevertheless be able to intervene at a local level?

For the legislation to be practically effective, Barclays recommends that the FCA set and oversee principle-based national requirements (taking into account granular differences between urban and rural areas as discussed earlier), supported by a new coordinating body to respond to local needs and manage local level cold-spots.

12) Do you have any views regarding the future role of the regulators in protecting cash?

We agree with the Government's reference to the importance of ongoing coordination between the FCA as the lead retail cash regulator, and other cash regulators such as the PSR and Bank of England, to ensure a joined-up approach. We would welcome further clarity on the respective responsibilities of these regulators following the appointment of the FCA as lead cash regulator. For example, the role of the PSR on Access to Cash going forwards, and whether the PSR's Specific Direction 8 (SD8) will still be necessary.

Separately, we note the importance of consumer awareness of cash provision and alternatives, particularly as new innovations come on-stream (e.g. cashback without purchase). The regulators should work with industry and Government to raise awareness and improve consumer education on different access sources and their benefits.