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Move to a cashless society must leave no one behind

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Should we move to a cashless economy? According to a recent report by Natalie Ceeney – Access to Cash – this is not likely to happen in the near term. In fact, Ceeney’s report raised important issues that cut the other way; about ensuring the UK has effective and inclusive access to cash for years to come.

We all know that notes and coins are being rapidly supplanted as the preferred form of payment. The figures are stark: in 2007, 61pc of all payments in the UK were made using cash, and in 2017 the proportion had fallen to 34pc. At the wholesale level, the volume of banknotes processed by Note Circulation Scheme members fell by 7pc in 2016 and a further 5pc in 2017.

These trends raise important questions about the future of cash in the UK.

Firstly, will the UK go truly cashless? In short: no. It will remain the second most frequently used payment method in the UK for the foreseeable future. Even in Sweden, the “most cashless society in the world”, notes and coins still represent 15pc of transactions. Secondly, is the UK actually ready to go (mostly) cashless? Again, the answer, according to the Ceeney report, is no. Millions of consumers across the UK still rely on cash. Almost half of the population would find living without cash problematic, and 17pc are either unsure of how they would cope or would not cope at all without cash. A cashless society would leave millions of people behind, including the most vulnerable.

Thirdly, do we need to change how cash transactions work in the UK? Here the answer is a resounding yes. The review rightly highlights the risk of a vicious circle where higher costs of using cash, combined with widespread acceptance of digital payments, result in fewer retailers willing to accept cash as a means of payment.

Flexible consumers are then likely to adapt to a situation where cash is no longer universally accepted, accelerating the fall in demand for cash.

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There are already retailers going cashless, and although these are, for now, fairly unusual cases, the trend is clear. When will the tipping point be reached? This is hard to predict, however it is clear that while the move to a digital and cashless economy will continue, action is also required now to ensure consumers continue to have access to cash.

Debates so far have focused on either ATM closures (and how these may disproportionately affect certain communities, such as remote areas) or on the challenges of regulating digital payments. This is understandable, but risks missing other important issues that merit attention.

As the review suggests, a comprehensive new approach is now needed that considers the cash infrastructure as a whole. This would guarantee access to cash (and access to deposits for SMEs) and ensure it remains widely accepted, including examining the cost to SMEs of cash acceptance.

This will not be straightforward and will require potentially radical oversight and regulatory intervention. It might also now be necessary to regard the wholesale cash infrastructure as a public utility and even overhaul the way in which it is operating.

This would have inevitable pros and cons, but ultimately may prove the most effective way to ensure that no one is left behind. The universal service obligations already in place in other sectors could well provide helpful pointers. British citizens have a guaranteed right – supported by effective regulation – to post, water, energy and telecoms. Might this also be right for access to cash?

Truth be told, the only reason cash hasn’t been on that list so far is that nobody thought government needed to intervene to guarantee it. Cash was everywhere and for everybody.

That is now changing. Parliament and the Bank of England are already taking action, and we expect they will work in collaboration with industry, government and regulators to design and implement the right solution. Policymakers should get ahead of the debate and this review gives them a chance to do just that. In our view, regulators beyond the financial sector need to be part of the potential solution – not only to share lessons from their experience in regulating utilities, but also because important issues such as digital inclusion (in Ofcom’s remit) and customer vulnerability (where regulators and the Competition and Markets Authority have done a huge amount of work) are essential to ensure no one is left behind as the transition towards digital payments continues.

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