Consultation response: Link Access to cash call for evidence

Response by the Money Advice Trust

Date: September 2018

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Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

In 2017, our National Debtline and Business Debtline advisers provided help to more than 220,000 people by phone and webchat, with 1.5 million visits to our advice websites.

In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK, and we have now delivered training and consultancy to more than 160 creditor organisations on identifying and supporting customers in vulnerable circumstances.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Public disclosure

Please note that we consent to public disclosure of this response.

Introductory comment

We welcome the opportunity to respond to the call for evidence on access to cash as part of the independent Access to Cash Review.

- ✓ It is likely that the use of cash will continue to fall over time. However, this could well mean that certain groups of people become socially and economically excluded. The size of this group may diminish over time, but there are many millions of people who are digitally or financially excluded, or are in vulnerable circumstances that make them less likely to be able to interact digitally.

- ✓ It will be interesting to see if there is a ceiling on the number of cash users who are prepared to switch to digital payment systems for a variety of reasons including privacy concerns, technological failures and the threat of scams.

- ✓ We believe that there will be a substantial need for cash for specific groups of consumers into the future. Consumers should not be “nudged” into opening online or app-based bank accounts or using digital payment systems that they are not happy engaging with.

- ✓ People in debt may find it particularly useful to budget using cash. This gives some degree of control as to where they are with their money, once bills are paid. We would certainly hope that fin-tech solutions will assist with budgeting, but anyone who has incurred fees and charges through going into an unauthorised overdraft will be justifiably wary of digital options.

- ✓ We are extremely concerned that there has been a recent acceleration in the closure of bank branches and closure of free ATMs across the country. This disproportionately affects people in are in vulnerable circumstances, and those who live rurally, and cannot travel to other branches within a reasonable distance.

Responses to individual questions:

Question 1: What do you think could happen to cash demand in the UK over the next fifteen years?

We are not in a position to comment from a position of certainty on the forecast that cash demand is likely to decline further. However, it would make sense that this forecast is likely to be correct. The impact of contactless cards continues to grow, and we would agree that the willingness of shops and pubs to take card payments for very small transactions will further increase this trend.

However, it is worrying that there are services such as car parking and transport where it is increasingly not possible to pay with cash. We are not sure that it is acceptable for shops to be able to refuse to take cash payments. The more common this practice becomes, the more likely it is that certain groups of people become socially and economically excluded. The size of this group may diminish over time, but from the figures given in the paper, there are many millions of people who are digitally or financially excluded, or are in vulnerable circumstances that make them less likely to be able to interact digitally.

It is possible that open banking technology may one day assist people who currently prefer to use cash to help them budget on a limited income, with tools that can help with budgeting. However, this is certainly not a possibility for most people at the moment.

We do wonder whether privacy concerns, technical failures in payment systems and the impact of digital scams will have an effect on the rate at which the use of cash will decrease. There is also an infrastructure concern, in that if broadband speed and mobile signals do not improve, there will be a large number of rural communities who cannot reliably interact digitally, however digitally competent they may be individually.

There have been concerns expressed about how open banking will work in practice and whether the regulatory and data protections in place for consumers are yet adequate. If people are suspicious of using digital technology, then this will also affect their growth as an alternative to cash.

It will be interesting to see if there is a ceiling on the number of cash users who are prepared to switch to digital payment systems. We suspect that this is likely to be the case for people in a variety of situations.

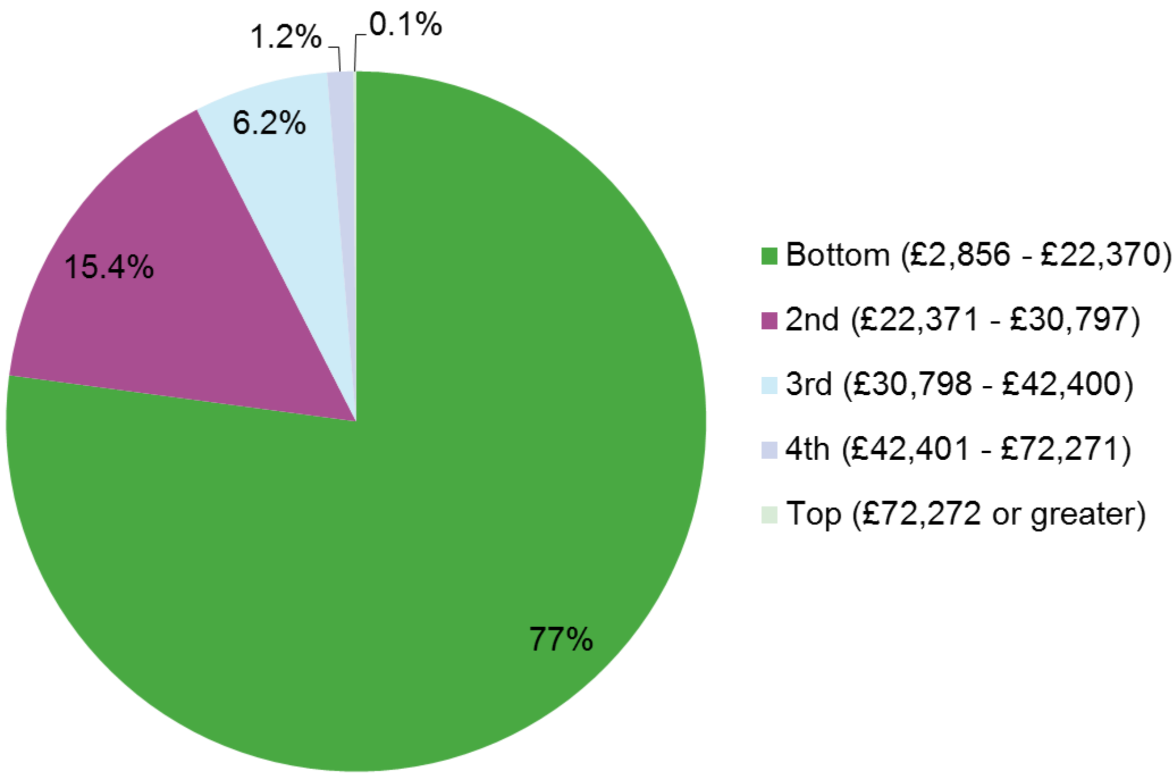
Question 2: What are consumers' needs for cash and digital payments and how can they be best met in the future?

We believe that there will be a substantial need for cash for specific groups of consumers into the future. Consumers should not be "nudged" into opening online or app-based bank accounts or using digital payment systems that they are not happy engaging with, just because it is cheaper, easier and more profitable for banking service providers to operate in this manner.

The paper states that:

"People with lower household incomes were far more likely to rely mainly on cash when compared with their more affluent counterparts. In fact, over half of all consumers who relied predominantly on cash during 2016 had total household incomes of less than £15,000 per year."

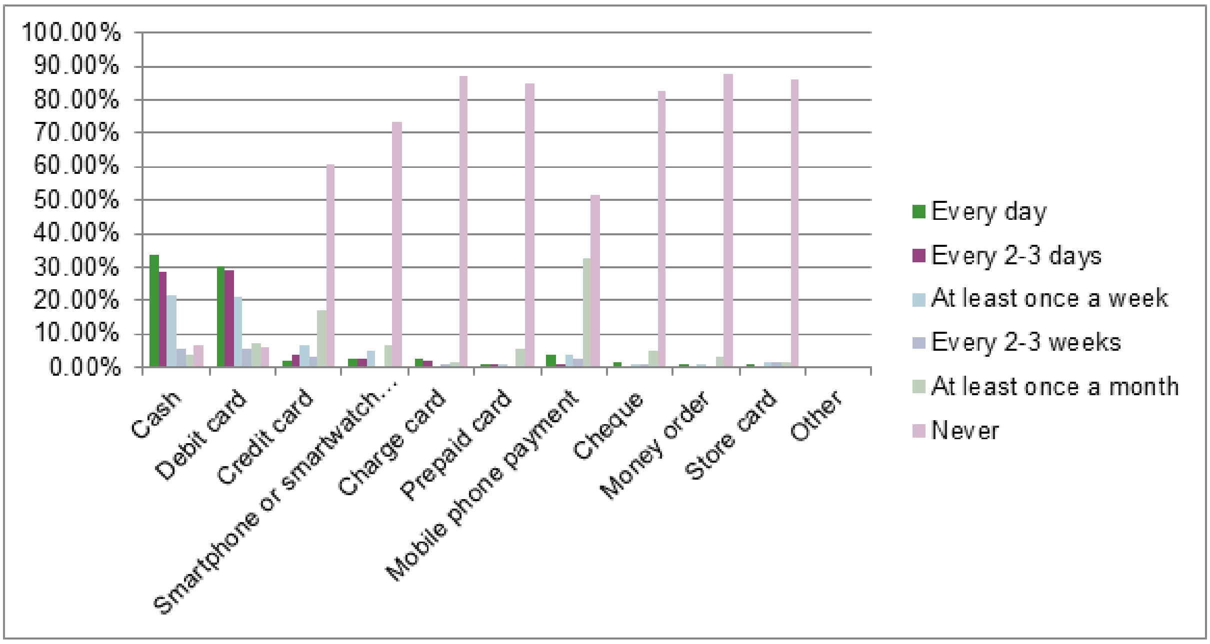
From our surveys, for people in debt who contact National Debtline, the average client income is £16,787. Perhaps unsurprisingly, the majority of people calling National Debtline (77%) sit in the lowest income bracket with a further 15% in the second lowest income bracket. As we are aware from speaking to our clients every day, for these households there is often little room to build up a financial 'buffer' and income shocks can have a significant impact.



We would therefore conclude that our clients are amongst the demographic that is more likely to rely on cash to manage their finances.

We carried out a small survey of our National Debtline clients in August 2018 to find out how often they used cash to make payments. As you can see, a substantial proportion of our clients used cash every day or every two to three days. This was the most common way to make payments alongside the use of debit cards.

How often do you use the following payment methods?



People in debt may not wish to continue using electronic payment systems or make payments by direct debit through a bank account. People may take the view that use of these mechanisms does not give them sufficient control over their money. This might be particularly the case where they have had bank overdrafts and the associated fees and charges added to their debts.

As the paper states:

"There is evidence that some digital services and even payment systems like Direct Debits can lead to or even encourage debt, and that for many who are heavy users of cash, one of their reasons is to retain control of their finances and avoid the risk of debt. Evidence also exists that consumer spending patterns can be very different digitally than using cash, with more likelihood for some consumers to spend more freely or incur more debt digitally."

This may mean that people will want to continue to use cash once their debt problems are resolved to avoid the risk of falling into further debt. This could reflect a lack of trust in financial services generally, if people have had a bad experience when dealing with their debts. People may also have an impaired credit rating and a resulting inability to open new bank accounts or use other financial services, or a perception that they will be refused. This lack of trust can be a cause of continued financial exclusion, and is certainly a barrier to engagement with financial services.

The connection between debt and mental health problems has been well documented. It is worth quoting the Money and Mental Health report "Fintech for good"[1] here.

"There's a risk that fintech will end up improving the finances of those who already get a good deal, who have money to save or invest or the nous to switch providers, while those who struggle to engage with financial services fall further behind. In short, fintech needs to close the divide, not make it even wider."

There are well documented concerns about the additional poverty premium for people who exclusively use cash, in a lack of access to discounts for paying by direct debit, and, in some cases, additional charges for obtaining a paper bill.[2]

[1] https://www.moneyandmentalhealth.org/fintech-mental-health/
[2] http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1614-poverty-premium-key-findings.pdf

We agree that there are advantages in using cash as identified in the paper, in particular depicted as giving a degree of control to people on a very tight income. This prevents the risk that lenders can take amounts from customers' bank accounts to pay back overdrafts, payday loans, and other types of credit. In addition, the risk of direct debits increasing for utility and other household bills, or deductions being taken for benefit overpayments is reduced.

We are extremely concerned that there has been a recent acceleration in the closure of bank branches which disproportionately affects people in are in vulnerable circumstances, and those who live rurally, and cannot travel to other branches within a reasonable distance.

Whilst rural populations can be affluent and not in vulnerable situations, they may well have problems of access because their isolated location makes it difficult to travel to other branches, and they may not have reliable internet connectivity so they will still rely on cash and local bank branches.

There will also be many people in vulnerable circumstances who may live in isolated locations and do not have the means to travel and are digitally excluded. It is therefore important to consider both groups as these will have different needs.

Whilst we support the Access to Banking Standard,[3] we are not convinced that this goes far enough to ensure that rural communities still have access to bank branch services and free ATMs.[4] We believe that a regulatory requirement on banks to maintain a presence in small, rural towns should be put in place. Whilst not wishing to get into the debate about the cost of interchange fees, we share the Treasury Select Committee's view that a reduction in the number of free ATMs would be an "unacceptable outcome".[5]

Question 3: What digital or other innovations are likely to affect those who currently are using cash?

We agree that a barrier to harnessing the potential of financial technology for financial inclusion is the lack of clear financial incentives for companies to develop solutions that benefit financially excluded groups.

We agree that the adoption of innovative new digital payments technology is currently relatively low. We would expect digital fin-tech developments to take years to become established. The example given in the paper is of contactless payments which have only recently begun to have a real impact. We would expect other aspects of the 'fin-tech revolution' to have an equally slow take-up and the impact will not be felt for some time.

We are not in a position to judge which digital innovations are likely to affect those who currently use cash. This might be divided into different types of issues. The more easily solved would be the type of transactions where generally people find it easier to use cash (such a paying restaurant bills in a group) but are open to a great digital solution that makes it easier to pay.

This is a very different issue to using digital solutions for someone who does not even have a basic bank account. Fin-tech may create further barriers for consumers. Many of the fin-tech solutions listed in the paper require someone to be digitally savvy. If someone does not have any trust in the banking system, or is not digitally included, why will they be likely to use a digital app?

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[3] https://www.ukfinance.org.uk/high-street-banks-announce-new-access-to-banking-standard/
[4] https://www.scotsman.com/business/companies/financial/fears-over-loss-of-free-to-use-atms-prompts-call-for-urgent-review-1-4733327
https://news.sky.com/story/atm-body-warns-30000-free-cash-machines-to-go-11230358
[5] https://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/news-parliament-2017/atm-reduction-chairs-statement-17-19/

People in debt may find it particularly useful to budget using cash. This gives some degree of control as to where they are with their money, once bills are paid. We would certainly hope that fin-tech solutions will assist with budgeting, but anyone who has incurred fees and charges through going into an unauthorised overdraft will be justifiably wary of digital options.

Question 4: Does access to cash require regulation or central co-ordination that goes beyond the current framework? If so, what should this involve?

We are very concerned that a primarily digital payments landscape would leave a large segment of the population financially excluded. People on low incomes are presumably less likely to have digital access at home or to afford to pay for fast broadband connections. Rural communities will have poorer digital access, irrespective of income, due to the lack of broadband infrastructure. People who are older are also likely to be in vulnerable circumstances and are less likely overall to have digital capability, and are disproportionately more likely to regularly use cash.

We therefore do not support allowing market forces to dictate the direction of travel. As it has been established that it is more costly to maintain a cash infrastructure than digital payments, then it follows that leaving it to the market would erode still further the availability of cash payments.

We would very much support the approach that there should be a cash/digital choice enshrined by regulation. This would help to protect the digitally excluded and people who do not have even a basic bank account. These measures should clearly be coupled with support for people who would like to interact digitally but need help, support and training to do so.

Question 5: How should access to cash be paid for?

We note the ideas put forward for discussion in the paper. We can see that there are problems with all the proposals in that some groups will be adversely affected.

The idea of social subsidy of free cash availability presumably reflects the current position where free cash services are subsidised by bank charges and loss of interest on accounts. However, as we would like to see those who are most vulnerable in society protected, then, in the absence of more suitable proposals, we must support the status quo.

We do not agree that consumers should pay directly at the point of cash withdrawal. This would disproportionately affect vulnerable people on low and benefit –level incomes who are more likely to take out cash in small amounts repeatedly. This would reverse the effects of cross-subsidy and the burden would fall on to those who can least afford to pay.

We cannot see how consumers paying for each transaction through their bank accounts would be an improvement as, in either case, people who take out small amounts of cash most regularly would pay the most.

The proposal that consumers pay a flat fee for access to cash through their bank accounts, again means that some people pay more than they can afford, or that other people who do not use the services, are required to pay.

We note that the paper suggests:

“In a number of these systems “vulnerable” consumers could be subsidised and receive free or reduced-price cash withdrawal access while others paid.”

This proposal seems to bring with it many complexities for both consumers and banks. Current thinking on vulnerability is clear that vulnerability is not always a set "state" and people can move in and out of vulnerable circumstances over time. This would make a qualification process for "vulnerable" consumers to access free or reduced-price cash very difficult to establish or maintain. Unless vulnerability in this case is used as a term that effectively means entitlement to certain benefits or in a particular income bracket, then this proposal could be extremely costly and confusing to administrate.

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