



## LESS CASH, BUT NOT CASHLESS: HOW TO PROTECT ACCESS FOR CUSTOMERS

The pandemic has raised questions about the future of cash. Yet while cash is being used less, the UK is not about to go cashless. In July, the Treasury announced a consultation on access to cash ahead of proposed legislation.

At Lloyds Banking Group we believe access to cash should be protected for those who need it. This briefing note uses recent research to summarise access issues and presents a set of recommendations to promote the availability of cash. Banks – including Lloyds – have a role to play but solutions require a commitment from a wide range of stakeholders including payment providers, the Post Office, ATM deployers, tech firms and non-branch banks. We summarise our ideas below, and then set out the background.

### **Lloyds Banking Group recommends:**

1. Everyone should have the freedom to pay and manage their finances in the way which suits them. Barriers to cash acceptance by merchants should be minimised. Cash should be available where it is needed.
2. Industry schemes which protect deprived and remote rural areas should be preserved and enhanced.
3. The future of cash should not be the sole responsibility of the main banks. Payment providers, card issuers, independent ATM deployers, the Post Office, tech firms and non-branch banks have an equal duty to protect the vulnerable as we move to a lower cash economy.
4. Legislation to protect access to cash, if required, should set broad objectives and hand responsibility to the FCA, with implementation assigned to an independent body.
5. Free cashback, not more ATMs, is the best way to fill gaps in the existing coverage.
6. Pay-to-use cash machines should be required to tell their customers where to find the nearest free alternative.
7. Regulators should be given powers to intervene to manage and reduce the conversion of ATMs from free-to-use to pay-to-use. FCA guidance on bank branch and ATM closures should be extended to cover the Post Office and independent ATM deployers to make this possible.

### **The UK is using less cash<sup>1</sup>...**

In 2009 cash made up 58pc of all payments in the UK. By 2020 that proportion was down to 17pc. The pandemic has accelerated the pace of this long-term trend. Since 2017 cash use had been declining by around 15pc each year, but in 2020 cash use fell by 35pc compared to the previous year.

As a result debit cards (whether used online, or with chip and PIN, or via contactless) are now the nation's favourite way to make payments, accounting for 44pc of them in the UK in 2020.

Direct debits, credit cards, Faster Payments, Bacs direct credits, standing orders and cheques made up the rest of the UK's main payment channels.

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<sup>1</sup> UK Payment Markets Report 2021

### **... but isn't about to go cashless**

While demand for cash is reducing we know that there are plenty of people who rely on it, and will continue to do so. Our research shows that about 9m people are either dependent on cash or see cash as critical. These two groups are most likely to say that cash gives them peace of mind, that it helps them to manage their money and that it is the safest way to pay.

We think that what we call the "cash critical" group numbers about 3m. Nearly half - 41pc - of this group are aged 35 to 54 and, contrary to expectations, only 15pc of them are older than 65. They are most likely to earn less than £20,000 a year, and to rent their home or live in social housing. Four out of five of them prefer to receive their income in cash. They are less likely to have worked from home and less likely to have increased their use of online or app banking during the pandemic.

Lloyds Banking Group believes that everyone should have the freedom to pay and manage their finances in the way which suits them. That is why the Group is committed to making sure cash is available where it is needed.

We also believe that having digital skills is becoming more and more important to modern life. The things that matter most, such as keeping in contact with family and friends and managing your money, are made simpler by being confident online. The Group fund programmes to help individuals and organisations develop their digital skills, mainly through our online Lloyds Bank Academy. We are proud that this service plays a role in the Department for Education's Skills Toolkit and is used by Job Centre Plus, local authorities and charities to provide free support across the UK. We are also continuously looking for new and inclusive digital solutions to meet customer needs.

### **Multiple sources of cash**

Free-to-use ATMs (39pc of the UK's cash access points) and bank branches (9pc) may be the first sources of cash which come to mind, but they are not the only ones. Cashback (33pc) and the Post Office (9pc) also play a crucial role. Pay-to-use ATMs make up the remainder.

As a result, cash is more accessible than many people may think. Bristol University research<sup>2</sup>, published in partnership with the FCA and PSR in November 2020, shows that 95pc of the UK's high streets have free access to cash within 250m, and 100pc of them have free cash access within 1 km.

We believe that cash accessibility is particularly important in these centres of economic activity, where most cash is used. Lloyds Banking Group believes that we and all those with an interest in the future of cash need to do more to help the public find these free sources of cash. We envisage digital and non-digital public awareness-raising campaigns and further development of websites and apps which promote the location and availability of free-to-use options.

### **What are the areas of concern?**

While there is consistent access where people shop, the Bristol research also showed that there are undeniably challenges where people live in some rural and isolated areas. 97pc of rural residents have free access to cash within 5 kms of where they live, but only 54pc within 1 km.

The average distance to the nearest free cash access point is relatively stable across the nations and regions of the UK. However, the figures for Scotland, Wales and Northern Ireland, because of their low population densities, are skewed by the large distances that the most remote one or two per cent of their populations have to travel. For example, in Scotland, neighbourhoods at the 99th percentile are almost 6km from a free cash access point.

In addition, while 91pc of the most deprived neighbourhoods have free access to cash within 500m, in some deprived areas the closest ATM is more likely to be pay-to-use.

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<sup>2</sup> [Where to withdraw? Mapping access to cash across the UK | School of Geographical Sciences | University of Bristol](#)

Deprived and remote areas are already protected by a variety of industry schemes, but Lloyds believes that these need to be improved: they should include transparent and publicly available criteria for how need is assessed; their scope should be extended to cover more than ATMs; they should discourage the switch of free-to-use machines to pay-to-use; and they should publish their results.

### **Cashback**

There are 37,000 outlets already providing cashback in the UK. Half of these cashback sources are supermarkets.

The current limit for cashback withdrawals is £100, but cashback allows withdrawals of amounts which are not multiples of £5. Regulators have identified this latter point as providing a useful service for those on low incomes. In May 2021 the Government changed the law to allow cashback to occur without a purchase. Permitting cashback without a purchase was an important and welcome step in improving long-term cash accessibility in the UK.

Many retailers can be set up quickly and easily to provide cashback using their existing card machine.

Currently, retailers do not receive any financial benefit from providing cashback. VISA and Lloyds Banking Group have together undertaken two pilots to help us and the wider industry understand how to incentivise retailers to provide cashback in areas where cash access is poor. The pilots also involve better signage, so the public know where cashback is available.

### **ATMs**

There are 44,000 free-to-use ATMs across the UK: roughly the same number as 10 years ago, when cash was much more widely used. 56pc<sup>3</sup> of the UK's free-to-use ATMs are run by the banks, often in branches.

44pc of the UK's free-to-use ATMs are operated by specialist companies, such as Notemachine and Cardtronics. These ATM deployers receive a fee from the banks each time money is withdrawn from their machines, or a balance inquiry is made. That fee, known as an interchange fee, is set by a regulated, not-for-profit company called LINK, whose objective is to maintain free access to cash in the UK<sup>4</sup>.

The introduction of this system led to a surge in free-to-use ATMs across the UK over the past decade as deployers crowded them into urban areas where there is significant footfall. Recognising that the interchange fee was at "unsustainably high levels"<sup>5</sup> the LINK Board reduced the fee by 5pc in July 2018, and again by 5pc in January 2019.

The interchange reduction may have reduced profits for the ATM deployers, but they do not seem to have had a significant impact on geographic coverage. Our analysis shows that over the last five years only 0.6pc of ATMs have been removed in places where no alternative nearby ATM remained. (These locations would then have been investigated and remedied by LINK through their protected scheme<sup>6</sup>.)

Cash machines, particularly external ones, are difficult and costly to set up or move: they require an agreement with the retailer, planning permission, connections to both electricity supply and data, an alarm system and construction work. Lloyds Banking Group believes that cashback, not more ATMs, is a better answer to filling gaps in the existing coverage.

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<sup>3</sup> [LINK / Statistics and trends](#)

<sup>4</sup> [CP19/5 - Responses to our discussion paper on the LINK interchange fee structure and summary of our roundtable discussion | Payment Systems Regulator \(psr.org.uk\)](#) p.60

<sup>5</sup> [h-documents-uploads-link-interchange-consultation-announcement-31-january-2018.pdf](#)

<sup>6</sup> [link-policy-on-protected-atms-v40-final-effective-22-june-2020.pdf](#)

### Post Office

The Post Office, with its 11,500 branches, represents about 9pc of the UK's cash access points and is particularly important for cash access in rural areas.

For a number of years now the Post Office has had a commercial arrangement with all the high street banks to provide basic banking services to their personal and small business customers. This includes free cash withdrawals and deposits.

The current arrangement, known as Banking Framework 2, took effect from January 2020. These services have become important to the sustainability of the Post Office's business model and its geographic footprint across the country<sup>7</sup>.

The banks and the Post Office are due to conclude negotiations for Banking Framework 3 in December 2021. It will then run for three years from 2023. We have advised the Post Office that a longer-term agreement, potentially five or six years rather than three, will give everyone confidence in these changing times.

As part of the Community Access to Cash Pilot scheme we are already working with the Post Office on a pilot shared banking hub, where the Post Office would conduct the transactional element and participating banks would provide additional services on a rotating basis.

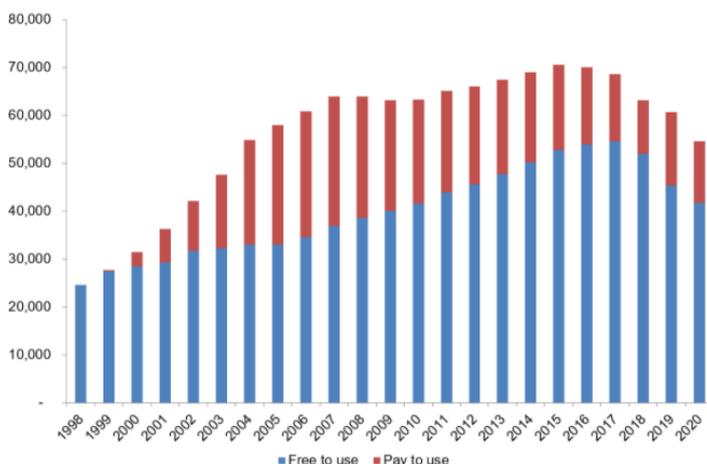
The Post Office plays an increasingly important part ensuring access to cash, which is why their branch closure plans should be scrutinised. We believe that the existing FCA guidance on bank branch closures and ATM closures should be extended to the Post Office and ATM deployers.

### Charging for withdrawals

The ATM deployers also provide pay-to-use cash machines. They do not receive LINK's interchange fee in addition to the charge paid by the customer.

Compared to the cost of moving a free-to-use cash machine, it is relatively simple for these specialist companies to change their machines to pay-to-use. Deployers wishing to improve profitability of an ATM in the face of declining cash usage and a reduced interchange fee may choose to convert it from free-to-use to pay-to-use, rather than moving the ATM to a different location. We suspect this contributes to the increasing ratio of pay-to-use ATMs versus free-to-use in some areas. Lloyds Banking Group believes regulators should intervene to manage and reduce the conversion of ATMs from free-to-use to pay-to-use.

There are now about 14,000 pay-to-use ATMs in the country, roughly 12pc of total cash access points. However, the peak of pay-to-use ATM machines was in 2007, when there were 27,000 of them, making up 42pc of the cash machine network.



Source:  
[LINK/](#)  
[Statistics](#)  
[and trends](#)

<sup>7</sup> [Post Office Annual Report 2019](#)

Despite the fluctuation in numbers, their usage, as a proportion of total cash withdrawals, does not seem to have changed much. LINK figures show that in 2019 3pc of withdrawals were from a pay-to-use machine. Back in 2007 that figure was 4pc.

To ensure customers are able to make an informed choice, we believe that all pay-to-use cash machines should be required to tell users where to find the nearest free alternative.

### **Cash acceptance**

Cash acceptance by businesses does seem to be declining<sup>8</sup>, and is likely to have been accelerated by the pandemic. Our research indicates that prior to the pandemic all small businesses accepted cash, and about 9pc of small businesses only accepted cash. Reliance on contactless and digital payments has increased since March 2020, while cash payments have reduced by 32pc. However, 1 in 10 small businesses still said that they relied on cash during the pandemic.

We believe in a system where both merchants and consumers can choose which payment methods they prefer. Any interventions should focus on ensuring good cash access in retail locations and minimising barriers to cash acceptance by merchants. This would safeguard customer choice, and allow retailers to be led by their customers.

### **Wholesale cash distribution**

The Bank of England is currently reviewing how cash is stored and distributed before it enters the retail system. The businesses which own or have a stake in the existing infrastructure, which currently consists of 30 cash centres and more than 70 smaller cash depots, recognise it will need to change as cash usage continues to decline.

There is also general agreement that a utility company should be set up to run 10 cash centres across the UK. Discussions are underway about how and when it should be established, and what should happen to the rest of the current infrastructure.

Lloyds Banking Group does not own any of these cash centres or depots as we outsourced our cash distribution to G4S some years ago. We believe that the risk of a disorderly exit from the wholesale distribution market is low as all the banks have a strong commercial interest in ensuring that a network of cash centres continue to serve their customers who want to use cash in the future.

### **Legislation**

If there is to be legislation to protect access to cash, Lloyds Banking Group believes this should be limited to setting a broad objective without specifying any one method. It should give this responsibility to the FCA. The standard and detail of requirements should be set by the designated regulator, and then implemented by an independent body.

The changes we are seeing in customer use of different payment channels are driven by widespread adoption of new technologies across many sectors of the retail economy, particularly by the online platforms which have flourished during the pandemic. We believe that any solution, whether delivered via legislation or not, should place responsibility on all those that play a part in the UK's payments infrastructure as it transitions to a lower cash economy. Payment providers, card issuers, independent ATM deployers, the Post Office, tech firms and non-branch banks, as well as traditional banks, all have a duty to support the changing needs of the customer, including providing for those that are vulnerable by protecting access to cash.

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<sup>8</sup> [Coronavirus cash crisis leaves vulnerable people with no way to pay – Which? News](#)