

Submission to Bill Scrutiny Committee, Financial Services and Markets Bill

From Natalie Ceeney CBE, Chair, Cash Action Group

1. Context

I have been invited to give evidence to the Public Bill Committee on 19 October. This submission presents an outline of the evidence I plan to give, which I hope will help inform the Committee's lines of enquiry. I will limit my comments to the elements of the legislation relating to cash access and deposits – namely Part 2 and Schedule 8 of the Bill.

2. Summary

Over the past three years, industry has taken significant steps to respond to the decline in cash and the government's proposed legislation on cash access. Through the Cash Action Group (a body comprising all the major retail banks plus leading consumer groups and small business associations¹) a voluntary scheme has been created which will keep cash viable for the small businesses, consumers and communities who need it. This scheme has been designed so as to be compatible with and meet the requirements of the intended legislation in the Financial Services and Markets Bill. This scheme has been operational since 1 January 2022 and is now ramping up its activity.

This activity should give Parliament confidence that the banking industry not only understands the rationale for the legislation, but already has a working solution in operation to meet the legislative requirements. Designing this scheme in advance of legislation has also helped inform HMT's development of the exact provisions required in the legislation, and has supported the FCA (the lead regulator) as it begins to develop its standards, rules and guidance once the Act comes into force.

3. Why this legislation is needed

The issues around cash access are not new. However, they have become more pressing in recent years as the take up of digital payments has increased. While many (most) people are happy to use digital payments, there are still between 5 and 10 million people in the UK who depend on cash and the associated face-to-face support. People can depend on cash for a wide variety of reasons. However, as more and more people use online banking and pay by

¹ The Access to Cash Action Group (also known as CAG) is chaired by Natalie Ceeney CBE. The following banking institutions have signed up to the new approach and will contribute to funding from 2022 onwards: Bank of Ireland UK, Barclays Bank UK plc, Danske Bank, HSBC UK Bank plc, Lloyds Banking Group, Nationwide Building Society, NatWest Group plc, Santander UK plc, TSB Bank plc, Virgin Money. CAG members also include Toynbee Hall, Age UK and the Federation of Small Business and LINK.

card, the marginal cost of running each element of the cash infrastructure increases, leading to the closure of branches and other services. Doing nothing would leave those who rely on cash at the mercy of a declining market, and accessing cash would become a postcode lottery.

The shift away from cash has been turbo-charged by the pandemic. Cash use is now running around 40% lower than before the pandemic, and cash transactions represent just under 20% of all transactions, down from around 60% just ten years ago.

Asking everyone to 'go digital' is neither viable nor safe. There are a 1.3m people without bank accounts in the UK, 4.5m without smart phones, and 1.5m without access to an internet connection or mobile data. In addition, many find that cash simply works better for them, whether as a tool to budget, or to retain independence. The imperative, therefore, is to keep cash viable while, in parallel, efforts should be made to include everyone in a digital economy.

In practice, the way to achieve this is by maintaining an infrastructure to keep cash viable, in the form of branches and ATMs and also new services such as 'cashback without purchase', or self-serve deposit machines. This legislation will require the major banks serving retail and small business customers to maintain a reasonable level of cash access and deposit services for their customers. This can be done either individually or collectively. The scheme that we have designed on a voluntary basis creates a collective solution, which will ensure that communities have the cash access and deposit services that they need, sharing the costs between all of the banking institutions, to make it affordable and sustainable.

Without this legislation, millions will be left without the services that they need.

4. Supporting research

The current voluntary arrangements are based on a considerable body of research, covering both of the needs of those who rely on cash and the services that work for this population. This research has involved consumer groups, small business groups and industry, as well as interviews and engagement with thousands of consumers and small businesses across the UK.

The 2019 Independent **Access to Cash Review** looked in detail at the needs of those individuals, businesses and communities who were cash dependent, and called on regulators, government, and industry to ensure that there was an appropriate solution to ensure that millions weren't left behind.

<https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

The 2021 **Cash Pilots Report** analysed the results of a 2-year pilot programme which took place in 8 very different UK communities. The pilots tested which services worked (and which didn't) for those who were dependent on cash. The Review concluded that the

Banking Hubs were the ‘standout’ solution, and also that cashback without purchase had significant potential to support the most vulnerable. The Report also highlighted that some services which relied heavily on digital technology did not meet the needs of many cash dependent people.

<https://www.communityaccesstocashpilots.org/wp-content/uploads/2021/12/Community-Access-to-Cash-Pilots-Report-December-2021.pdf>

5. How the voluntary scheme works – and would work under this legislation

Stage 1: identifying which communities need which service

Under this legislation, the government will set out standards for cash access (including withdrawing and depositing cash) and designate firms which will be covered by these requirements. The FCA will be the lead regulator and have the power to ensure that the government’s policy statement is being met – in consumers’ interests.

The voluntary scheme is based on a set of criteria which determine what type of community it is and therefore which type of cash access services it’s likely to need. The larger the community (in terms of the number of residents and shops) the more likely it is to need cash access and deposit services, provided face to face. A community’s needs are assessed independently by LINK, a non-profit body with considerable expertise in access to cash and needs assessment thanks to many years of carrying out a similar role for ATMs.

What triggers a community cash assessment?

A review can be triggered in three ways:

- ***Every time a bank² closes a banking service, it now needs to notify LINK.*** LINK will look at all of the banks’ plans collectively, and assess whether these closure plans would leave a community without the service it needs. Where necessary, LINK will visit communities to see it for themselves.
- ***Any member of the public (or elected official) can request LINK to conduct a review.*** This is free, and the form is a simple one, available on the LINK website.
- ***A bank itself can ask for a second, independent opinion*** on a community’s needs.

The current assessment criteria

The first thing LINK looks at is whether there will still be a banking branch in that community. If there is still a branch there, LINK can’t recommend a new service (like a Banking Hub) because for competition law reasons, we can’t install a ‘competitor’. However, if a last remaining branch does not offer a particular service (for example, it does not take

² When we say ‘bank’ we refer to banking institutions covered in our voluntary scheme. This currently comprises of 9 banks and 1 building society.

cash deposits, or doesn't serve small businesses), LINK can consider whether the community would be eligible for a specific service to meet that need.

If there is no bank branch left, LINK does an initial fact find, using the agreed criteria. There is no hard and fast rule but generally speaking, the threshold for needing face-to-face services within or close to a community is a population size of more than 7,000 within 1 km of the centre, and more than 70 retailers. LINK uses a single data source (CACI data) to ensure the assessments are robust and consistent.

The second stage involves a detailed desktop review looking at four factors:

- How close is the nearest neighbouring community with banking facilities. If the community is very close (in terms of proximity), we may consider that the neighbouring community can support the residents' cash needs. But the further away, the more likely it is to need its own services. We measure the time to travel by bus, given that many people who depend on cash may not have access to a car. We also sense check this travel time with distance, to ensure that rural locations also qualify for a review.
- How levels of financial vulnerability compare with the national average. The more financially vulnerable the community, the more it is likely to need local cash services.
- How levels of digital vulnerability compare with the national average. The more 'digitally vulnerable' the population – that is, not using digital services – the more likely they are to need local cash services.
- The proportion of older people (over 65) in the community, compared with the national average. We know that many older people can be less comfortable using (or unable to use) online services, and therefore more likely to need access to face-to-face basic banking and cash services.

Using a weighted scoring system, LINK then decides whether the community is likely to need a new service to meet its needs.

Under the new legislation, the responsibility for ensuring there is "reasonable" cash access will pass to the FCA. The FCA can either set new criteria, or supervise the approach of the current scheme to ensure it delivers appropriate outcomes, changing the criteria if it doesn't.

Stage 2: commissioning the right service

Once LINK has identified that a community needs a new service, it then decides (using the agreed criteria) what *kind* of service the community need. This could be a Banking Hub (effectively a shared bank branch, offering cash services to customers of all major banks, plus a community banking service), a deposit service (which is currently being developed,

but would allow consumers and small businesses to pay in cash just as they can withdraw cash from an ATM) or other services.

ATM coverage is already guaranteed through the regulatory requirements of the Payment Services Regulator (PSR) which requires that any location with 5 or more cash accepting retailers has a free to use ATM within 1 km. LINK acts completely independently in this role. It has an independent Board and complete independence in its decision making. Under this legislation, Treasury is able to designate LINK due to its co-ordination role.

Stage 3: Delivering the service

LINK's assessment is communicated to the banking institutions who have signed up to this framework and, under the voluntary arrangements, they have to provide the type of service recommended by LINK.

The banks are seeking to meet their requirements collectively – with services which cover customers of all participating institutions. To meet this requirement on an ongoing basis, we are in the final stages of establishing a non-profit company (limited by guarantee, with all participating firms as shareholders) which will be responsible for delivering and running shared cash services on behalf of the participating firms. This entity has been acting in shadow form since 1st January 2022 and is due to be incorporate by the end of November 2022. It will have its own Board and an experienced team. This team will set up and run the services that LINK commissions. The legislative and regulatory requirements will be on the firms, and LINK, not the company. However, we believe the banks will see sufficient incentive in continuing to participate in the collective arrangements – unless they are prepared to meet their customers' access needs through their own infrastructure.

6. Results so far

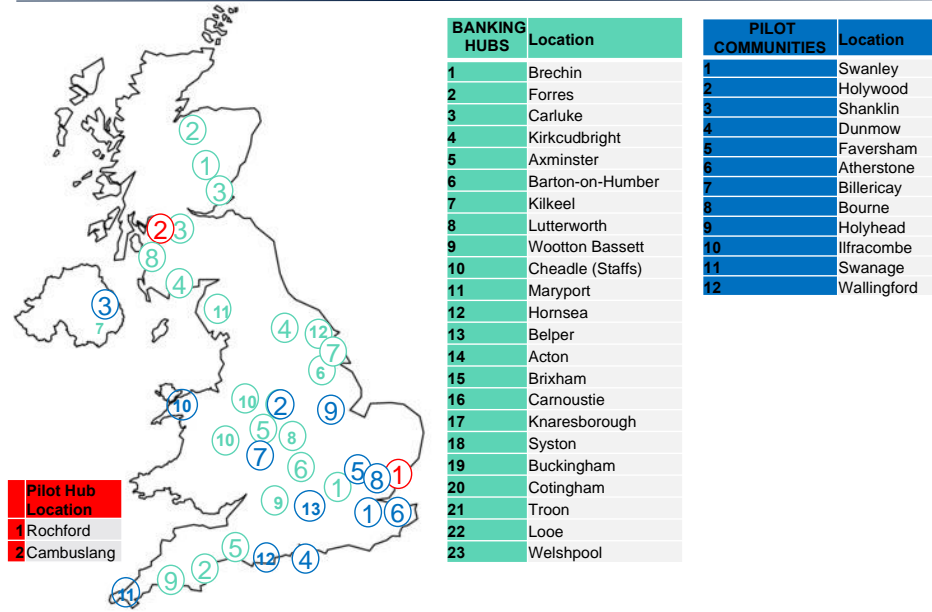
Although these arrangements are new, we are already achieving strong results. We have been piloting the concept of the Banking Hub since early 2021 in two communities (Rochford, Essex and Cambuslang, South Lanarkshire), and the service is staggeringly popular – with 96% customer satisfaction. We have announced a further 23 Banking Hubs across the UK so far this year, which are now being commissioned, with lease negotiations active in all communities, and the first due to open before the end of 2022.

We are working closely with the banks to establish deposit-taking services for national roll out, and are piloting innovation in deposit-taking and other services in a further 13 communities across the UK. Our aim is to ensure that we have a range of services which can meet the needs of different communities.

Privileged and Confidential

New services announced so far

We have announced 35 new services since the start of the year – 23 of which are Banking Hubs



New services announced as a result of the voluntary arrangements

The Banking Hub team in Rochford, Essex, and the design of the new Banking Hub in Brixham, due to open late 2023



Customer Satisfaction with the two pilot Hubs



7. Some key issues and my response

<p><i>Does the legislation need to be more prescriptive about what the criteria are for services, and what services are needed?</i></p>	<p>In my opinion, no.</p> <p>The world of payments is changing rapidly. A decade ago it would have been impossible to imagine a world where cash was rarely used and some people paid for their shopping by flashing their watch. In a decade's time, the world may be just as different again. What is essential is that the government regularly state their intentions and that they give the FCA the power to set detailed criteria, and hold the firms to account.</p>
<p><i>Does cash access require face to face services?</i></p>	<p>In many cases, yes.</p> <p>The physicality of cash means that people need to handle it – and for more vulnerable people, ATMs can feel insecure and unsafe. For those on low incomes, they may want to withdraw less than £10 – which can't be done through an ATM.</p> <p>Having a person supporting cash access will be critical. But this can be done a variety of ways, and in a variety of settings.</p>
<p><i>Isn't the current Post Office network sufficient to meet cash requirements?</i></p>	<p>For many communities, having a Post Office which can take in deposits and allow customers of most banks to withdraw cash is a lifeline. However, our research has found that this isn't sufficient for everyone, or in every location.</p> <p>Small businesses tell us that they require a high degree of privacy and security when getting out or depositing cash, which is possible in some Post Offices, but not all. Many vulnerable customers have also expressed concern about getting out small amounts of cash with their neighbours able to see, or worrying about being slow with a line of postal customers behind them in a queue. Our research has shown that many of these customers will travel some distance, at considerable cost, to use a bank branch instead.</p> <p>The key is that solutions need to be right for the community in question. For some towns, a Post Office will provide everything they need. In others, they won't. That is why the legislation needs to be flexible, and to</p>

	<p>give the FCA the requirement and powers to ensure that solutions are ‘reasonable’ for the needs of different communities.</p>
<p><i>How does a shared banking hub compare with a closing bank branch?</i></p>	<p>For most customers of a Banking Hub, the Hub will be equivalent to their local bank branch. There will be a counter service offering cash services (such as cash withdrawals, deposits, depositing cheques) which customers of all participating banking institutions can use whenever the Hub is open, and a space where customers can see their banking representative (where we rotate the space between the banks). The services offered by the banks by the individual banks are up to the banks – although the focus is very much on supporting vulnerable customers.</p> <p>What is often forgotten in the debate about retaining ‘last branches in town’ is that any one bank will only cover a small proportion of the customers in that town. So even if the bank is a large one, with (say) 30% market share, that still means that 70% of customers can’t use it. Furthermore, many ‘last branches in town’ have few customers, so they don’t have opening hours covering the whole week.</p> <p>The shared Banking Hub covers all of the firms who participate- which is currently the 10 largest UK banks, representing around 96% of retail customers, and around 90% of SME customers. We would expect any firm designated by this legislation to participate in these arrangements.</p>
<p><i>What happens if a firm decides not to participate in these new arrangements?</i></p>	<p>At present, the arrangements described are voluntary. Any firm could stop participating at any time.</p> <p>Under the new legislation, firms (banks and building societies over a certain size) will be required to meet their customers cash needs. Therefore, they will either need to maintain a strong branch network of their own, or participate in a scheme such as this one which can ensure that needs are met on a shared basis.</p>
<p><i>What happens if the current scheme doesn’t meet customer needs?</i></p>	<p>At present, nothing.</p> <p>Under this legislation, the FCA would have the power to direct firms to meet the reasonable needs of customers</p>

	with regard cash access and deposits. So, if the current scheme doesn't meet needs, the FCA will have the power to change it.
<i>What visibility will there be of the arrangements under the legislation?</i>	<p>The current voluntary scheme has been designed to be extremely transparent, and this will continue post legislation.</p> <ul style="list-style-type: none"> • LINK publish on their website the communities that they have reviewed and the outcomes of those reviews • LINK have appointed an Independent Assessor who will audit LINK's application of the criteria independently • The Independent Assessor will interpedently consider appeals against LINK;s decisions
<i>Does there need to be any change to the interchange arrangements in order to keep ATMs viable?</i>	<p>In my opinion, no.</p> <p>While the number of cash machines has fallen over recent year LINK has made sure that, people living in areas served by them can access cash free of charge. LINK does this by raising the level of payment in these locations. LINK step in wherever the current arrangements fail – ensuring that there is a safety net to maintain appropriate ATM coverage.</p> <p>By ensuring more regulatory oversight of the process, the Financial Services and Markets Bill protects that process for as long as there is a public interest in maintaining cash access.</p>