



## Response to Consultation on the National Payments Plan

### **Introduction**

G4S plc is a FTSE100 listed security company with over half a million employees in 110 countries, including 33,000 in the UK. We are the largest employer on the FTSE and specialise in three main areas: manned security, cash services and justice services. Our business services range from electronic monitoring of offenders in the community, to managing cash for many of Europe's largest financial institutions, to providing security at ports, airports, sporting events and other venues across the globe.

G4S Cash Services (UK) is the country's leading provider of integrated cash handling services. It specialises in the secure transportation, storage and processing of cash either directly or on behalf of major Financial Institutions or for retailers and also provides the full spectrum of support services for ATM networks. Since 2002 G4S has been a member of both the Bank of England Note Circulation Scheme (NCS) and APACS Cash Services Group (CSG).

G4S is broadly supportive of the scope and high level objectives of The National Payments Plan (NPP). As a Member of APACS CSG, G4S has provided input into the CSG's response to the National Payments Council. However, we believe that as the only private non-financial institution member of NCS we have a rather unique perspective upon the role of cash within the overall payments market and we are pleased to have this opportunity to share these views with The Payments Council.

### **The Payments Market**

**Q8 the Payments Council believes that the National Payments Plan should be developed on the assumption that cash will remain a major payment method for the foreseeable future. Do you agree?**

G4S believes that it is vital for the long term health of the payments market that cash remains a significant payment method for the foreseeable future.

Cash is unique among payment methods: it is actually the State's payment instrument, while all other payment instruments are privately owned. The State benefits significantly from the wider use of cash through the mechanism of seignorage while it is the private sector that benefits from the greater use of private money in the form of electronic payments. The European Security Transport Association<sup>1</sup> has estimated that seignorage revenues for the EU in 2005 were some €23Bn. Similarly it is the State that underwrites cash whereas electronic payments are underpinned by the private sector.

The issuing of money generates revenue for the issuer. As noted above, cash generates revenues for the State via seignorage, while electronic payments generate revenues for the issuing banks and card scheme operators by a variety of fees including interest charges. In a healthy and competitive payments market there will be a wide range of payment instruments available and consumers will be able to choose freely between competing instruments. Cash is unusual among payment methods because the costs and revenues arising from the cash cycle are distributed asymmetrically. Cash is issued by the State and the State receives the fiscal revenues arising from its issue, but most of the costs of cash distribution are borne by the commercial banks. Not surprisingly, as commercial entities, banks prefer not to incur costs without receiving mitigating revenues.

The recent explosion in the range of electronic payment methods has provided many new means to compete with cash. However, for a bank, cash substitution is a very different proposition from moving between electronic payment methods. When a payment is displaced from cash to a card, the bank benefits by reducing its costs of cash distribution while suffering no loss in revenues from the reduction in cash issue (the State loses this revenue). Simultaneously the bank benefits from the new revenues arising from the card payment. Thus cash substitution, in broad financial terms, will always be beneficial to the bank and detrimental to the State.

It is entirely rational and legitimate that commercial entities will promote the use of their most profitable products over less profitable products. However, given the inherent asymmetry between revenues and costs in the cash cycle, the profit motive will not alone provide the economy with the most effective payment method in every circumstance. A clear example of this asymmetric problem in practice is in the argument that has often been made by the European Payments Council<sup>2</sup> that “cash is free” and therefore distorts the payments market. Cash is NOT free to consumers: they pay the State for access to cash via seignorage and in the case of the EU in 2005, cash users paid the Member States €23Bn for this privilege. Furthermore seignorage is not some intangible form of income that is unique to cash: the provision of a free loan by the consumer to the payment provider is at the heart of the business case that underpins many pre-payment cards and electronic purse systems.

Nevertheless, the asymmetry within the cash cycle continues to result in calls for banks to directly charge consumers for access to cash. Such a move would profoundly disadvantage cash in relation to electronic payments as cash would be the only payment instrument required to provide both a State and private sector revenue stream.

Whether addressing the asymmetry of costs and revenues within the cash cycle is within the scope of The Payments Council remit may be questionable, but G4S would strongly encourage the Payments Council to ensure that all policy decisions recognise and reflect this fundamental difference between cash and other payment instruments.

It may be argued that although the replacement of cash by electronic instruments may have a significant fiscal impact upon the State, electronic payments can fully replicate consumers' requirements for payments. G4S would disagree and would argue that cash provides a number of distinctive features that currently electronic payments cannot fully replicate:

- Certainty of acceptance
- Immediate settlement
- No infrastructure requirement – especially important for P2P payments
- Ease of expenditure monitoring and control
- No bank account required
- Anonymity
- High fraud resistance relative to payment cards
- “Contingency” payment in the event of local or systemic electronic payment failure
- State Underpinning

Furthermore with a highly concentrated electronic payments sector, cash provides an important independent competitor within the overall payments market.

### **The Quality and Availability of Cash**

#### **Q9 Should the issues of the supply and quality of notes and coin in circulation be within the scope of the National Payments Plan? If so how should they be addressed?**

If cash is to remain an important and substantial instrument within UK payments then it is important that consumers have ready access to, and trust and confidence in, cash as a method of payment. This means that consumers need:

- Good geographic access to sources of cash, primarily via ATMs
- “Free” access to cash from banks, i.e. recognition that consumers have pre-paid the government for cash usage.
- High quality notes and coins in circulation that deter counterfeiters
- Access to an appropriate balance of denominations so that consumers can choose to use cash (or not) for whatever value of payment they decide.

Given that the remit of The Payments Council is to only undertake initiatives that require collaborative activity between Members, it may be that some of the *solutions* to these objectives may fall outside the scope of the Council. Nevertheless, G4S believes it is important that these *objectives* are formally recognised within The National Payments Plan and working groups are established to explore potential solutions.

## **The Efficiency of Cash**

### **Q10 What other actions, if any, should there be in the National Payments Plan in regard to cash?**

The EPC<sup>3</sup> has indicated that the cost of the inflow (deposit) side of the cash cycle is almost twice that of the outflow (withdrawal) side of the cycle. The UK is relatively advanced in terms of the efficiency of the cash cycle compared to some other European countries, nevertheless it is evident that automation and outsourcing have been deployed more heavily to the outflow via ATMs etc, than to the inflow. To realise the very considerable efficiency gains that could be achieved in this area will require collaboration not just between Members but with and between Professional Cash Handlers and equipment suppliers: this would seem to fit with the remit of The National Payments Plan.

## **The Cost of Cash and Other Payments**

### **Q49 Would you support an initiative, led by the Payments Council, to establish a better understanding of the costs of UK payments? If so, how do you think this should be taken forward? What supporting information do you think would be relevant for such an exercise?**

As the Cruickshank<sup>4</sup> enquiry discovered, fully uncovering the costs of payment methods can be highly complicated. This does not mean that such a study should not be undertaken, or would not prove beneficial, but merely that the study needs to be rigorous, and its results treated cautiously.

In particular some influential studies<sup>5</sup> have simply focused upon the costs to the commercial banking sector. As noted in the preceding sections, because of the asymmetry of costs and revenues within the cash cycle this can make cash look unduly expensive. We would argue that from a macroscopic perspective any study must take account of the costs and benefits to all stakeholders of each payment mechanism. We would therefore argue that while not directly related to costs, seignorage revenues are a significant benefit to the State and lost seignorage revenues need to be substituted with more direct and less socially acceptable means of taxation. Seignorage should therefore be considered a benefit of cash usage.

We would draw The Payments Council's attention to the following conclusions made by the European Central Bank<sup>6</sup> after evaluating the published studies upon the costs of cash and other payments:

*“Only moderate potential savings can be achieved from a substitution of cash by electronic means of payments. Most probably, much greater cost savings could result from optimising the cash handling process, in particular the lodgement processes. The Eurosystem is committed to contributing in this context together with all relevant stakeholders in the cash cycle. “*

Furthermore cost alone is not the driving force in commercial markets: high cost products can be very attractive if they can generate appropriately higher revenues. Credit cards would be a very good example of such products. Thus any study should examine the profitability of the various payment types if the study is to be effective in making informed policy decisions.

## References

---

- <sup>1</sup> European Security Transport Association (ESTA) “Cash Substitution: Issues & Implications” 2006
- <sup>2</sup> European Payments Council “The EPC Vision for the Positioning of Cash in Society” EPC094-07 Version 0.8 2007
- <sup>3</sup> European Payments Council Cash Working Group “Findings & Recommendations” 2003
- <sup>4</sup> Cruickshank D, “Competition in UK Banking: A Report for the Chancellor of the Exchequer” 2000
- <sup>5</sup> Robinson PE, Flatraaker D, “Costs in the Payment System”, Norges Bank 1995
- <sup>6</sup> Novak M, “Considerations Regarding the Cost of Cash” BN/ECUG/07/005 ECB 2007