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Note to: Payments Council

From: Cash Services Group

24 January 2008

CASH SERVICES GROUP'S COMMENTS ON THE CONSULTATION ON THE PROPOSED NATIONAL PAYMENTS PLAN

Cash Services Group (CSG - list of members attached) appreciates this opportunity to respond to the Payments Council's consultation on the proposed National Payments Plan. CSG members comprise some organisations whose sole or main business is cash, and others with a broad range of interests in cash and payments. This response reflects the common view of CSG's commercial members: the Bank of England and the Royal Mint have stood aside from this response. Individual institutions may come forward separately with views which are more developed than the view expressed here.

Referring to the questions raised:

Q3 Would it be acceptable for the National Payments Plan to include a target date of 2018 for the closure of the cheque clearing (on the assumption that acceptable alternatives to cheques have been developed)?

If the Cheque Clearing were to close, it is possible that some cheque payments would transfer to cash. For customers and businesses, there may be circumstances where this is a pragmatic solution: using cash is simple and reliable, particularly for person to person, and person to SME, payments. CSG believes that the volumes involved are of no concern but the values could be. CSG would want to monitor plans for the Cheque Clearing from this perspective.

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?

Yes, wholeheartedly!

In practice, the future evolution of cash in relation to established and new payment mechanisms will emerge from developments in the payments market place.

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?

Currently, questions regarding the supply and quality of cash in circulation are primarily the responsibility of the issuer of that currency. In the UK, this is an uncommonly complex situation, in that there are nine legitimate issuers of currency: the Royal Mint, issuing coin for the UK; Bank of England, issuing banknotes for England and Wales; Royal Bank of Scotland, Bank of Scotland and Clydesdale Bank issuing banknotes in Scotland; and

Bank of Ireland, First Trust Bank, Northern Bank and Ulster Bank issuing banknotes in Northern Ireland.

Currently each issuer works with relevant parties to meet their objectives regarding the quantity and quality of cash in circulation. The two largest issuers of currency are public bodies, and their objectives include an element of seeking value for any expenditure of public funds. Users of cash include practically every citizen and business in the land: matters regarding cash are complicated to resolve, there being so many diverse stakeholders in cash questions.

For example, there has been recent public comment regarding the quality and quantity of the Bank of England's £5 notes circulating in England and Wales. Bank of England statistics show that the number of £5s circulating has increased modestly over the past years, and APACS statistics show that the number of cash transactions (which is what £5s are used for) has declined modestly over the same period. Objectively, it is to be expected that there is less of a problem with the quality or quantity of the £5 than before. Besides, there are ample supplies of £5s available to be dispensed on demand. Nonetheless, public discussion continues.

The issue probably centres on a number of softer factors; for example, people do not necessarily look after a £5 as well as they would a £20, which can degrade its quality. People increasingly obtain their cash from ATMs, and they say they are broadly content with the mix of high-value notes they receive; they expect to receive £5s as change when appropriate. Retailers obtain change from their bank or cash supplier, a service they pay for: obtaining £5s is a cost for them. The Post Office used to be a major source of £5s, but the move to pay pensions and benefits directly into accounts, not in cash, has reduced the amount of £5s it dispenses.

CSG discusses with the Bank of England supply and quality topics regarding all its notes; supply topics re coin are routinely discussed with the Royal Mint (CSG does not play any equivalent role regarding notes in Scotland or Northern Ireland). CSG devotes time and resources to these discussions, and does not perceive a benefit from transferring responsibility for such matters to the Payments Council. But if general concern about the current arrangements is voiced, CSG would be willing to listen and consider if improvements could be made.

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

Three points:

Reference to improving the efficiency of cash is covered on p22 of the consultation document, and validly refers to the potential offered by contactless cards. CSG believes that contactless cards are not the only way to improve the efficiency of cash services. Members of the Cash Services Group see the National Payments Plan process as an opportunity for all stakeholders in the UK cash cycle to work to identify and implement mutually beneficial opportunities to enhance the efficiency of cash services in the UK.

CSG believes that questions of feeling safe and secure when using cash are subtle and are key to maintaining confidence in the use of cash. Cash is very popular: undue significance should not be given to some comments at its consumer's forum, implying that cash is unsafe and insecure for consumers.

CSG knows that cash is widely regarded as being freely available and completely reliable, and the circulation of cash is an unobtrusive, essential service provided to the UK. Cash is, consciously or unconsciously, regarded as the payment mechanism of last resort. CSG believes that major disruption to the circulation of cash would be poorly tolerated by people and businesses. To this end, CSG places considerable emphasis on evaluating risks and contingency planning. CSG suggests that the Payments Council and its members will wish to continue to give priority to reliability and integrity in the circulation of cash.

Q17 Which other, if any, actions should there be in the National Payments Plan in relation to credit and debit cards and cash machines?

In developing its contingency plans, CSG has had valuable and constructive discussions with LINK, and regarding debit cards. Continuing to engage all parties appropriately in questions of cross-system integrity seems likely to be helpful.

Q21 What improvements should be made to cross-border payments?

There is a flow of cash across national borders in support of tourism and business. The flows are appreciable in some locations – repatriating sterling from the Pas de Calais, for example, and the flows of sterling and euros across the border between Northern Ireland and the Republic of Ireland. But the commercial sector addresses emerging needs in this market, and CSG knows of no case for the Payments Council to intervene here.

Q24 What support, if any, could the National Payments Plan offer to the development of contactless cards? In particular, is further action needed to ensure that the standards for contactless cards meet the needs of all sectors of users?

CSG is monitoring the evolution of contactless cards, recognising that there is potential, if they become well-accepted, for cash transactions to be replaced by contactless ones. This could eventually lead to a reduction in the amount of cash needed in circulation, particularly for coin. CSG expects to be able to manage the situation, and knows of no current need for this aspect to be covered within the NPP.

Q34 What other payment innovations requiring action at industry level should be considered by the Payments Council?

Payments Council might care to note a multi-stakeholder innovation being progressed by CSG and other parties. It centres on protecting cash in transit from theft, particularly when it is being carried 'over the pavement' to or from a bank or retailer. The aspiration is to stain the notes heavily in the event of an attack. There is a consequent need for stained notes to be identified as far as possible by the sorting machines in cash centres so that heavily stained notes are not passed for ATM dispense .

Q35 What gaps are there in current financial educational initiatives in regard to payment matters?

CSG suggests that information about cash should be included. The Bank of England has some excellent material about checking its notes, for example.

Q37 What role can the Payments Council play in promoting financial inclusion?

CSG admires the Payments Council's aim to promote financial inclusion and access to transactional bank accounts. Until this aim has been fully met, there will be people who rely on cash. CSG has commissioned work to identify them (attached) and accords them appropriate priority in its work and contingency planning.

Q39 What are the main challenges to the integrity of payment systems that need to be addressed collaboratively?

The Cabinet Office rates the risk of a flu pandemic as one of the main risks facing the UK. CSG has assessed this risk carefully, liaised with other payments services and developed a code of conduct to address the matter. CSG is convinced that the public's reaction to an event can be key in determining its outcome. CSG suggests that the Payments Council should include risks to human resources, and threats to public confidence, among the risks to cross-system payments integrity.

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?

CSG would counsel that payments costs are complicated to evaluate, as evidenced by the studies referenced in the consultation document and others from Australia and the Netherlands. For example, the costs of withdrawing cash from a financial institution is more costly over a counter than from an ATM, but both types of withdrawal will support several transactions, thereby substituting for the costs of multiple cards transactions. Some transactions generate revenue, which can be a relevant factor.

AOB No 1 CSG did not notice, in the consultation document, any mention for the NPP of the remote possibility that the UK might adopt the euro. CSG does not make any assessment of the political processes or probabilities involved, but it does know that such a move would be disruptive of plans for cash services. If there were ever a real possibility of adopting the euro, CSG and its members would become heavily preoccupied with adapting their processes, planning for the changeover and sustaining day-to-day operations. Most other planned activities would be deferred.

AOB No 2 There has been some debate recently about the issuance and circulation of coin, with questions being raised regarding the rights and responsibilities of the various parties. CSG feels that the time is approaching when a wide-ranging review of the coin sector would be beneficial, and would like to work with the Payments Council as a key stakeholder in any such review.

Annex: The Members of Cash Services Group

Bank of England*
Royal Mint*
G4S
HBOS
Post Office
Royal Bank of Scotland Group
Vaultex UK
Abbey
Alliance & Leicester
Barclays
HSBC
Lloyds TSB
NAG/Clydesdale
Nationwide

* Not participating in the CSG's comments on the consultation on the proposed National Payments Plan.

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Note to: Andrew Wallace

From: Jenny Bomers
Consultant

16 November 2007

PEOPLE WHO RELY ON CASH

1 INTRODUCTION

If for any reason the availability of cash were under threat it is important to understand what effect this would have on the public. The purpose of the following note is to gain a better understanding of those who rely on cash. It looks at the type of people who only use cash when buying goods and services and what non-cash alternatives are available to them.

The data provided in this note comes primarily from the APACS Consumer Payments Survey (CPS). The CPS is a continuous quantitative research study commissioned and managed on an ongoing basis by APACS on behalf of its members and provides information on personal financial holdings, payments and cash acquisition.

The key finding from this report is the number of people who have no alternative to cash. Of the 10.6 million cash only users around 4.9 million have either a debit card or credit card. Around 5 million adults do not have a card or chequebook that they can use as an alternative to cash. However a third of these people will be young and living with their parents who are likely to have some alternative method of payment available.

2 CASH ONLY USERS

2.1 Who uses cash

In the first half of 2007, 10.6 million adults in Great Britain used only cash when making their day-to-day purchases (i.e. excluding regular commitments such as utility bills); this is 22% of the adult population.[1]

The largest proportion of cash only users are 16-24 years olds, with many people in this age group not having access to plastic cards they, make up almost three in ten of cash only users. Another group that are equally significant amongst cash only users is those earning less than £10,000 per annum, again almost three in ten people in this group use only cash when making purchases.

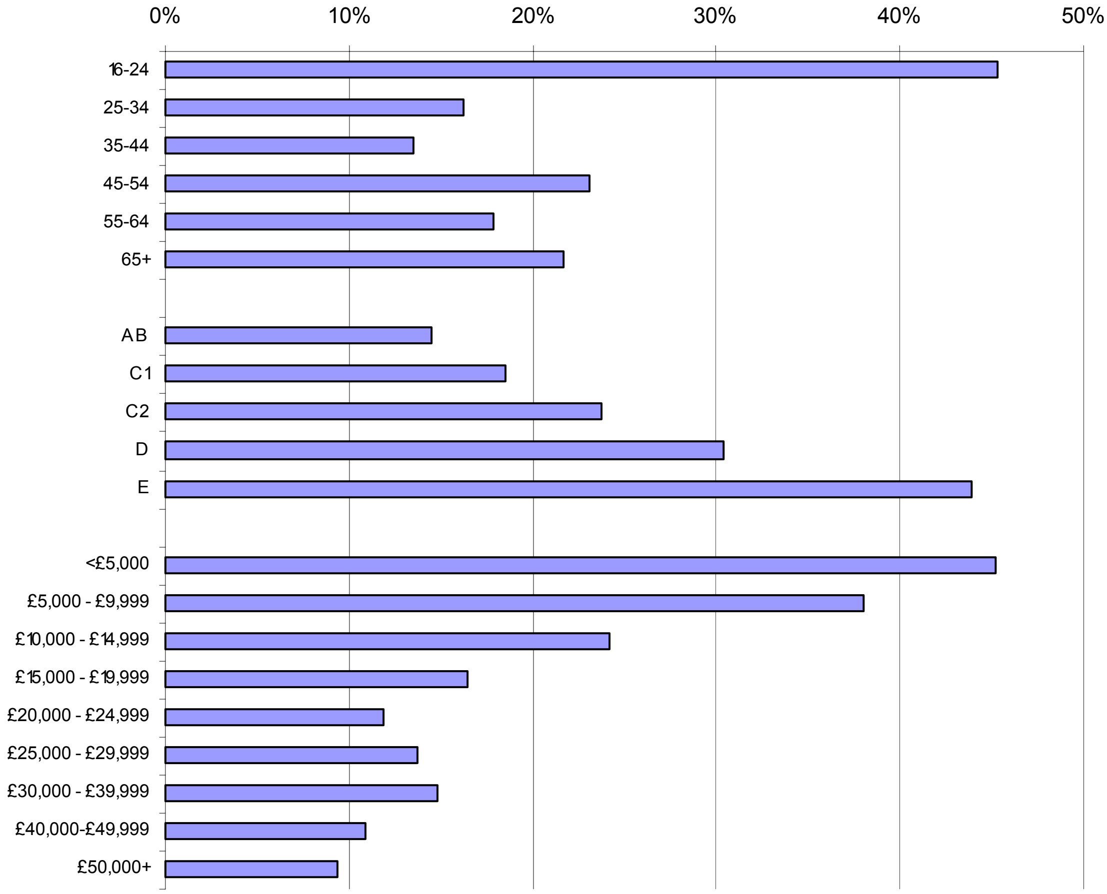
Another way to look at cash only users is to consider the proportion of adults in each demographic group that are cash only users; this is shown in chart 2.1. Looking at each age group it is clear that 16-24 year olds as a group have a significantly higher proportion of cash only users than another group. As previously mentioned this age group, particularly those under 18, are less likely to have plastic cards, they also have different spending needs to those is other age groups, they are much less likely to be doing the household food shopping for example.

The proportion of cash only users varies greatly by socio-economic group. 44% of group E use only cash compared to just 14% of AB's. Card holding is higher amongst AB's, it is also possible that those in groups D and E use cash for all their purchases as a budgeting tool.

Sections 2.2. and 2.3 provide more information on the sources of cash and holding of non-cash payment methods with cash-only users.

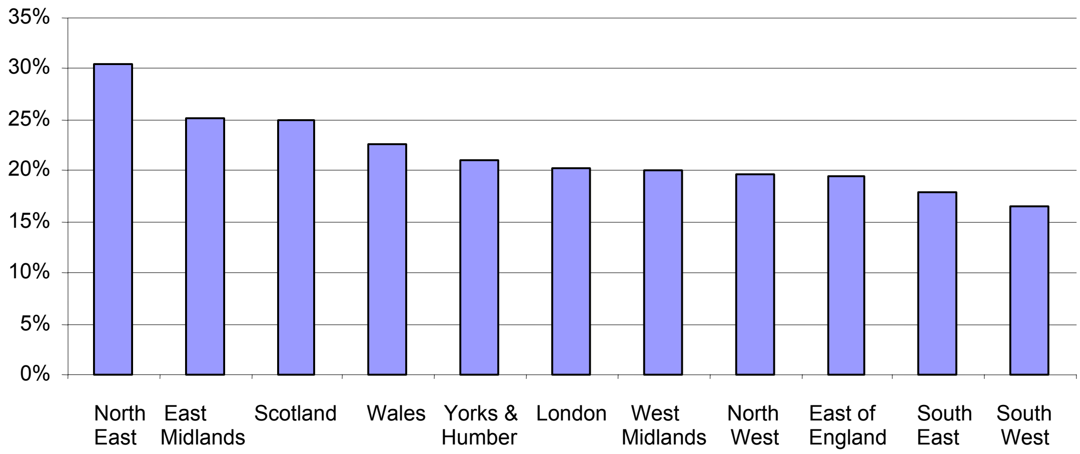
[1] The CPS does not include Northern Ireland, however the limited data available to APACS indicates that a higher proportion of adults are cash-only users in Northern Ireland. For instance in Northern Ireland 40% of state benefits, pensions and tax credits are paid by cheque or into Post Office card accounts, compared to 18% in Great Britain. But as Northern Ireland accounts for only 2.8% of the UK population, the UK proportions will be similar to those of Great Britain.

Chart 2.1- Proportion of people in each demographic group who use only cash



Different geographical regions also show variation in the proportion of cash only users. Using just one year's CPS data for this purpose is dangerous, the sample sizes when split into regions are too small to draw firm conclusions, however by combining four years of data together we are able to get some reasonably robust figures. The combined data tells us that more people rely on cash in the North than the South and West. 16% adults in South West England use only cash, compared to 30% in North East England.

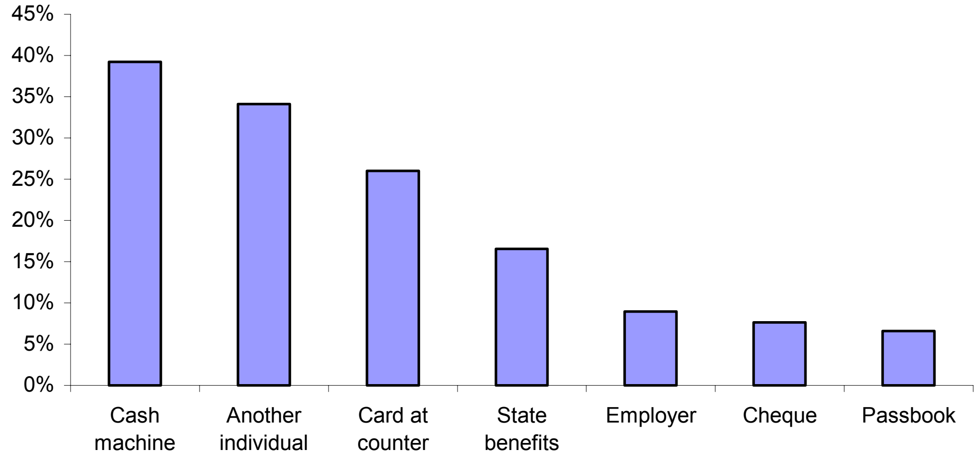
Chart 2.3 – Proportion of adults who are cash only users by region



2.2 Cash acquisition

The most popular source of cash for cash only users is from cash machines, 39% of cash only users acquire cash this way. Although it is the most popular method, far fewer cash only users acquire cash through cash machines than adults as a whole where 70% use cash machines. Another popular method is getting cash from other individuals, 34% of cash only users obtain cash this way, this is higher than the population overall, implying that they may be reliant on other (banked) household members.

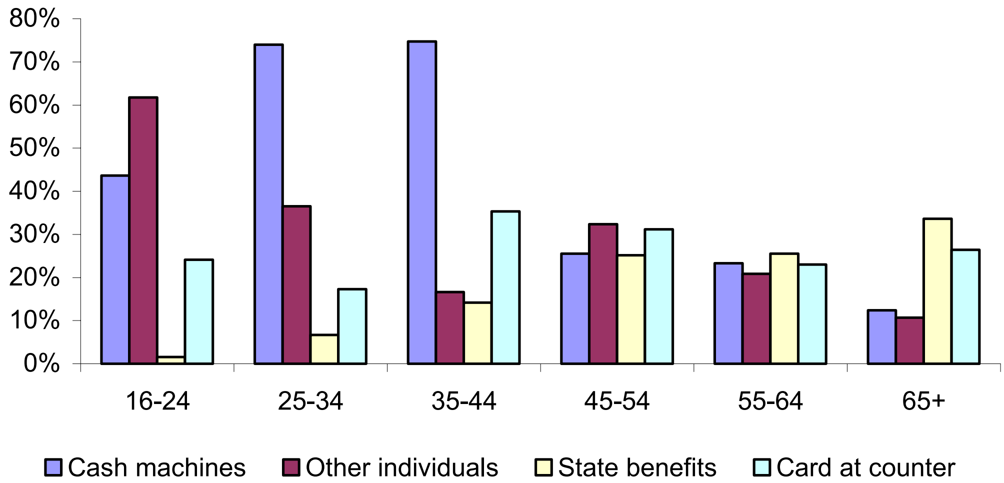
Chart 2.4 – Proportion of cash only users using each method of cash acquisition



There is a great deal of variety between the different age groups when it comes to acquiring cash. For 16-24 year olds by far the most popular method is from other individuals, most likely family members, 56% of 16-24 year old get cash this way, compared to 23% of those aged 25 and over. 25-44 year olds are heavy users of cash machines with three-quarters of cash only users getting cash this way. Older people are more likely to obtain cash over the counter or from benefit payments.

As well as different age groups preferring different methods of cash acquisition, younger people are more inclined to use multiple methods. Those over 45 use a variety of methods, but each individual tends to stick to one method.

Chart 2.5 – Proportion of cash only users using each method of cash acquisition by age band



2.3 Alternatives to cash

One of the key questions when looking at cash only users in respect to contingency plans is what non-cash alternatives are available to them. 54% of those who use cash only have a current account (this includes basic bank accounts). Of those with a current account 64% have a debit card, the reason this figure is so low is that basic bank accounts do not issue a debit card. Over half of account holders have a chequebook. 18% of cash only users have a credit card.

Overall 46% of those who use cash only hold at least one plastic card that could be used as an alternative payment method and half have the option of either a card or cheque to make a payment if cash were not available. This leaves around 5 million adults who do not hold an alternative to cash.

The youngest and oldest age groups are the most at risk if there was a shortage of cash, under half of cash only users aged 16 to 24 or over 65 have a current account. Some of those aged 16-24 will be living at home and may have alternative methods of payment via other household member, where as older people may be largely reliant on cash from benefits.