



Access to Cash Call for Evidence
Payments and Fintech Team
HM Treasury
1 Horse Guards Road
SW1A 2HQ

25 November 2020

Dear HMT,

Access to Cash: Call for Evidence

The IFoA welcomes the opportunity to contribute to HM Treasury's call for evidence on access to cash. The IFoA draws input from its research volunteer working parties. The Cashless Society Working Party (CSWP) has been researching the transition towards a less-cash society, and has already contributed to several consultations on the topic of cash and digital payments, including the recent Payments Landscape Review¹. Both the CSWP and the IFoA's Finance and Investment Board have been involved in the preparation of this response.

We appreciate the level of engagement and number of initiatives by Government to address the sustainability of the cash supply chain, including the recent consultation on a utility model. While we value the projects and understand the rationale for legislating to protect cash, we believe these initiatives are unlikely to protect the availability of cash beyond the short to medium term.

The IFoA would argue that the long-term prospects of physical cash are negative, on the basis that the ongoing, and recently accelerating reduction of its use during the Covid-19 pandemic, will eventually lead to its near or total disappearance. The launch of a Central Bank Digital Currency would further erode the use of physical cash, compounding its decline. Many past forecasts for the reduction of the use of cash in the UK have fallen well short of actual experience, even without taking account of the effects of Covid-19. In our view, therefore, the key question for policymakers to address is not whether cash will eventually disappear in the UK, but rather when this will happen.

If the disappearance of traditional cash is indeed plausible, we would urge HM Treasury to prepare for a scenario in which physical cash is kept only for resilience purposes. Only by taking action now will it be possible to achieve a managed transition towards a cashless society in the long-term. We suggest such a transition programme should address the issues and risks of a cashless society, in the context of developments observed and initiatives implemented over recent years.

In its 2017 interim paper², the CSWP articulated and discussed the risks and issues of a cashless society from the perspective of all interested parties, including the public, governments and central

¹ <https://www.actuaries.org.uk/documents/payments-landscape-review-call-evidence>

² <https://www.actuaries.org.uk/documents/cashless-society-benefits-risks-and-issues>

banks, other banks, non-financial businesses and the payments ecosystem; the log was drawn from analysing a very large volume of information in the public space. Since then, the CSWP has added the issue of environmental sustainability of a cashless society, so the log now stands as below (the Appendix shows the full descriptions of the risks and issues taken from the original paper):

Issues	Risks
Hidden agendas	A cashless society may not live up to its promises
Trust in banks	Displacement towards alternative means of payment
Trust in governments	Totalitarian regimes
Economics of money	Sovereignty risks
Financial exclusion	End to the right of a private life?
Change leadership	Innovation marketplace and user experience
Digital economy readiness	Lack of competition on payments market
Security of transactions, data and biometrics	Excessive reliance on technology
Social value of cash	Politics vs innovation
Removing cash may stall the economy	Financial stability
Environmental sustainability	

The IFoA has argued in all consultation responses the importance of addressing the specific issue of change leadership, to reverse the trend of the country sleep-walking into a cashless society. Given the risks and issues and the accelerating demise of cash, we have been calling for a transition programme, in order to manage these risks.

In our view, the absence of change leadership and financial exclusion are the priority issues to address promptly to prepare for a sustainable future.

In terms of specific questions in the call for evidence, we would like to comment on Question 5, which concerns the ongoing regulatory oversight of the cash system. We welcome the direction, and call for more ambition:

- Regulations are amongst the tools available to govern; however, we believe that engagement and collaboration across stakeholders is also essential to enable sustainable solutions through innovation. Furthermore, international experience both in Asia and Africa, such as Nigeria, has demonstrated that engaging and empowering the non-banking sector, such as mobile network operators, has led to new solutions and challenged the banks to be more competitive. We would not suggest that these models have to be replicated exactly, since the local context is different. However, some lessons could be learnt, that could lead to revisiting and expanding solutions such as Paym as the underutilised peer-to-peer payment platform.

- Cash is the most inclusive means of payment and is therefore closely tied with financial inclusion. Given the rising issue of financial exclusion, now seems the right time to assign the responsibility for financial inclusion as well as that for cash oversight. We further suggest that such responsibility is assigned to the same authority as that for the oversight of cash, in order to ensure joined-up thinking.

The Payment Systems Regulator may be the best strategic choice of single entity to assume responsibility for both oversight of the cash system and financial inclusion. This view is based on its role in regulating the ATM network and its “statutory responsibilities to promote the interests of business and consumers that use payments systems, as well as to promote competition and innovation within payments”.

If you would like to discuss any of the points raised please contact Matthew Levine, Policy Manager (matthew.levine@actuaries.org.uk) in the first instance.

Yours sincerely,

Tan Suee Chieh
President, Institute and Faculty of Actuaries

Appendix

Issues	Risks
<p><u>Hidden agendas</u> Perception that the desire for a cashless society is ultimately driven by the desire by certain bodies to exert maximum economic and social control, “coerce the untamed into the cogs of the financial system”. Would de-cashing be justified as a solution for the ills of society, such as drugs, black/hidden economy, corruption, terrorism, and illegal immigration? Would collusion between banks and governments and other security agencies be blamed?</p>	<p><u>A cashless society may not live up to its promises</u> Working assumption: Going cashless would remove anonymity of transactions, so could be suggested as a meaningful tool to reduce the hidden economy, many types of crime, illegal immigration, benefit fraud, tax evasion.</p>
<p><u>Trust in banks</u> Loss of confidence in the banking sector due to possible bank failures, with memories of the 2008 financial crisis. A cashless society is an ideal market-dominating position for banks: cash is their biggest competition, and poses operational challenges for them in the handling of cash, maintaining ATMs and branches. A cashless society means: no cash runs and transaction fees compliance.</p>	<p><u>Displacement towards alternative means of payment</u> Use of Gold, digital and virtual currencies, other country paper currencies. Focus on digital/ virtual currencies.</p>
<p><u>Trust in governments</u> Individuals perceive cash as a safety valve that empowers citizens against an omnipotent central bank and government. Specific concerns include: - Dictatorship/ totalitarian state: a possible repressive agenda from governments, - “Theft” aspect of Negative Interest Rates Policy, - Forcing everyone to consume private services might be considered as unethical.</p>	<p><u>Totalitarian regimes</u> Any social or ethnic group may become dissident overnight and frozen out of the economy. For a totalitarian regime, Cashlessness could facilitate ethnic cleansing, social repression or implement dictatorial regime / statism. Internet & Payments close down can be a tool to counter civil unrest</p>
<p><u>Economics of money</u> Economic incoherence between cheap cash transactions and high costs of electronic transactions. Cash is perceived a free public good, as costs are born by banks and the community whereas it is costly yet sustains local money businesses. Electronic transactions are costly for businesses due to complexity of ecosystem and lack of competition. Proceeds of the activity likely do not benefit local communities. The more alternative payment methods there are, the more competition and the lower the costs for merchants and consumers who want to make and receive payments at the expense of the banks. This could however cost business more depending on the IT requirements. For example, for cards, businesses need card terminals and internet connection, for mobile pay a mobile phone number will be required and Internet or phone signal. For other payment methods will other devices be</p>	<p><u>Sovereignty risks</u> Cash handling benefits multiple businesses in local communities. Electronic transactions benefit out-of-sight and out-of-country businesses.</p>

<p>required? If customers have more choice will retailers have to have the capability to support all these payment methods or risk excluding people.</p> <p>Expectation: there should be a free means of payment in the chain. Removing cash as the only free means of payment raises a question of ethics and/or expectations.</p> <p>Cash transactions are free. Only inflation erodes the value of cash. Digital transaction/ banking fees erode the value of every currency unit with every transaction. Cash is the cheapest payment method for small traders who perceive the cost of card readers and transaction fees uneconomic. What is the cost to businesses of handling cash?</p>	
<p><u>Financial exclusion</u> Dependency on access to bank accounts, or mobile/ smartphones with underlying reliable internet infrastructure gradually excludes the most vulnerable in society as they are unable to access goods and services.</p>	<p><u>End to the right of a private life?</u> Data privacy, snooping, Big Data, Artificial Intelligence- the right to a private life.</p>
<p><u>Change leadership</u> Political silos, ownership and oversight of major societal change, including cost of transition. Transition towards a “cashless” or “less cash” society seems to be happening by stealth, threatening wide-ranging societal disruption if not managed.</p>	<p><u>Innovation marketplace and user experience</u> Interoperability, convenience and customer protection. Trust.</p>
<p><u>Digital economy readiness</u> Various maturity levels for the digital economy mean a cashless drive has different impacts.</p>	<p><u>Lack of competition on payments market</u> Risk of a cartel of payment providers holding all to ransom.</p>
<p><u>Security of transactions, data and biometrics</u> Crime has become digital: Yesterday, your wallet was stolen. Today, your account is hacked. Cynicism about claim that cashless transactions are more secure hinders transition in developed countries. Biometrics security is not a panacea: who controls or has access to our most sensitive data: mobile numbers + bank accounts + national identity + biometric data?</p>	<p><u>Excessive reliance on technology</u> Power fails, networks fail, ePoS machines fail, mobile phones are stolen/ lost/ broken, accounts and transactions hacked into, access can be denied in error.</p>
<p><u>Social value of cash</u> Social and educational value of cash, attitudes towards money, and incitation of greater spending.</p>	<p><u>Politics vs innovation</u> The economic case for going cashless may stack up given the right approaches, yet political responses, and lagging legal and regulatory frameworks may hinder the change in process, and achievement of its proposed benefits.</p>
<p><u>Removing cash may stall the economy</u> Removing cash may stall demand for debt, goods and services, thereby choking the economy.</p>	<p><u>Financial stability</u> What consequences a cashless society might have on the economic control and financial stability of an economy?</p>
<p><u>Environmental sustainability</u> Environmental impact of cash and digital payments.</p>	