Non-Confidential

Institute and Faculty of Actuaries

10 February 2023

Bank of England's Supervisory approach to Wholesale Cash Distribution

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

Key points

The IFoA welcomes the Bank's work to resolve the long-term sustainability of the Wholesale Cash Distribution (WCD) model. We believe the probability of a successful WCD policy would be greater if the Government and the Bank had a clear vision of what would be a desirable 'steady state' in the future. Describing this environment in as much detail as possible would then make it easier for the Bank to supervise the WCD market.

As cash usage declines, the unit cost of handling and supporting a cash infrastructure will grow. We believe that as cash usage falls further to just a trickle, any commercial business model to support cash will become unsustainable and the cost would eventually fall on the Government.

We appreciate that the consultation focuses on the WCD, but we remain concerned about the ongoing absence of transition plans for the digitally excluded. We would welcome Government action to address the unmet financial needs of the digitally excluded, and we suggest that areas for the Government to consider would include not just education but also access to low-cost internet-enabled devices.

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Consultation on the Bank of England's Supervisory approach to Wholesale Cash Distribution (WCD).

2. We note the Bank's view (p4) that this consultation is 'primarily relevant to firms with an active role in the wholesale distribution market'. Although this does not apply to the IFoA, our members have contributed their expertise to responses to consultations on this area over recent years (such as the Payment System Regulator's Call for views on cash access, use and acceptance (Sept 2019), and HMT's Payments landscape review call for evidence (Oct 2020) and Access to cash call for evidence (Nov 2020)), and we are keen to contribute our views on this occasion too.

3. In this response we would like to refer to the paper presented to the IFoA in January 2018 by an IFoA working party entitled "A Cashless Society- Benefits, Risks and Issues" ('the Paper'). This paper identified very substantial fiscal, monetary and macro-economic benefits from a Cashless Society such as:
    a. Saving of the then 0.5% of GDP for maintaining a cash infrastructure
    b. Savings to HMT of large amounts of tax evasion from transactions in the "black economy". This was estimated by HMRC to be c£3.5bn pa but many commentators assess this to being somewhat larger.
    c. The reduction of crime which is facilitated using cash to hide activities.
    d. A likely reduction in illegal immigration, reflecting the association between this phenomenon and cash-based employment
    e. Redistributing the ATM estate efficiently across the UK geography to minimise the environmental impact of cash
    f. Limiting the pollution related to banknote manufacturing

4. The Paper also identified 21 "risks and issues" that a Cashless Society would face. We acknowledge that neither the list of benefits or risks and issues are necessarily complete. Some of these "risks and Issues" associated with a cashless society are relatively easy to solve, others more difficult. In implementing the education and transition programme we describe below, the Bank and HMT would need to address each of them.

5. The Consultation Paper does mention some of these issues. In particular, the most-mentioned issue is that currently there are still millions of people who rely on cash for legitimate reasons. In this response we ignore as being irrelevant those who rely on cash for illegitimate reasons.

6. Given the recent announcements by the Chancellor and the Governor of the Bank of England, the IFoA believes that a WCD policy should take account of the possibility of a Central Bank Digital Currency. We welcome the assurances that a CBDC would work alongside cash.

Cash usage and its costs

7. The IFoA shares the Bank of England's view that cash usage will continue to shrink. We studied the implications of this in the 2018 paper and more recently. We welcome the Bank's work to resolve the long-term sustainability of the WCD model. As cash usage declines, the unit cost of handling and supporting a cash infrastructure will grow and – in our view - become commercially unsustainable. We believe that as cash usage falls further to just a trickle, any commercial business model to support cash will become unsustainable and the cost would eventually fall on the government.

8. We are concerned that the Bank's proposed wholesale cash oversight principles for WCD firms to comply with do not properly take account of this dynamic. For example, under 'effectiveness' the paper says: "operational and customer costs are managed as usage of cash declines in the UK, so that cash remains an accessible payment method for as long as it is needed". Similarly, under 'sustainability' the paper says that recognised firms: "should put in place long-term strategic plans and be able to demonstrate how those plans are consistent with a sustainable WCD market. While we appreciate that the Bank's model has been developed in concert with the industry, we think it is legitimate to question the accessibility of cash and the sustainability of the market over the long term.

9. The consultation paper acknowledges that cash processing volumes in the UK have fallen almost 50% since 2016 but it does not acknowledge that this decline is accelerating. We think the risk should not

be ignored that the Government may be compelled to take direct responsibility for maintaining the cash infrastructure, going beyond the roles of market oversight and prudential supervision set out in the consultation paper.

10. In the "Paper" it was reported that independent sources estimated that cash usage cost the economy c0.5% of its GDP. This included, not only the cost of providing the cash infrastructure, but also commercial costs of handling, insuring and transporting cash.

11. The IFoA believes the probability of a successful WCD policy would be greater if the Government and the Bank had a clear vision of what would be a desirable 'steady state' in the future. Going completely cash-free is only one scenario; another could be to achieve a future environment with much more limited cash. Describing this environment in as much detail as possible would then make it easier for the Bank to supervise the WCD market.

12. The following remarks provide some wider context for our approach to the phenomenon of reducing cash usage.

Cash reliance and the poverty premium

13. We appreciate that the purpose of the consultation paper is to address the WCD, but we remain concerned about the ongoing absence of transition plans for the digitally excluded. We would urge the government to broaden the scope of its ecosystem intervention, to address the unmet financial needs of the excluded.

14. It is impossible to quantify the financial opportunity benefits for individuals being able to handle their finances digitally rather than having to use cash. Those who are cash-reliant are unable to benefit in this way. They cannot benefit either from online shopping or for example, discounts offered by utility companies. In addition, the use of credit cards in most apps, may itself exclude parts of the society that are not creditworthy. This phenomenon is generally known as the 'poverty premium', which describes how the poor often pay more for goods and services, in this case as digital payments are not open to them. The IFoA has examined this issue in some depth, particularly in insurance, including publishing a recent report in collaboration with the charity Fair by Design.

15. As cash usage diminishes, despite well-intended legislation, shopping and cash access may become not only more expensive but also inconvenient, especially for the elderly and infirm; the poverty premium will just increase. The legislation as it stands will just perpetuate the difficulties facing these people and the inevitable worsening of their situation.

Digital training and transition

16. We believe the Government should now consider, as part of any WCD programme, its obligation to educate or transition the cash-reliant to use digital payments in order to alleviate their poverty premium. We have not produced detailed plans for such a programme, but suggest that areas for the Government to consider would include not just education but also access to low-cost internet-enabled devices.

17. Any transition programme should consider in depth the 21 risks and issues highlighted in the above-mentioned paper. Governments have been criticised for "sleep-walking" towards a cashless society which some critics regard as inevitable sooner or later. Government should consider if a transition programme would be desirable, not only to alleviate the poverty premium but to ready society for the

possibility or even eventuality of a cashless society. It is beyond the scope of this reply to discuss all the 21 risks and issues mentioned in the Paper, but discussion and resolution of each should accompany any transition programme.

18. Lack of a transition programme could lead to a persistent demand for cash from many individuals who would be ready to switch to digital payments given appropriate support. However, we are concerned that there will be others in the targeted community who would be unwilling or unable to engage with any transition programme, and they are then left as being an even smaller percentage of society, probably worsening their problems. Hence, we believe that even with a national training programme to transition the cash-reliant towards digital payments, the problem will persist, only reducing those cash-reliant to smaller numbers.

19. We are sceptical that the whole population, or at least a satisfactory proportion of the population, will adopt digital payments unless there is a 'roadmap' setting out the Government's proposed timetable for the reducing pattern of cash usage.

Legislation or long-term planning?

20. In this consultation, the Bank of England has the opportunity to consider if it would like to legislate for the national provision of cash - which could certainly be a convenient short-term fix - or to plan for the possibility of a society where all payments are totally digital, i.e. a Cashless Society.

21. We are concerned that unless there is a clear 'roadmap', many of those who are "cash-reliant" will not accept training and will thereby remain cash reliant. Hence, it is our belief that until the Government decides to create a roadmap for the reducing use of cash in the economy, there will always be a demand for cash usage, no matter how difficult and expensive it might be to provide it.

22. Even if it is deemed inappropriate to start thinking about a cashless society, the training and transition programme should still go ahead as the consequences of sleepwalking towards it is unacceptable.

23. The risks and issues mentioned in "the Paper" should all be closely analysed and government should make the appropriate preparations such as running consultations and pilot programmes, particularly to assess the impact on those who are digitally excluded.

Conclusion

24. We recommend that the WCD programme be adopted with the acknowledgement that cash usage will probably fall further and maybe to such a low level that it becomes financially unsustainable without substantial government support.

25. We recommend that a programme of Training and Transition (The T & T Programme) be immediately adopted alongside any WCD programme.

26. The T&T Programme should teach and make it easier for the cash-reliant to be able to make payments digitally, potentially including the provision of low-cost equipment for those who are vulnerable. The T&T programme should pave the way for the eventuality of a much reduced or even a cashless society.

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