

BRIEFING PAPER CASHING OUT

EXECUTIVE SUMMARY

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- Cash is in terminal decline. Over half of Britons carry less than £10 in cash on them at any one time. Less than a quarter of retail payments are made in cash; cashpoints are disappearing from the high street; and a wave of small businesses are turning against handling cash altogether.
- A worrying trend has emerged in recent years, as major US cities have banned cashless businesses, and senior British politicians have called for their abolition in the UK, in the interests of financial inclusion.
- The British government has committed to preserving cash in the economy for the foreseeable future. However, usage shows that cash is in terminal decline throughout the western world, and regulators would be wise not to fight yesterday's challenges.
- Handling cash costs British businesses on average over £3,000 per year. Cash is expensive, cumbersome, and dangerous. Today, cash accounts for only 22% of retail transactions, and it is increasingly associated with crime, and the underground economy.
- Abolishing card-only businesses would be a retrograde step which would harm a new wave of entrepreneurs, who have embraced the opportunities of the digital economy, and are responding to customers who want quicker, efficient, electronic payments.
- The market in electronic payments has been invigorated by recent innovation and competition, offering small businesses access to fast, cheap, and seamless payments, at a fraction of the cost compared to ten years ago.
- Around 1.23 million people in the UK do not have a bank account, many of whom exist on the poor, precarious margins of society. Many politicians have understandable and admirable intentions in their criticism of card-only businesses. However, abolishing card only businesses increases costs and risks borne by small businesses, and does little to materially help the poor and financially precarious.
- Regulators would be wiser to embrace the productivity and innovation of electronic payments, and focus on the advantages offered by Open Banking and financial technology to our economy and the financially-excluded alike.
- The UK economy turns on electronic payments. The key is to give as many people access to new technology as possible, rather than trying to preserve the declining use of cash. It is only by embracing technological innovation in banking and improving the provision of financial services that financial inclusion can be meaningfully increased.

Introduction

Cash is in terminal decline. Over half of Britons carry less than £10 in cash on them at any one time.¹ Less than a quarter of retail payments are made in cash; cashpoints are disappearing from the high street; and a wave of small businesses are turning against handling cash altogether.^{2,3}

The press has decried the rise of ‘cashpoint deserts’ throughout the UK. The Access to Cash Review claims that the UK is ‘sleepwalking’ into a cashless society without any preparation, and with grave consequences for those left behind. A growing proportion of the urban population rarely use cash. Electronic payments are ubiquitous, with penetration enabled by contactless technology, better personal finance tools, mobile device payments, and improved 4G and mobile internet infrastructure, allowing any small trader to take a card payment, whatever their location.

This has been a long time coming, and is a positive for small businesses. New card payment technologies have significantly reduced the cost of accepting card payments. This has increased competition in a market which only a few years ago was dominated by a small number of big players.⁴ Customers can enjoy the convenience of not needing to worry about finding a cashpoint before going to an independent shop, or to a market full of small traders, knowing that today it is likely that they will be able to make a card payment for even a pint of milk in a corner shop without an additional charge.

Handling cash costs each UK small business over £3,000 per year, on average.⁵ This is a weighty burden for small companies, many of whom now do the majority of their trade with card payments. Some businesses have decided to forego cash entirely, and no longer deal with its associated costs, inefficiencies, and risks. However, this trend has been criticised by politicians and regulators around the world.

Baroness Morgan, Secretary of State for DCMS, and former chair of the House of Commons Treasury Select Committee, has called for a review and a potential ban on shops accepting card or electronic payments only. The Treasury has agreed to a review, and is committed to preserving access to cash in the UK. The then Chancellor said in May 2019 that “I’m setting up a group which brings together the Treasury, Bank of England and the regulators to safeguard the future of cash and ensure its availability for years to come.”⁶ The Joint Authority Cash Strategy Group was soon established, and it has been mandated to respond to the recommendations in the Access

“Handling cash costs each UK small business over £3,000 per year, on average.”

1 Mastercard. (2016). Britons now carry less than £5 in cash in their wallets.

2 British Retail Consortium. (2018). Payments Survey: 2017.

3 Read, S. (Sep 2018). Free cash machines closing at record rate. BBC.

4 Kulkarni, R. (2018). Five Reasons The Payments Business Is Ripe For Big Change. Forbes.

5 Sage. (2014). Cash costs UK businesses more than £17.8bn a year.

6 HM Treasury. (2019). Cash here to stay as government commits to protecting access.

to Cash Review.⁷

In the United States, San Francisco and Philadelphia have recently announced a ban on card-only retail businesses. Lawmakers in New Jersey have passed a similar bill, and attempts to do the same are underway in New York City, Washington, DC, and Chicago. They have claimed that cashless shops are a form of modern-day segregation, barring society's poorest, and reinforcing difficulties faced by people living precarious lives and with poor access to finance.

In some respects this is nothing new. From Massachusetts to Denmark, it has been illegal for businesses to refuse cash payments since the 1970s. However, the vigour behind the latest bans is worrying, and many more could be on the horizon.

British MPs should avoid copying their American counterparts. However tempting it is for local authorities to introduce such a ban, or for the Treasury to consult on the issue, it would be a retrograde step for businesses and consumers alike, and crucially it is unlikely to have any meaningful impact on financial inclusion.

This briefing will address:

- The political arguments around cashless retail and access to cash
- The decline of cash on the high street
- The benefits of cashless technology for small business
- Access to finance, and the role of innovation and competition

⁷ HM Treasury. (2019). Terms of Reference (ToR), Joint Authorities Cash Strategy (JACS) Group.

The political debate around cashless retail and access to cash

Despite positive intentions, Philadelphia's decision to ban card-only shops is a mistaken policy, which is unlikely to achieve its ambitions. In forcing cash onto retail shops, whether they wish to handle it or not, Philadelphia lawmakers are burdening small businesses with the failures of mainstream finance organisations, instead of improving access to vital services to the poorest.

As other cities in the US follow suit, the political stakes have been raised. Critics of card-only businesses have called them elitist, and they have dismissed the arguments of small businesses, saying that 'human rights take precedence over efficiency gains'.⁸ Harvard economist Kenneth Rogoff disagrees, he argues "the future does not lie in this direction. The future lies in giving people free debit cards and financial inclusion."

It is not implausible that similar bans will be proposed in the UK soon, especially in an era of increased powers for directly-elected city mayors and devolved governments.

The two issues at play – fintech innovation and access to finance – attract a lot of political attention in the UK. The UK is home to a thriving fintech scene, enabled partly by intelligent regulations from the Financial Conduct Authority, such as the regulatory sandbox, which encourage high levels of business creation, innovation, and competition. This has helped the UK become a leader in electronic payments, with some of the world's deepest e-commerce penetration.

According to Opinium, 50% of British adults are optimistic about the pace and prospects of technological change, yet over two-thirds are concerned that the government is not doing enough to safeguard against potential negative changes.⁹ This research also found that only 10% of people think that technological change poses a threat to them and their way of life. The government should heed this public optimism, and rather than snuff out the nascent cashless economy, it should think of how it can support citizens, consumers, and businesses to thrive with new technologies.

Access to cash – reaching for the wrong solutions

The findings of the Financial Inclusion Commission have been at the heart of the work of many organisations in the UK which have criticised cashless businesses.¹⁰

“Most of the people who don't have credit cards tend to be lower income, minority, immigrants. It just seemed to me, if not intentional, at least a form of discrimination.”

William Greenlee,
Philadelphia City Councilman.

8 Bellan, R. (Mar 2019). As More Cities Ban Cashless Businesses, New York Wants to Follow. CityLab.

9 Bartlett, J. and Gaston, S. (2017). Public Views on Technology Futures. Demos.

10 Financial Inclusion Commission. (Mar 2015). Financial Inclusion: Improving the financial health of the nation

According to the Commission, roughly 1.5 million people in the UK do not have a bank account, shutting them out of the world of digital payments. The Commission is an independent organisation, established by the government, which counts MPs and peers as its commissioners.

The unbanked are primarily lone parents, single pensioners, migrants, long-term sick or disabled people, the long-term unemployed, and households headed by students or part-time workers. When politicians, in the US and UK, argue for forcing all shops to accept cash, it is the unbanked they have in mind. While the push for banning cashless shops has come from the political left in the US, concerns about the rise of cashless shops have been raised across the British political spectrum.

The Access to Cash Review final report was published in March 2019.¹¹ Supported by Link, the largest operator of ATMs in the UK, the review painted a grave picture of the future of cash in the UK, fearing a total wipe-out of cash by 2026. The review recommended that the government guarantees access to cash in the UK for people in all communities, no matter how remote.

The review is forceful but inconsistent in its argument. In her foreword, Natalie Ceeney OBE, the chair of the review, stated that over 8 million adults in the UK would be at serious risk if the UK ‘sleepwalks’ into a cashless economy: 17% of the adult population would be left unable to pay for milk. Yet at the same time, the Review also speaks as if it is not long until we are all making our purchase with chips implanted under our skin, or with facial recognition technology. Perhaps such a divided financial future awaits us, but one which is unable to help pensioners use a debit card, yet enables commuters to buy their train tickets with implants, seems unlikely.

This report attracted significant attention. Newspapers reported on the growth of ‘cashpoint deserts’ throughout the UK, and highly-regarded consumer groups like Which? and Money Saving Expert published their own reports on the decline of access to cash in the UK. The Review has been supported by the House of Commons Treasury Select Committee, and its then Committee Chair Baroness Morgan MP said:

“As we’ve seen this week, free-to-use cash machines are disappearing at an alarming rate, which could hit the most vulnerable in our society the hardest.

“On top of this, some firms’ insistence on the use of non-cash forms of payment may act as a social barrier.

“Any significant reduction in access to cash is unacceptable.”¹²

11 Ceeney, N. (2019). Access to Cash Review: Final Report.

12 Treasury Select Committee. (2019) Action needed “urgently” to protect access to cash, urges Chair.

Furthermore, Morgan requested that the Treasury review the extent of shops in the UK refusing to accept cash. This, she believes, is the real culprit behind declining access to cash in the UK: “it is likely to be a reduction in the acceptance of cash, rather than access to cash, that risks leaving certain groups in society behind.”¹³

While the then Chancellor declined to agree to the Treasury Committee’s request for legislative change, the government announced in May 2019 that it will commit to maintaining access to cash in the UK, and closely monitor rates of cash acceptance.¹⁴

What the Access to Cash Review, the Financial Inclusion Commission, and politicians all appreciate though, are the fundamental drawbacks of cash. This quote from the Access to Cash Review sums up the issue neatly:

“Cash can be fast, but a contactless tap is faster and doesn’t leave you with a handful of change. For cashiers, baristas and anyone working behind a bar, cards are quicker and easier: no grubby notes and no change to count.”

As Baroness Morgan says, the end of cash will come about by its decline in use, and the rise of faster, cheaper, and more convenient alternatives. The Access to Cash Review acknowledges that new electronic payment systems like iZettle or Square have made accepting card payments cheaper than ever before. With more customers ditching cash, why should businesses bother accepting it?

CASE STUDY: SWEDEN

In Sweden, cash accounted for 2% of payments in 2015. Sweden began its transition towards a cashless economy after some high-profile cash robberies, and lobbying by public transport unions who wanted to phase out cash on buses and trains, partly in the interest of drivers’ safety. Many train and bus drivers were being attacked for their cash, after the introduction of a 20 kroner flat fare for public transport journeys significantly increased the amount of cash carried on buses and trains. This led to the abolition of cash payments on buses in Stockholm in 2006. Young Swedes are accustomed to an almost cashless society. Sweden has a vibrant e-commerce sector, a healthy ecosystem of payment innovations, and peer-to-peer transfers. The central bank still supports cash, and does not want to phase out physical money any time soon, as it is particularly concerned about looking after the elderly. The move to a cashless economy in Sweden has been a bottom-up movement, based on practical concerns like workers’ safety, transaction costs, and innovation, supported by strong digital infrastructure.

13 Morgan, N. (2019) Letter to Chancellor, RE: Access to Cash. Treasury Select Committee.

14 HM Treasury. (2019). Cash here to stay as government commits to protecting access.

The death of cash

This has not come out of nowhere. The decline of cash is part of a longer story in the UK about fundamental shifts in consumer behaviour.

While the decline of cash payments accelerated following the mainstream pick up of contactless payments from around 2014, this process has been driven by consumer desire for faster, more efficient payments.¹⁵ Revealed, not stated, preferences tell us what we need to know: although many say they prefer the security of cash payments and cash budgeting, cash transactions account for less than a fifth of retail payments by volume, and online purchases make up close to 20% of all retail sales today.

This is not to deny the role of top-down technological change. London has been at the forefront of Britain's cashless transformation, which has been in part due to the acceptance of contactless payments by Transport for London and the abolition of cash on the bus network in 2014 – the same year that contactless payments boomed in the UK. By 2017, over 1 billion contactless payments had been made on TfL's network. Between 2016 and 2017, contactless payments have displaced the dominance of the Oyster Card, growing from 26% of all payments to over 40%.¹⁶ While TfL helped to contribute to the cashless revolution by introducing the Oyster Card in 2003, the boom in contactless usage from 2014 onwards was a sign of huge pent-up customer demand for faster electronic payments.

While the UK and Sweden may be world leaders in digital payments, the US is catching up, in part thanks to peer-to-peer payment networks like Venmo. Between 2012 and 2015, cash fell as a proportion of payments from 40% to 32%, and its proportion of the value of payments fell from 12% to just 9% in that time.¹⁷

INCONVENIENT, GRUBBY, AND EXPENSIVE

While cash is unlikely to disappear from the economy any time soon, it is increasingly marginal. Reversing this decline is highly unlikely, and would be ultimately an unwise use of political time and energy.

UK Finance's 2019 report (see graph below) on the British payments market forecasts the steady decline of cash, and the rise of debit card transactions above all.¹⁸

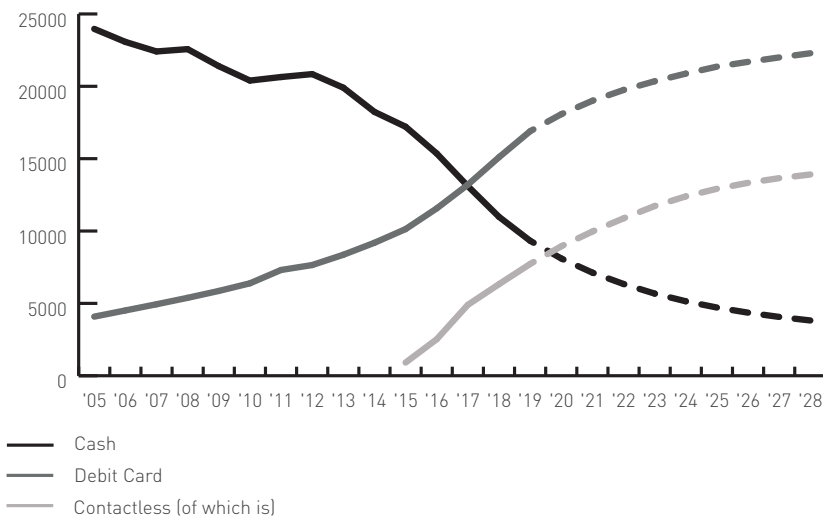
“Cash transactions account for less than a fifth of retail payments by volume, and online purchases make up close to 20% of all retail sales.” today.

15 Campbell, F. (2019). Contactless payments continue to grow in the UK. MobileTransaction

16 Transport for London. (2017) One billion journeys made by contactless payment on London's transport network.

17 Rogoff, K. (Sep 2017) Should We Move to a Mostly Cashless Society? The Wall Street Journal.

18 UK Finance. (2019). UK Payment Markets: 2019.



Some numbers to consider:

- Cash accounts for 22% of all transactions, and card payments over 75%;¹⁹
- Cash is predicted to fall to under 10% of transactions by as soon as 2022;²⁰
- Online retail accounts for 18% of the non-fuel retail market, the highest it has ever been. On current trends, nearly half of retail spending will be online by 2028;²¹
- E-commerce is growing by 9% each year;
- Mobile commerce is the fastest growing component of all retail: the UK is the world's third-largest m-commerce market. It is growing at 16% annually, and is projected to overtake the total value of desktop e-commerce by 2023.²²

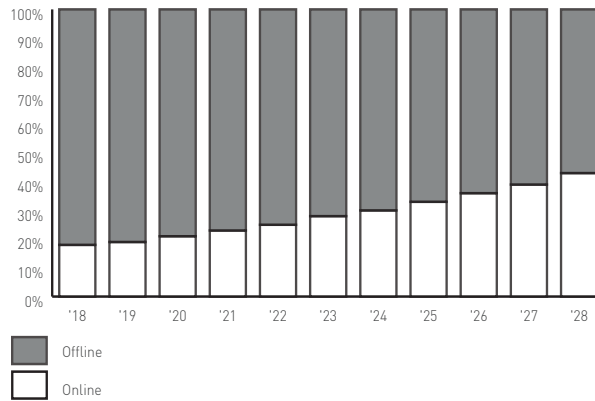
19 British Retail Consortium. (2018). Payments Survey: 2017.

20 WorldPay. (2018). Global Payments Report: 2018.

21 Office of National Statistics. (2019). Retail Sales, Great Britain.

22 Office of National Statistics. (2019). Retail Sales, Great Britain.

PROJECTED GROWTH OF ONLINE RETAIL



Smartphone penetration is the fundamental story behind this. As noted by mobile industry analyst Benedict Evans, today we are approaching critical mass in mobile technology, and it is likely that these trends will increase in favour of digital and mobile payments. There are 5.3 billion people in the world aged over 15, and around 4 billion people with a smartphone. Online retail may only account for one in five pounds spent in the UK today, but it has grown to that proportion on the back of lower overall internet penetration, and with the use of less sophisticated platforms. The following 2018 quote from Evans is particularly useful to consider:

“We began with models that presumed low internet penetration, low speeds, little consumer readiness and little capital. Now all of those are inverted. So, we used to do apartment listings and now Opendoor will buy your home; we used to do restaurant reviews and now you can get a hot meal delivered to your door. Tech is building different kinds of businesses, and so will take different shares of that opportunity, but more importantly change what those industries look like.”²³

The growth of mobile commerce would have been impossible without widespread 4G infrastructure; and the forthcoming roll-out of 5G will likely spur a new wave of innovation in digital payments, enabling businesses like Square, iZettle, and SumUp to bring digital payments to every corner of the country.

In some senses, the predictions of the Access to Cash Review are right. Technology is transforming the way we pay for things beyond recognition. But this transformation is not taking us to the dystopia the Review imagined.

23 Evans, B. (2018). Presentation: The End of the Beginning. ben-evans.com

CASE STUDY: BROWN'S OF BROCKLEY, LONDON

Brown's went cashless after 7 years in business. The cafe's owner Ross was inspired to go cashless after reading about the situation in Sweden, and seeing how cash was becoming increasingly unpopular in the UK. Ross travelled to Sweden on holiday and was amazed to realise after the trip that he hadn't taken out any cash at all. Card payments were making everything simpler and easier. Before getting rid of cash, card payments accounted for 70% of transactions at Brown's. The tipping point for Brown's was difficulty of processing and reporting a counterfeit note. Since going cashless, Brown's have said they have saved a lot of time and money, as staff haven't needed to count cash and take it to the bank, and taking payments is quicker than before.

CASH AND CRIME

Politicians would also be wise to question their support for cash in the economy, which is increasingly associated with crime, and holds back innovation and wealth creation.

US Economist Kenneth Rogoff argues that developed economies should try and move away from cash altogether. Rogoff argues that cash is increasingly associated with crime and the underground economy, tax evasion and corruption, and that central banks should begin to withdraw the largest notes from circulation. While this might not be supported by any mainstream politicians in the UK, it has its supporters internationally. In 2018, the Australian government passed a budget limiting cash payments to \$10,000, in order to tackle tax evasion; and two years before, India's government demonetised nearly 90% of cash notes in circulation, with calamitous results.^{24, 25}

The unpopularity of attempts to ban or reduce the supply of cash, and their poor implementation, should not distract us from cash's fundamental flaw. It is a magnet for crime and violence. Rogoff notes that cash is increasingly used for illicit transactions and is the bedrock of the black economy. While he focuses on the concerns of central governments and central banks, cash also poses significant risks to high street businesses. The risk of robbery is a huge concern to small businesses – in 2014, payment systems operator Sage Pay reported that handling cash costs UK businesses £17.8 billion each year, which is over £3,000 per business.²⁶

Keeping cash, counting cash, moving cash: these all add additional costs to businesses, from purchasing safes and extra insurance, to higher labour costs and longer working hours.

24 Hutchens, G. (2018). Cash payment crackdown to counter tax evasion and black economy. The Guardian.

25 Mukherjee, A. (2018). By a 99.3% Verdict, India's Cash Ban Was a Farce. Bloomberg

26 Sage. (2014). Cash costs UK businesses more than £17.8bn a year.

Estimates vary for how much time businesses spend handling cash. For small businesses, particularly low-margin ones in the hospitality sector, this amounts to a significant opportunity cost. It is possible for larger businesses to better absorb the fixed cost of handling cash over a greater volume of sales, however it is a growing, and increasingly unjustifiable burden on small enterprises.

Dependence, or over-reliance on cash is time-consuming and expensive. As policymakers in the UK grapple with long-term poor productivity, they should consider the lethargic effects of cash in this equation, and think how the new wave of electronic payment innovators could help break us out of this slump.

FUNDAMENTAL PROBLEMS WITH CASH

The problems with cash cannot be easily undone. Counting machines may save some time, but businesses still have to spend time counting cash, storing it safely, and taking it to the bank, while paying staff to do it. Cash attracts theft and violence, and enables other crimes like tax evasion and money laundering. This is the unavoidable reality of cash, and no practical level of government intervention will be able to alter it.

This is not to make any accusations against British people more comfortable with cash – we cannot forget the hot water then-Exchequer Secretary David Gauke found himself in when he said it was morally wrong to pay tradesmen in cash in return for a NI discount – but to warn policymakers against decisions which will inadvertently reduce innovation and technological adoption, and expose small businesses to greater costs and harms.²⁷

“The day-to-day costs of cash sit more heavily on the shoulders of SMEs, and the rise of low-cost card payments offer them a significant opportunity to reduce their overheads.

²⁷ Watt, N. (2012). Paying a plumber cash in hand morally wrong, says Tory minister. The Guardian.

CASE STUDY: CLOUDWATER BREWERY, MANCHESTER

Cloudwater is one of the country's leading craft beer breweries. For roughly a year, both of its bars in Manchester and London have been card only. The owner, Paul, is unequivocal in his confidence in his decision. Going card-only has helped him and his staff improve the quality of service they offer. "We want to be able to serve people as quickly as possible, but we also want to make sure our staff can take as much time as possible to talk to customers, talk about the beer, talk about the brewing, and offer samples." These are things customers and staff really care about and cash gets in the way. Going card only "gives customers the experience they deserve." Going cashless has made Cloudwater more efficient and safer for staff. Their premises, on a quiet street in Bermondsey and in an industrial estate in Manchester, would be at high risk of a break-in if they carried cash. This is better for the staff, who are not ever burdened by counting, keeping, and storing cash, and can devote more time to their customers. Paul does say, however, that going card only fits partly because of Cloudwater's premium position in the market: "This is one of Europe's premium craft beer tap rooms, it is not on every street corner. If we were a ubiquitous business, I would take the ideological issues around going cashless very seriously and research the impact on the economically deprived."

Going cashless, the right choice for many

Despite the problems surrounding cash, going cashless has only been a viable option for businesses in the last few years. This has been enabled by the recent wave of innovations in electronic payments. Going cashless even ten years ago would have been a dangerous decision for any physical retail business, not only because of consumers' greater reliance on cash in the past, but because of the poor quality, and expensive card payment options available.

Improved infrastructure, particularly 4G networks and better broadband, has helped to make card payments more convenient. So too have innovative new businesses.

For many years, taking card payments was too costly for lots of small businesses. Even today, these costs are high. The cost of processing card payments – with monthly charges, flat fees, cuts of payments, equipment rental – add up to a total of £170 million to UK retailers, according to the British Retail Consortium.²⁸

However, as the UK's technology infrastructure has improved, so has the quality and quantity of innovations. Today, taking card payments is cheaper than ever before, and going cashless looks even more sensible. Businesses

28 British Retail Consortium. (2018). Payments Survey: 2017.

like Square, SumUp, and iZettle have made card payments cheap and quick for businesses, and seamless and simple for customers. Innovations like instantly depositing funds from card payments into the business bank account and the ability to take card payments via a tiny, contactless reader over 4G or wi-fi have meant that taking card payments is no longer a slow process, threatened by poor phone lines and clunky equipment, but instead a faster and smoother process than any alternative. Not only have card payments been made quicker and slicker, they have also become significantly cheaper to service, as new entrants have done away with high monthly rental or equipment fees, and offer businesses their equipment for a small cut of each transaction.

Innovation	Savings
Modern point of sale provider like iZettle, SumUp, or Square	No monthly equipment fees, compared to £15-£20 per month from traditional card providers, lower cost of hardware and set-up.
Smartphone-enabled point of sale	Businesses are able to take payments on the move, and via mobile data networks.
Online payments	Businesses no longer need a dedicated rented phone line to handle card payments, in addition to the company's regular landline.
Faster deposits	Modern payment firms Square and SumUp offer instant and daily deposits, while iZettle provides payouts in 1 working day, instead of 2-3 working days with older providers.

“According to the government’s 2019 Financial Inclusion Report, there are 1.23 million people without a bank account.”

Moving to card payments adds significant value for businesses, too. Consumers are accustomed to spending more when paying by card. The average value of a cash transaction in the UK is around £9, half the price of average retail transactions overall, while the average debit and credit card transactions are £23 and £34, respectively.²⁹ Of course it is important to strike the right balance, between arguing for greater spending through electronic payments, compared to the ease of budgeting with cash. This was a key advantage to cash described by the Access to Cash Review. However, the new fintech economy offers customers a range of tools to help them electronically take care of their money, tighter even than if it was in cash.³⁰ New banks like Monzo and Starling began life as budgeting tools themselves, and their success has inspired a wave of imitation from their established competitors.³¹

29 Statista. (2019). Average retail transaction value in the United Kingdom (UK) 2009-2017.

30 Ceeney, N. (2019). Access to Cash Review: Final Report.

31 Weiss, S. (2019). How Monzo, Revolut, Starling and N26 plan to topple legacy banks. Wired.

The primary competition faced by small high street businesses are online retailers such as Amazon, which offer customers a seamless, cashless service, and whose premises benefit from far lower business rental costs, owing to their location in industrial areas, and rateable value calculations. Small businesses are less able to take advantage of economies of scale, or greater customer footfall, than their larger rivals. The day-to-day costs of cash sit more heavily on the shoulders of SMEs, and the rise of low-cost card payments offer them a significant opportunity to reduce their overheads.

The rapid improvement in the quality of card payment provision speaks to why card payments have far greater potential for further innovation than cash. Cash's problems are structural and permanent: it is a physical product which needs handling, insuring, and transporting physically, and it will always attract crime. The problems with card payments, however – expensive equipment fees, a time lag between card payments being taken and money reaching the bank, and poor telephone or internet connection – are being, or have been, solved through a combination of competition and innovation.

CASE STUDY: SOCIETY CAFE, BATH-OXFORD-BRISTOL

Society Cafe is a small chain of speciality coffee shops, founded in Bath and with branches in Bristol and Oxford. After suffering a series of break-ins, and realising that card payments made up over 90% of their transactions, the company's founder Adrian decided to go card only. However, after pushback from some customers, and complaints online, Society Cafe has reverted back to accepting cash.

CASHLESS RETAIL AND FINANCIAL INCLUSION

As the think tank Policy Exchange argues, complete access to bank accounts is an essential precondition for all people living in the British economy today. From making purchases to receiving welfare benefits, a bank account is a fundamental necessity.³²

The Financial Inclusion Commission's findings about the unbanked were striking. Most of them had had a bank account in the past and had lost it, and many of them claimed that they did not want a bank account. Among the newly banked satisfaction with banks is poor, and these people regularly incur penalties. Around 15% of newly-opened accounts are abandoned.³³

Many of the unbanked live on the margins of society, distrust mainstream financial institutions, and are ineligible for bank accounts with them. Open Banking can change this, and will enable even those without the ID or address required for a conventional bank account to gain access to modern

32 Barnard, B. (2020). Fintech for all, Ensuring that everyone benefits from innovative financial services, Policy Exchange

33 Ellison, A., Whyley, C. & Forster, R., (2010). Realising Banking Inclusion: The achievements and challenges. HM Treasury; Financial Inclusion Taskforce.

finance, thanks to the sophisticated picture of consumer spending and reliability its technology can create.³⁴

Increasing financial inclusion is the primary reason behind attempts to ban cashless shops. To some critics, the rise of fintech has only benefited the already well-off, and card-only retail serves to further alienate the poorest in society, who have limited access to credit.

But, just as fintech innovations created the modern payment market, these innovations are also helping to expand financial inclusion instead of limit it. This is an expressed ambition of some fintech entrepreneurs, and new research suggests that fintechs are far better for financial inclusion than their traditional rivals.

Monzo may have become famous thanks to its intuitive app, distinctively coloured debit cards, and intelligent marketing, but working on financial and social inclusion is also a high priority for founder Tom Blomfield who recently appeared before the Treasury Select Committee, noting that Monzo is working with homeless charities to help improve financial inclusion.³⁵ Although Starling Bank states that it is not for the unbanked, it agrees that the route to improving financial inclusion will be “digital and mobile” and that fintech startups will play a “crucial role” in shaping the future.³⁶

As fintech continues to challenge the traditional banking sector, improving access to finance to the unbanked and to the poor may be one of its greatest social achievements.

This takes us back to the Financial Inclusion Commission. In 2015, the Commission hoped that by 2020 all adults in the UK will be connected to the banking system and have full access to a transactional bank account.

According to the government’s 2019 Financial Inclusion Report, there are 1.23 million people without a bank account.³⁷ This data is collected in a number of ways, including by household and by individual.³⁸ The government began reporting on financial inclusion in 2003, and has produced annual findings since then. Between 2003 and 2017, the decline in the numbers of unbanked has eased off significantly, and has been roughly flat since 2013. This will likely reflect the decline in ‘low-hanging fruit’ available. That is, the remaining people who are unbanked are far harder to reach than the millions of people who set up their first bank accounts earlier in the 21st century, when online banking gained mainstream uptake.

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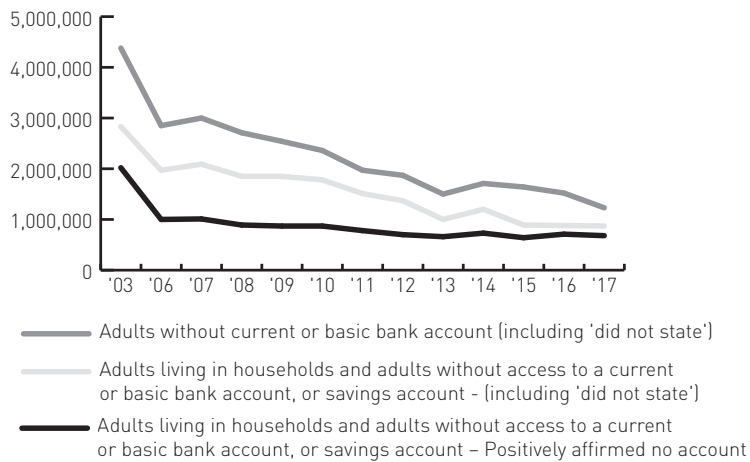
34 Reynolds, F. and Chidley, M. (2019). Consumer Priorities for Open Banking. Open Banking

35 Blomfield, T. (2019). Oral evidence: Consumers’ access to financial services, HC 1642. Treasury Select Committee.

36 Allner, H. (2016). Financial inclusion at our fingertips. Starling Bank.

37 HM Treasury. (2019). Financial inclusion report: 2018-19.

38 McKay, S. and Rowlingson, K. (2018). Financial inclusion report 2018-19. University of Birmingham: Centre on Household Assets and Savings Management



Universal financial inclusion may be achieved as the UK embraces Open Banking. Open Banking is pulling down the barriers to financial inclusion, and improving access to consumer credit, thanks to the way in which its applications can create a far more sophisticated picture of an individual's spending and financial reliability than a traditional, one-size-fits-all credit score. Many of the long-term unbanked have little to no credit history, or formal record of their financial existence. Innovations such as the government-backed Rent Recognition Challenge - to help people build their credit score on the back of rent payments - are opening up access to finance to many more people than before.³⁹ Open Banking services can offer these people the financial lifeline that the traditional banking sector does not.

This is in major part thanks to the efforts of the UK's world-leading fintech industry. Challenger banks have made a point of addressing financial inclusion, and have taken steps to make gaining access to their bank accounts as simple and easy as possible. Monzo has made progress on this by allowing new customers to set up bank accounts without a fixed address, suggesting that new customers can use a friend's house or even a shelter.⁴⁰ While fintech provider Pockit is expressly interested in creating a bank that everyone is able to use, no matter their credit history.⁴¹

The importance of fintech providers to improving financial inclusion has been supported by new research. A 2019 paper found that the new generation of fintech companies are far less discriminatory than their predecessors. This paper analysed rates of discrimination in lending and loan approval in new fintechs compared to traditional providers. It found that fintech algorithms discriminate 40% less than traditional providers.⁴²

39 HM Treasury. (2017). FinTech to help renters get on the housing ladder.

40 Monzo. (2018). Getting a bank account with no fixed address.

41 Pockit Team. (2019). The Banking Poverty Premium. Pockit.

42 Bartlett, R., Morse, A., Stanton, R., & Wallace, N. (2019). Consumer-lending discrimination in the FinTech era. National Bureau of Economic Research.

Other proposals for improving financial inclusion include the Citizens' Advice Bureau suggestion of offering free PO boxes to homeless people, and those without a fixed address so they can set up a bank account.⁴³ If homelessness is a vicious circle in which the homeless are unable to pay for a place to live because they do not have a job, and unable to get a bank account and a job because they don't have a fixed address, this simple idea offers a route out of this problem. It is disappointing that it has yet to receive mainstream support. However, the rich customer data available via Open Banking makes this proposal more viable, as it makes looser identification requirements more effective than before.

There are serious problems with financial inclusion, but they are best addressed by improving the existing provision of banking services, and increasing financial innovation. Card-only shops are an interesting, but very small, part of the UK's retail market. They are typically artisan coffee shops, breweries, and mid-market food trucks and street food stalls, whose customers are richer, and more technologically comfortable than average. While their numbers are growing, they are not a key issue for the unbanked.

CASE STUDY: THE CROWN AND ANCHOR, LONDON

The Brixton pub went card only in 2018, after a series of break-ins. The pub's management realised that cash was proving a massive burden, despite only accounting for 10% of total transactions. Arber Rozhaja, operations director of London Village Inns, the pub's parent company, is bullish about the decision and financial inclusion. "It is easy to get a pre-paid card," he told the BBC, remarking that it is nearly impossible to get by without card payments in London nowadays.

43 Citizens Advice. (2018). Better access to post is key to ending homelessness catch-22.

CONCLUSION

Political interest in preserving cash in the economy at the expense of digital payments is mistaken. Banning card-only shops will distort the retail market, forcing businesses to accept cash and its associated risks. Banning card-only shops will increase pressures and risks on independent shops, cafes and restaurants, but it will not materially improve the fortunes of the unbanked.

The vision of the Financial Inclusion Commission for universal access to finance in the UK will be better achieved by encouraging adoption of new technology and innovation, to help those without fixed addresses and uneven credit history gain access to electronic payments, or restricting excessive penalty charges.

The British economy turns on electronic payments. The unbanked receive worse, and more expensive services and utilities if they pay by cash.⁴⁴ Preserving cash is not the answer. Political time and energy would be far better spent ensuring Open Banking is comprehensively adopted, so everyone is able to enjoy the convenience, speed, and quality of cashless retail, instead of forcing greater cost and risk on small businesses.

This is good for citizens and consumers, and for small businesses. It is the UK's SMEs which bear the costs of cash most heavily, and it is these SMEs that are taking to cashless retail with most enthusiasm. Our politicians should trust entrepreneurs, and allow them to innovate and improve their productivity how they see fit, and instead focus on how to bring the benefits of the cashless economy to all.

44 BBC. (2019). Lack of bank account 'costs £500 extra a year' in bills.



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