



## **ACS Submission: Access to Cash Review**

ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the LINK Access to Cash Review to inform how access to cash is provided for consumers and businesses in the next 5 – 15 years. ACS represents over 33,500 local shops and petrol forecourt sites including Co-op, BP, McColls and thousands of independent retailers, many of which trade under brands such as Spar, Budgens and Nisa. Further information about ACS is available at Annex A.

The convenience sector is worth £39.1 billion and retailers have invested £814 million in their businesses over the past year in items such as refrigeration (34%), in-store lighting (13%) and store signage (10%) to respond to changing consumer demands<sup>1</sup>. Customers from all demographics visit local shops for a range of shopper missions and retailers are responding to payment innovations to allow customers to pay through contactless, available in 80% of stores, and mobile payments (63%) as well as cash<sup>2</sup>.

Convenience retailers operate consumer-led businesses that are responding to changing demands for payment services from their customers. ACS does not support one payment method over another, but we want consumers to have the right payment options available to them. Convenience stores have a low average basket spend of £6.50 and cash is currently the most popular payment method, used by customers in 76% of transactions<sup>3</sup>. Cash will remain important for consumers to facilitate spending in convenience stores and must be accessible and secure in the long-term.

Convenience retailers are increasingly the only local source of cash as bank branches close alongside their associated ATM infrastructure. Currently, 46% of convenience stores host a FTU ATM and 16% a PTU ATM<sup>4</sup>. Retailers are concerned that the increased cost of hosting ATMs, from business rates bills and changes to LINK interchange fees, could force retailers to either move more ATMs onto a charging model or remove ATMs altogether.

We have welcomed the LINK announcement to postpone the 2020 cut to ATM interchange fees and put on hold the 2021 cut pending a review following a decline in the volume of ATM transactions. We also support the Payment Systems Regulator developing a Specific Direction following the LINK ATM Footprint Report showing 76 protected ATMs further than 1km from the next closest FTU ATM became inactive between February – June 2018<sup>5</sup>. This should ensure changes to the Financial Inclusion Programme are implemented to effectively secure national access to cash through the ATM network.

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<sup>1</sup> ACS Local Shop Report 2018

<sup>2</sup> ACS Local Shop Report 2018

<sup>3</sup> ACS Local Shop Report 2018

<sup>4</sup> ACS Local Shop Report 2018

<sup>5</sup> LINK ATM Footprint Report – September 2018

Convenience stores provide access to cash through cashback services (58%) and Post Offices (23%) but these are not suitable direct replacements for ATMs due to security and coverage concerns.

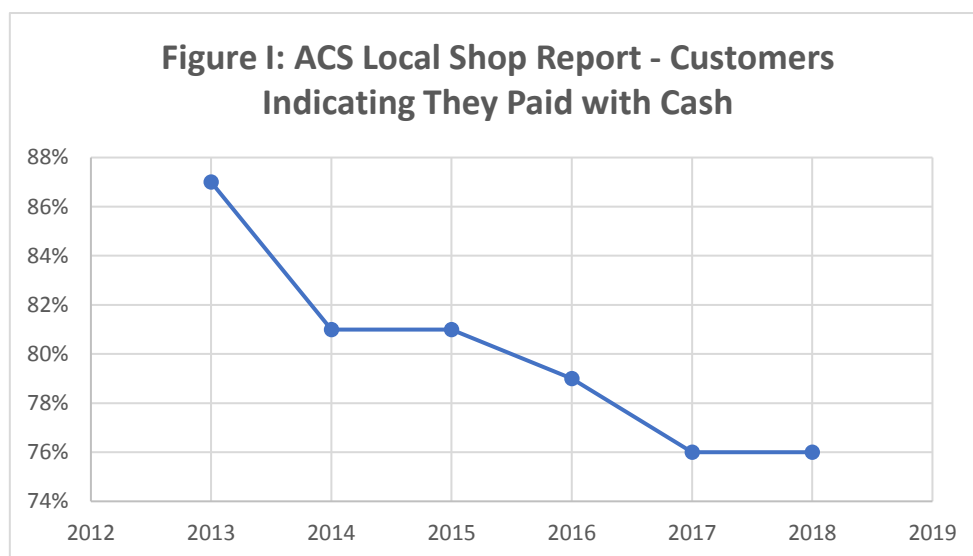
## **Executive Summary**

- Convenience stores trade in a range of locations in rural (37%), urban (37%) and suburban (26%) areas close to where people live. One-quarter (26%) trade on a larger parade or main high street, but most stores trade from a small parade (36%) or as an isolated store (38%) often providing the only local access to cash and services offer.
- Retailers are responding to changing consumer demands on payments by increasingly offering contactless (80%) and mobile payments (63%). Convenience stores also provide FTU ATMs (46%) and PTU ATMs (16%) to support access to cash.
- Almost three-quarters (73%) of retailers do not believe that they will handle more cash in the business in five years' time. However, cash remains a valued payment method for customers, with 76% of convenience store customers indicating they pay with cash. Access to cash should be protected to support customer choice and facilitate spending in local shops and other cash-led businesses on surrounding parades and high streets.
- Cashback is not a suitable alternative to ATMs, which would switch costs for supplying cash from banks to retailers and increase the threat of robberies and higher insurance premiums through more cash being held on retail premises.
- Post Office banking services are more secure for retailers than cashback but are not a suitable alternative to ATMs. Consumers cannot access cash outside shop opening hours and the network does not provide coverage for all high streets and shopping parades.
- Reductions in ATM interchange fees are undermining coverage of the ATM network, which should guarantee long-term local access to cash, supplemented by an effectively implemented Financial Inclusion Programme to ensure FTU ATMs have a robust geographical spread.
- FTU ATMs should be exempted from business rates to reduce network costs and support high streets. This would strengthen commercial incentives to retain an ATM to support local ATM coverage.

## 1. What do you think could happen to cash demand in the UK over the next fifteen years?

Demand for cash is likely to continue to decline over the next 15 years. ACS' Voice of Local Shops Survey, a quarterly survey of 1,210 independent retailers, finds that two-thirds (68%) of retailers handle less cash in their business than they did five years ago<sup>6</sup>. Consumer payment preferences are already changing as new digital payment methods emerge, causing digital payments to surpass cash payments according to transaction value earlier this year<sup>7</sup>.

Figure I shows how cash usage has been gradually declining in convenience stores, with convenience store customers indicating they used cash in 87% of transactions in 2013 and 76% in 2018. However, cash usage remains the dominant payment method in convenience, perhaps reflecting low average store spends (£6.50)<sup>8</sup> and the high cost of processing card payments for low value transactions causing 35% of stores to implement minimum spend policies for card payments<sup>9</sup>. Other sectors with relatively high cash use such as newsagents and pubs may be influenced by the same factors, while supermarkets and petrol stations with higher average transaction values have lower cash use as a proportion of transactions<sup>10</sup>.



Retailers are responding to lower demand for cash by investing in digital payment methods. Retailers are continually making investments to match changing consumer preferences, such as contactless (80%) and mobile payments (63%)<sup>11</sup>. Convenience stores also facilitate access to cash through cashback services (58%), FTU ATMs (46%) and PTU ATMs

<sup>6</sup> ACS Voice of Local Shops Survey: May 2018

<sup>7</sup> <https://www.independent.co.uk/money/card-payments-cash-overtakes-shopping-purchases-high-street-a8403346.html>

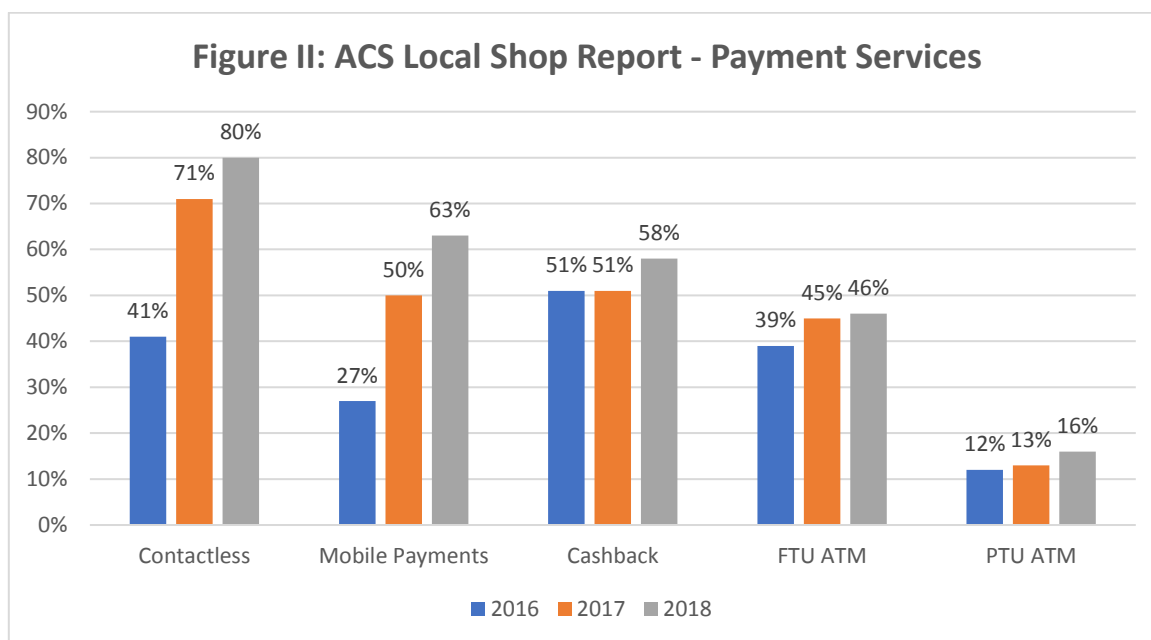
<sup>8</sup> ACS Local Shop Report 2018

<sup>9</sup> ACS Voice of Local Shops Survey: February 2018

<sup>10</sup> <https://www.accesstocash.org.uk/media/1071/call-for-evidence.pdf>

<sup>11</sup> ACS Local Shop Report 2018

(16%)<sup>12</sup>. Figure II demonstrates how retailers have embraced digital payment methods in recent years. The number of FTU ATMs has levelled, possibly to reflect declining cash use and forthcoming changes to ATM interchange fees with the 2018 data gathered in July as the first interchange fee cut was taking effect. But expansion of contactless payment and mobile payments have increased quickly in the last three years.



Convenience retailers will continue to invest to respond to changing consumer payment preferences. 73% of retailers do not believe that they will handle more cash in the business in five years time, indicating that retailers expect more transactions will be completed using alternative payment methods<sup>13</sup>.

Cash will remain an important payment method for consumers in the long-term. UK Finance has concluded that cash will remain a core part of the UK economy and the second most frequently used payment method, even following its projections for cash to decline to 16% of payments by 2027<sup>14</sup>.

Cash is a resilient payment method because it is relied upon by 2.7 million people according to the Bank of England, spread relatively evenly across age groups<sup>15</sup>. The House of Lords Financial Exclusion Committee found that there are more than 1.7 million people living without a bank account, while around half of people with a basic bank account choose to manage their money in cash<sup>16</sup><sup>17</sup>. Cash is almost universally accepted and supports financial inclusion, contributing to the clear value attributed to it from consumers. Cash also helps

<sup>12</sup> ACS Local Shop Report 2018

<sup>13</sup> ACS Voice of Local Shops Survey: May 2018

<sup>14</sup> <https://www.ukfinance.org.uk/wp-content/uploads/2018/06/Summary-UK-Payment-Markets-2018.pdf>

<sup>15</sup> [Insights into the future of cash](#) Bank of England. 13 June 2017

<sup>16</sup> <https://www.parliament.uk/business/committees/committees-a-z/lords-select/financial-exclusion/news-parliament-2015/financial-exclusion-report-published/>

<sup>17</sup> <http://www.financialinclusioncommission.org.uk/facts>

consumers to manage their spending, with research suggesting individuals less accurately recall their outgoings when made using digital payment methods<sup>18</sup>.

Consumers also want flexibility in how they pay for goods and services, including using cash as a contingency for when digital payment systems go down. Several incidents in the last three months alone have undermined the reliability of digital payment methods, for example the Visa card temporary scheme failure<sup>19</sup>. These incidents have all demonstrated the value of cash as a backup payment method for all consumers.

All payment methods should be available for as long as they are demanded by consumers, including cash. ACS does not support one payment method over another, but cash is the most used payment method in the sector and will continue to be in the long-term. Convenience retailers are responding to changes in payment preferences by installing digital payments infrastructure, but future payments infrastructure must ensure access to cash remains widespread to support consumer choice.

## **2. What are consumers' needs for cash and digital payments and how can they be best met in the future?**

We acknowledge the review's focus on how to use existing payments infrastructure to provide national access to cash and reduce the cost to the economy of supplying cash as cash demand declines. However, the aggregate value of ATM withdrawals has stayed relatively stable with an average of £192 billion being withdrawn each year over the past decade, showing that demand for cash will continue<sup>20</sup>. Therefore, we want to retain a strong national ATM network to meet this demand for cash.

Consumers want a range of payment options. The increasing use of digital payment methods and availability of these in convenience stores does not undermine the importance of cash accessibility and cash as a payment method for retailers and consumers. The Bank of England recognises that "demand for cash continues to grow" and "while reliance on cash is less significant than in the past, it is still crucial to everyday life"<sup>21</sup>. A Localis survey of 100 key local government stakeholders also demonstrates the value of cash to high streets, finding that 80% believe cash is important or very important to the economic vitality of their local area and three-quarters believe local economic growth would suffer if access to cash was reduced<sup>22</sup>.

Convenience retailers will need support to provide ATMs as consumer payment preferences continue to change. This includes effective implementation of the LINK Financial Inclusion Programme to secure nationwide access to cash through FTU ATMs by increasing subsidies for ATMs in more deprived areas and exempting ATMs more than 1km from the next FTU ATM from interchange fee reductions. We are therefore concerned about the LINK ATM

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<sup>18</sup> <https://www.news.com.au/finance/money/costs/scientists-prove-paying-with-plastic-is-more-dangerous-for-your-budget/news-story/15222db4af403b8c5410b1582b9c349d>

<sup>19</sup> <https://www.theguardian.com/business/2018/jun/01/visa-card-network-failure-what-we-know-so-far>

<sup>20</sup> [Insights into the future of cash](#) Bank of England. 13 June 2017

<sup>21</sup> [Insights into the future of cash](#) Bank of England. 13 June 2017

<sup>22</sup> Localis? [Is Cash King? Examining the Importance of Cash for Local Communities](#). 23 May 2016

Footprint Report showing 76 FTU ATMs that should have been protected closed in the three months prior to changes to interchange fees and the Financial Inclusion Programme. Retailers will not, and should be expected, to subsidise the ATM network in future.

The costs of providing a national network to access cash could also be reduced through Government intervention; by exempting ATMs from business rates bills. 'Hole in the wall' ATMs have been liable for business rates since a Valuation Office Agency ruling in 2013. Retailers are billed £4,000 on average for hosting an ATM, in addition to rates payable for the shop<sup>23</sup>. FTU ATMs should be exempted from rates liability in recognition of their role to provide access to cash and encourage consumer spending in businesses across the high street<sup>24</sup>. This would reduce costs for retailers, thereby strengthening commercial incentives to retain an ATM and maintaining local ATM coverage.

Cashback services and Post Office branches can also provide access to cash, but neither are suitable direct alternatives to the ATM network. The call for evidence acknowledges that cashback is 'increasingly used by smaller and more discrete sections of society' and Post Office branches cannot supply cash outside branch opening hours or cover high streets and shopping parades without a branch<sup>25</sup>. Access to cash through cashback and Post Office counters in local shops is not a suitable direct alternative to accessing cash through FTU ATMs for the reasons detailed below;

#### *Costs For Retailers*

Cashback would switch the cost of supplying cash from banks, through interchange fees, to retailers, through higher acquirer and card scheme fees. ACS' Voice of Local Shops survey finds the cost of processing card payments has increased for 58% of retailers since 2016.<sup>26</sup> Retailers are billed by their card acquirers based on number of transactions and transaction values. Cashback results in higher value transactions through retailer tills and therefore increases the cost for retailers.

The Payment Services Regulations 2017, implemented from 13<sup>th</sup> January 2018, banned retailers from applying a surcharge on a transaction to a customer because of their method of payment, which has provided welcome clarity for consumers. However, it is uncertain whether retailers, if they chose to do so, could charge customers to access cashback services in order to recoup costs from higher acquirer fees. The Access to Cash Review should provide clarity about how retailers can recoup cost to make offering cash back services more viable.

#### *Costs For Consumers*

Currently if consumers want to access cashback in stores they will have to purchase items, sometimes over a minimum spend threshold. This means customers may have to buy goods and services from the shop, potentially over a minimum spend threshold, in order to access

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<sup>23</sup> [£300m of business rates refunds held until "cash tax" decision reached](#) Retail Gazette. 21 May 2018

<sup>24</sup> <https://www.telegraph.co.uk/business/2018/05/20/atm-rates-row-goes-appeal-court/>

<sup>25</sup> <https://www.accesstocash.org.uk/media/1071/call-for-evidence.pdf>

<sup>26</sup> ACS Voice of Local Shops Survey: May 2018

their cash free of charge. Retailers are unlikely to move to providing cash back only transactions in store without some financial incentive for managing the transaction.

### *Queues*

Convenience retailers are working hard to improve productivity within their businesses by investing £814 million in their businesses over the last year, on items including till systems (13%) as they try to mitigate rising employment costs<sup>27</sup>. The labour demands associated with managing additional cashback transactions would increase queuing times for consumers and restrict retailers' ability to improve colleague productivity.

### *Crime*

Increasing the role of cashback in supplying cash would increase the risk of crime for retailers. ACS' Crime Report finds that there were an estimated 9,304 robberies across the sector over the past year, costing £1,986 on average per incident<sup>28</sup>. The report also estimates that ATM ram raids cost convenience retailers £8 million in the last year<sup>29</sup>.

These incidents occur when thieves know or suspect there is a large amount of cash handled on the premises. Fewer ATMs and more cashback facilities would reduce the security around cash and increase the risk of robberies. Retailers are investing in cash handling and storage equipment and more frequent cash in transit collections but holding more cash on the premises may encourage more crime.

### *Post Offices*

While Post Offices are a vital part of the access to cash network through their Everyday Banking services, they do not provide a direct replacement for ATMs. Most of the issues identified above with cashback also apply to accessing cash through Post Office Local counters. Retailers that host Post Office counters will handle a higher proportion of cash than other retailers due to the business banking services they offer, whereby businesses can deposit at least £2,000 at a Post Office counter and domestic customers can make cash withdrawals.

The Post Office undertakes extensive activity to support retailers to secure their cash, including organising at least weekly cash collections. 'Main' branches, which are secure Post Office counters within a host store, provide no public accessibility to the back area behind the fortress where the safe would be located. This means Post Office banking services have reduced security risk for retailers relative to cashback.

In 'Local' branches where Post Office services are offered over the counter alongside retail services, cash must be manually transferred from the till to the safe, which can still create risk for the colleague and shop. Consumers can only access cash through Post Offices

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<sup>27</sup> ACS Local Shop Report 2018

<sup>28</sup> ACS Crime Report 2018

<sup>29</sup> ACS Crime Report 2018

during shop opening hours and the Post Office network cannot provide nationwide cash access.

### **3. What digital or other innovations are likely to affect those who currently are using cash?**

There are already numerous payment innovations that have fundamentally changed consumer payments behaviour, most notably the rise of contactless and mobile payments. Retailers are experimenting with other innovations on payments, for example Tesco is trialling a cashless store in its Welwyn Garden City HQ<sup>30</sup> and Sainsbury's is trialling its ApplePay enabled SmartShop app allowing customers to scan and go without paying at the checkout<sup>31</sup>. In the US, an Amazon Go shop uses cameras and sensors to sense customers picking up goods and bill them appropriately when they leave the store through consumer card details registered on the AmazonGo app<sup>32</sup>. The FinTech market will likely deliver further payments innovations during the 5 – 15 year timeframe considered by this review.

Convenience retailers will invest in payment innovations when they become financially viable and add value to customers. Convenience stores are keeping pace with changes in consumer demands, accepting transactions via debit card (in 94% of stores), credit card (88%), contactless (80%) and mobile payments (63%)<sup>33</sup>. However, not all shopping technologies have seen widespread adoption by convenience retailers due to high costs of investment for limited returns in a small store format, for example self-service checkouts (2%)<sup>34</sup>. Retailers will continue to invest to match consumer payment preferences as innovations become viable for small shop retail formats. The Access to Cash Review must recognise that payment innovations will be embraced at a different pace in different parts of the retail sector and wider economy.

### **4. Does access to cash require regulation or central co-ordination that goes beyond the current framework? If so, what should this involve?**

Central co-ordination of the ATM network. The Payment Systems Regulator has an important role to play to ensure widespread coverage of FTU ATMs to facilitate the mainstream consumer choice to use cash. The Regulator must ensure LINK's monthly reporting on ATM closures details actions taken to ensure free access to cash continues to be available locally.

LINK's ATM Footprint Report for September showed that 76 FTU ATMs closed from February – June that should have been protected from closure to prevent gaps in coverage of the ATM network. Although changes to the Financial Inclusion Programme intended to coincide with the July 2018 interchange fee cut had not yet taken effect, LINK's failure to take measures to prevent gaps in the ATM network shows that the private sector will not

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<sup>30</sup> <https://inews.co.uk/news/consumer/tescos-cashless-store-cuts-queuing-time-in-half/>

<sup>31</sup> <https://techhq.com/2018/08/sainsburys-joins-the-cashless-stores-revolution/>

<sup>32</sup> <https://www.theguardian.com/business/2018/jan/21/amazons-first-automated-store-opens-to-public-on-monday>

<sup>33</sup> ACS Local Shop Report 2018

<sup>34</sup> ACS Local Shop Report 2018



take action unless required by regulators. We therefore welcome the Payment Systems Regulator developing a Specific Direction to require LINK ‘to fully develop its policies and processes for applying and implementing its commitments and to report to us on a regular basis’<sup>35</sup>.

## **5. How should access to cash be paid for?**

The recent decision by LINK members to cut interchange fees indicates that the banking industry wants to reduce its financial contributions for their customers accessing cash. Banks are also reducing the presence of their ‘bricks and mortar’ estates through bank branch closure programmes and the withdrawal of associated ATM provisions.

Consumers should not struggle to access cash due to banks withdrawing their infrastructure. Bank branch closures have increased the role that convenience retailers play in providing access to cash, often solving cash access issues after banks reduce their high street presence. The Access to Banking Standard must ensure all banking customers are given suitable alternative banking provisions when a bank branch closure occurs, including methods to access cash.

Reduced contributions from the banking sector to the running of the ATM network cannot be subsidised by retailers, and therefore will ultimately lead to consumers paying directly for cash infrastructure. These costs could be borne through direct costs at PTU ATMs as more ATMs move to a fee-charging model or indirect costs through higher consumer prices in shops or worse consumer access to cash. ATMs are the only suitable network to provide widespread access to cash (see Q2). Access to cash should be paid for through ATM interchange fees and an effectively implemented Financial Inclusion Programme funded by LINK members.

Declining interchange fees are already causing ATM operators to remove their services from some ATMs in convenience stores. Other retailers must weigh up the costs and benefits of hosting an ATM alongside all other potential in-store services including Post Offices and parcel services. This may cause some ATMs to move from FTU to PTU and others to be removed from the ATM network altogether.

**For more information, please contact Steve Dowling, ACS Public Affairs Manager, via [steve.dowling@acs.org.uk](mailto:steve.dowling@acs.org.uk) or 01252 533009.**

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<sup>35</sup> <https://www.psr.org.uk/psr-publications/news-announcements/PSR-response-to-LINK-first-Footprint-Report>

## Annex A

### ABOUT ACS

The Association of Convenience Stores lobbies on behalf of around 50,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parades, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.

**ACS** | the voice of local shops

### WHO WE REPRESENT

#### INDEPENDENT RETAILERS



ACS represents 22,397 independent retailers, polling them quarterly to hear their views and experiences which are used to feed in to Government policy discussions.

These stores are not affiliated to any group, and are often family businesses with low staff and property costs. Independent forecourt operators are included in this category.

#### SYMBOL GROUPS AND FRANCHISES



ACS represents 14,659 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits.

Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

#### MULTIPLE AND CO-OPERATIVE BUSINESSES



ACS represents 12,862 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColl's, Conviviality Retail and others.

Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

### THE CONVENIENCE SECTOR



In 2017, the total value of sales in the convenience sector was £38bn.

The average spend in a typical convenience store transaction is £6.28.



There are 49,918 convenience stores in mainland UK. 74% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.



The convenience sector provides flexible employment for around 370,000 people.

24% of independent/symbol stores employ family members only.



20% of shop owners work more than 70 hours per week, while 19% take no holiday throughout the year.

72% of business owners are first time investors in the sector.



Convenience stores and Post Offices poll as the two services that have the most positive impact on their local area according to consumers and local councillors.

79% of independent/symbol retailers have engaged in some form of community activity over the last year.



Between August 2016 and May 2017, the convenience sector invested over £858m in stores.

The most popular form of investment in stores is refrigeration.

### OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

#### ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that differ each time to help inform ACS' policy work.

#### ACS INVESTMENT TRACKER

Regular quarterly survey of over 1200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

#### ACS LOCAL SHOP REPORT

Annual survey of over 2400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 6,291 stores. The Local Shop Report also draws on data from HIM, IGD, Nielsen and William Reed.

#### BESPOKE POLLING ON POLICY ISSUES

ACS conducts bespoke polling of its members on a range of policy issues, from crime and responsible retailing to low pay and taxation. This polling is conducted with retailers from all areas of the convenience sector.

For more information and data sources, visit [www.acs.org.uk](http://www.acs.org.uk)