



ACS Submission: Access to Cash Call for Evidence

ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the HMT call for evidence on access to cash. ACS represents 33,500 local shops and petrol forecourts including Co-op, McColls, BP and thousands of independent retailers, many of which trade under brands such as Spar, Nisa and Costcutter. Further information about ACS is available at Annex A.

Convenience retailers make a valuable contribution to financial inclusion for communities across the country, providing cashback (68%), free-to-use ATMs (49%), pay-to-use ATMs (22%) and Post Offices (22%)¹. The convenience sector is also unique amongst business sectors by trading across all urban (37%), suburban (26%) and rural (37%) locations².

The payments mix and use of payment methods in the convenience sector is diversifying rather than following a simplistic transition from cash to digital. Convenience stores are consumer-led businesses which respond to changing demands for payment services. We do not support one payment method over another but want consumers to have their preferred payment options available to them. 68% of transactions are paid for via cash in independent convenience stores³. However, there is awareness amongst retailers that cash usage will decline with 74% of retailers indicating they will handle less cash over the next five years⁴.

New legislation should secure long-term access to cash by restoring the independent setting of LINK interchange fees for ATMs and requiring bank participation within LINK. ATMs are the only suitable national infrastructure for access to cash and overwhelmingly preferred by consumers and retailers for privacy and security reasons⁵. Retailers and ATM operators cannot subsidise the ATM network.

Cashback from retailers is not a panacea for consumers to access cash. 68% convenience retailers offer cashback linked with a purchase, but the service is often not actively promoted due to the cost of processing cashback transactions, losses in staff productivity and higher security risks and insurance premiums. We welcome regulatory change to enable cashback without a purchase, but retailers must not be obligated to provide cashback and must be guaranteed fair remuneration for offering this service.

For more information on this submission, please contact ACS Public Affairs Manager Steve Dowling via steve.dowling@acs.org.uk / 01252 533009.

¹ ACS Local Shop Report 2020

² ACS Local Shop Report 2020

³ Evolution of Payments in the UK's Independent Convenience Stores. The Retail Data Partnership. November 2020

⁴ ACS Voice of Local Shops Survey: May 2018

⁵ Britain Thinks. [Access to cash research with consumers and small businesses](#) July 2019.

Q1) How can the government ensure the UK maintains an appropriate network of cash withdrawal facilities over time through legislation?

Reductions to LINK interchange fees to ATM operators have artificially accelerated the decline in the free-to-use (FTU) ATM network. This has driven ATM operators to convert considerable proportions of their FTU ATM estate to pay-to-use (PTU). This is dramatically changing ATM provision in the sector, reducing network costs for banks but to the detriment of access to cash for consumers. The economics of ATM operations means machines serving isolated communities have been disproportionately affected by cuts to interchange fees.

Cash does remain essential for a sizeable proportion of the population; the Access to Cash Review found that 17% of the UK population, around 8 million adults, would struggle to cope in a cashless society⁶. Britain Thinks research commissioned by the Payment Systems Regulator also clearly demonstrates that consumers value cash. The research shows that ‘the majority of consumers use cash regularly’, with 83% of consumers using a FTU ATM within the past month and 67% of consumers using cash more than once in the past week⁷.

The PSR’s Specific Direction on ATM provision and the Financial Conduct Authority’s guidance on ATM conversions have attempted to address the decline in the ATM network. However, these measures alone will not facilitate long-term access to cash. Regulators need to be quicker in taking regulatory action to protect access to cash through ATMs. It is not viable for retailers and ATM operators to subsidise the ATM network. Our recommendations on access to cash legislation are as follows:

ATMs

Regulatory intervention is required to ensure LINK sets interchange fees which account for operating costs for all stakeholders and supports a national, sustainable network. Specifically, we recommend the regulations mandates the setting of interchange fees via an independent cost study model as was previously done by KPMG until 2016.

Separately, an access to cash guarantee could be developed to ensure access is retained where exceptional circumstances do not lead to ATM deployment. This could be done by encouraging pilot and innovation programmes to provide solutions, a review of the LINK Financial Inclusion Programme or building on the Bristol University research by supplementing interchange fees for low transaction, isolated machines.

The fundamental reason LINK detracted from the independent cost study model was due to internal threats from its banking members to leave the scheme. To cover off this key issue, the legislation also needs to mandate bank participation within LINK to empower the scheme to effectively administer a sustainable network which supplies access to cash.

Post Offices

22% of convenience stores host a Post Office and this partnership is essential to the viability of Post Office services⁸. ACS’ Community Barometer report highlights that consumers consider Post

⁶ [Access to Cash Review](#) December 2018.

⁷ Britain Thinks. [Access to cash research with consumers and small businesses](#) July 2019.

⁸ ACS Local Shop Report 2020

Offices and convenience stores to have the most positive impact on their local area⁹. This is driven by both the strength of the Post Office brand and the services provided, for example bill payment services (76%), parcel collection points (28%) and click and collect services (27%)¹⁰.

Over the counter cash services through Post Offices are a valuable supplement to the ATM network. The Post Office network does not have the reach to supply cash in all locations where it is needed but the service can benefit retailers, consumers and local businesses. ACS' Community Barometer research finds that banks are the most wanted services by consumers, suggesting that banking services in Post Office branches will be increasingly relevant to consumers¹¹.

The Post Office must continue to ensure the provision of these services remain commercially viable for retailers. We therefore welcome that the Post Office has identified its retail proposition as a strategic risk through its latest Annual Report¹². The security and viability of over the counter cash services is an important part of this and dependent on consumer access regardless of banking provider. Barclays threatening to withdraw from the Post Office Banking Framework highlighted how competitive pressures from the financial industry could jeopardise cash access through Post Offices. It is imperative that Government ensures that the Post Office Banking Framework continues to cover all the major UK banks and that subpostmasters are adequately compensated for taking on this service

Q2) What is the potential for cashback to play a greater role in the provision of cash withdrawal facilities, and how can legislation facilitate further adoption of cashback?

68% of convenience stores offer cashback. Of those who provide cashback, 61% provide an on-request service and 15% an advertised service¹³. Cashback services are predominantly available in stores which cannot viably operate a FTU ATM. We would welcome a change in regulation to enable cashback without a purchase. However, retailers must not be obligated to provide cashback and must be guaranteed fair remuneration for offering cashback without a purchase. Cashback is not a replacement for a properly functioning ATM network. We have outlined below the key concerns of retailers on offering cashback:

Financial Costs

Cashback would switch the cost of supplying cash from banks, through ATM interchange fees, to retailers, through higher scheme fees and acquirer merchant service charges. Retailers are billed by their card acquirers based on number of transactions and transaction values. Cashback results in higher value transactions and therefore increases costs for retailers. ACS polling of 1,200 retailers shows 58% have seen increases in card payment processing costs since 2016¹⁴.

We are aware of, and welcome, pilot schemes aiming to incentivise cashback services where access to cash is limited. This includes PayPoint's 'cash over the counter' withdrawal service¹⁵, the

⁹ ACS Local Shop Report 2020

¹⁰ ACS Local Shop Report 2020

¹¹ ACS Local Shop Report 2020

¹² http://corporate.postoffice.co.uk/media/46797/2019_annualreport_final_signed.pdf

¹³ ACS Voice of Local Shops Survey: May 2019

¹⁴ ACS Voice of Local Shops Survey: May 2018

¹⁵ <https://retailer.paypoint.com/resources/news/paypoint-and-link-to-pilot-new-cash-withdrawal-service-for-uk-consumers#:~:text=PayPoint&text=PayPoint%2C%20the%20UK's%20leading%20retail,at%2015%20locations%20this%20summer.>

Visa pilot¹⁶ and Mastercard pilot¹⁷. However, thorough independent research is required to determine remuneration for cashback transactions which account for retailer costs and indirect operational and security costs (discussed in more detail below).

If considered part of the solution on long-term access to cash, remuneration for cashback transactions requires regulatory oversight. If left to commercial agreements to determine remuneration it is highly likely that fees to retailers will deteriorate over time, as per LINK ATM interchange fees.

There is a separate need to clarify whether retailers can charge customers for cashback without a purchase. The Payment Services Regulations 2017 banned retailers from applying a surcharge on transactions based on payment method, but it is unclear whether retailers can charge customers to access cashback services in order to recoup costs from higher acquirer fees. This is not covered by related BEIS guidance¹⁸. We have not received member feedback that charging for cashback would be a commercial choice, but it is valuable to fully understand all options.

Operational Costs

Convenience retailers are working hard to improve productivity within their businesses by investing £585 million in their businesses over the last year as they try to mitigate rising employment costs¹⁹. The labour demands associated with managing additional cashback transactions would increase queuing times for consumers, thereby decreasing customer satisfaction, and restrict retailers' ability to improve productivity.

This key operational cost of labour time is projected to rise above inflation until at least 2024 as the Government proceeds with its objective to 'end low pay'. Even on the current statutory National Living Wage and not accounting for non-wage employment costs, the labour cost of a one-minute cashback transaction is 15p. This highlights how cashback as a high-volume service is not viable without proper remuneration.

Security Costs

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 18,399 robberies across the sector over the past year and 500 ATM ram raids²⁰. These incidents occur when criminals know or suspect there is a large amount of cash held on the premises. Fewer ATMs and more cashback facilities would increase the risk of robberies.

Retailers typically limit the amount of cash in till draws to anywhere from £100 - £200 to reduce risk. Cashback is often limited at £50, close to the 2019 average ATM transaction value of £45.52²¹. We anticipate transaction values for cashback will increase as the ATM network is reduced and

¹⁶ <https://www.visa.co.uk/about-visa/newsroom/press-releases.2962999.html>

¹⁷ <https://newsroom.mastercard.com/eu/press-releases/mastercard-aims-to-boost-access-to-cash-in-the-uk-with-new-retailer-cashback-initiative/>

¹⁸

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/718812/payment-surcharges-guidance-update.pdf

¹⁹ ACS Local Shop Report 2020

²⁰ ACS Crime Report 2020

²¹ <https://www.link.co.uk/about/statistics-and-trends/>

consumers are encouraged to use cashback, forcing retailers to host more cash in their tills and increase security risks.

Retailers are investing in cash handling and storage equipment and more frequent cash in transit collections but holding more cash on the premises would encourage more crime. To mitigate this risk convenience retailers will have to invest in more security measures in stores and increased insurance premiums.

Q3) How can the government ensure the UK maintains an appropriate network of cash deposit-taking facilities over time through legislation?

Bank branches are required to offer businesses cash deposit services. However, the rapid decline of bank branches means focus should be on supporting more local Post Office and ATM cash deposit solutions.

Post Offices

Post Offices provide valued business banking services, including cash deposits. Businesses can deposit at least £2,000 at a Post Office counter and pre-arrange to deposit larger quantities of cash.

Post Office business banking services have reduced security risk for retailers relative to standard cashback. 'Main' branches, which are secure Post Office counters within a host store, provide no public accessibility to the back area behind the fortress. The Post Office is reviewing security in 'Local' branches where cash must be manually transferred from the till to the safe but organises at least weekly cash collections for partner retailers.

ATMs

Retailers can also deposit cash via self-fill ATMs. This option does come with added security risks from both internal theft and robberies. Retailers are also required to fill a self-fill machine outside long opening hours and understand the Bank of England Note Circulation Scheme²². For these reasons, self-fill ATMs are marginal in the convenience sector with retailers typically opting for ATM operators to handle all maintenance.

There is the potential for ATMs to offer cash-deposit services and LINK has assessed how it could bring this forward via its existing interchange fee model. There is no need for all ATMs to accept cash-deposits but this could be a business banking solution in locations isolated from banks and Post Office branches. Further research would be needed to determine the level of demand for cash-deposit ATMs.

Q4) What are the key factors and considerations for maintaining cash acceptance in the UK?

ACS' Local Shop Report 2020 finds that, accounting for rounding, 100% of convenience stores accept cash payments, 95% accept debit cards, 88% contactless payments and 80% mobile payments²³. There are three key factors for maintaining widespread cash acceptance from convenience retailers.

²² <https://www.bankofengland.co.uk/banknotes/note-circulation-scheme>

²³ ACS Local Shop Report 2020

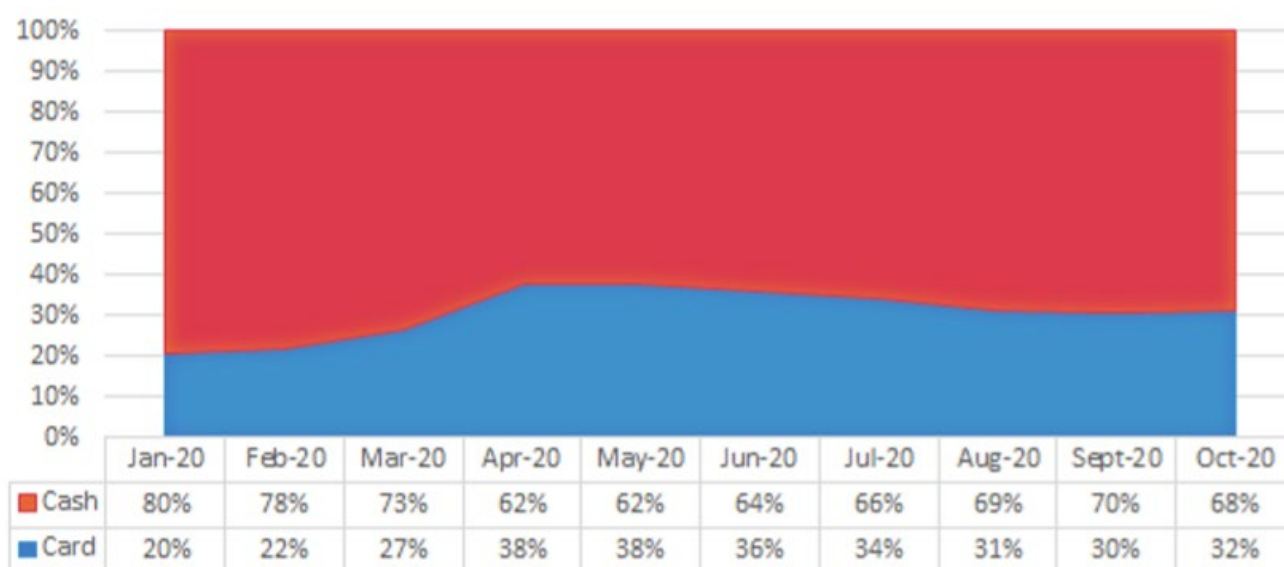
Processing Costs

Cash not becoming disproportionately expensive relative to alternative payment methods. This underlines the importance of minimising cash deposit fees and the Bank of England's work to consolidate the wholesale cash supply chain.

Consumer Demand

A reasonable level of demand for cash payments is required to justify maintaining in-store systems to accept and process cash. The proportion of transactions by payment method varies considerably depending on store location and customer profile. Data from the Retail Data Partnership (see Figure A) shows that 68% of transactions are paid for via cash in independent and symbol group convenience stores²⁴. This follows an initial move towards card payments during the first national lockdown which has now partly reversed and stabilised. The Access to Cash Review found that eight million adults would struggle to cope in a cashless society²⁵.

Figure A: Baskets by Payment Type: 2020



Ease of Access

The final key to cash acceptance is the ease at which customers can access cash within their daily routines. This is dependent on an appropriate network of cash withdrawal facilities (see Q1).

Q5) Should the government give a single regulator overall statutory responsibility for maintaining a well-functioning retail cash distribution network? If so, with which regulator should this responsibility sit?

Yes. There is limited evidence the Joint Authorities Cash Strategy Group is coordinating an effective strategy on access to cash. The Payment Systems Regulator has commissioned sizeable research but failed to convert this into proportionate regulatory actions.

²⁴ Evolution of Payments in the UK's Independent Convenience Stores. The Retail Data Partnership. November 2020

²⁵ [Access to Cash Review](#) December 2018.

A single regulator with clear statutory responsibility over cash payments is more likely to own the issue and act decisively as is required. The Financial Conduct Authority is already responsible for consumer protection and competition within the financial industry so may be most suitable to take on this function. However, we would not support a requirement for convenience stores to become FCA-regulated.

For more information on this submission, please contact ACS Public Affairs Manager Steve Dowling via steve.dowling@acs.org.uk or 01252 533009.

Annex A

ABOUT ACS

The Association of Convenience Stores lobbies on behalf of over 46,000 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 almost 19,000 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 over 14,000 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 over 13,000 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls 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 2020, the total value of sales in the convenience sector was £44.7bn.

The average spend in a typical convenience store transaction is £7.46.



There are 46,955 convenience stores in mainland UK. 72% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.



The convenience sector provides flexible employment for around 412,000 people.

13% of independent/symbol stores employ family members only.



22% of shop owners work more than 60 hours per week, while 24% 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.

80% of independent/symbol retailers have engaged in some form of community activity over the last year.



Between August 2019 and May 2020, the convenience sector invested over £585m 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 1,200 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 1,200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

ACS LOCAL SHOP REPORT

Annual survey of around 2,400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 6,700 stores. The Local Shop Report also draws on data from Lumina Intelligence, 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