



BANK OF ENGLAND

Speech

Less-cash, but not cashless

Remarks by

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Currency Conference 2019, Dubai UAE

8 April 2019

I would like to thank Ellen Caswell, Ben Dyson, Leanne Leahy and David Learmonth for their help in preparing the text.

As Chief Cashier of the Bank of England, it's my job to make sure that people have high quality Bank of England banknotes that they can use with confidence. It's a role I've been doing now for just over nine months. The most common question I've been asked in that time is "When are we going to see your signature on a note?" (The answer – for those who are interested – is when the new polymer £20 notes come out early next year.) But there's a lot more to this job than signing banknotes.

One of the best things about this role is that cash is something everyone understands and has a view on, so lots of people want to talk to me about it. A key thing I have taken away from the discussions I've had over the past nine months is that people really care about their banknotes.

That's clear from the fantastic response we had to the public nomination process for the face of the new polymer £50 note at the end of last year, with over 225,000 nominations received in just six weeks. It's also clear from my correspondence and conversations with people up and down the UK about their experiences using cash for their everyday spending.

But while the British public clearly cares about their banknotes, it is also the case that they are using them less and less. In 2007 cash accounted for 61% of total transactions. By 2017 this had reduced to 34% of transactions.¹ This shift in the way people pay for goods and services has prompted the second most common question I've been asked in this role: "What is the future of cash in the UK?" This is a very topical question, which has attracted a lot of interest recently. So I am delighted to have the opportunity today to set out my views on this question, and explain the role the Bank of England is playing in the future of cash.

The UK payments landscape

When I was preparing my remarks for today, I was set the challenge of coming up with a real landscape – an actual picture – that represented the cash landscape in the UK today. I chose a picture of a crossroads. At the moment, I think we are standing at the junction in that crossroads. In 2017 debit cards became the most frequently used payment method, taking over from cash for the first time.² It is now more common in the UK to see people tap their card or punch in a pin when paying for goods or services than to see an exchange of banknotes. But just over a third of payments in the UK were still made in cash – that's 13 billion payments in total.³ So, although its use is declining, cash is still a very important part of today's payments landscape.

The future in my landscape is represented by a bridge leading away from the crossroads. While I don't have a crystal ball to see what's going to happen to cash use over the next decade or so, I feel pretty confident in predicting two things about where that bridge will take us.

¹ UK Finance (2018)

² Ibid

³ Ibid

The first is that it's highly likely that transactional cash use in the UK will continue to decline. Industry forecasts predict that cash will account for around 16% of total payments by 2027, down from 34% today.⁴ However, these are just that – forecasts. They hold an inherent degree of uncertainty. How fast cash use actually declines in the UK will depend on a wide range of factors, including technological developments, consumer preferences and government policy. For example, in some countries, like Sweden and China, new peer-to-peer payment offerings have come to market that allow people to make small payments via messaging apps. The introduction of this technology appears to have contributed to the decline in cash usage. We therefore need to prepare for a world with less cash usage, without knowing exactly what path cash will follow, and be prepared to respond effectively and sensitively as society's payment preferences change over the next few years.

The second thing I feel pretty confident in predicting is that, although cash use is falling, it is highly *unlikely* that it will fall to zero. Cash is relied on by a significant minority of people in the UK for almost all of their payment needs. Approximately 1.3m people in the UK do not have a bank account⁵ and 2.2 million people – or 4% of the UK adult population – rely predominantly on cash for their everyday spending.⁶ Those most reliant on cash tend to be from lower household incomes, with over half having total household incomes of less than £10,000 per year.⁷ The tangibility of cash is a key benefit, allowing them to physically calculate and budget their spending. Digital payments do not yet work for everyone. Technological advances in payments have the power to support financial inclusion. But they currently tend to be designed for the mass market rather than for vulnerable groups, meaning vulnerable groups are rarely early adopters of new payment offerings.⁸ Indeed research by the Bank suggests that heavy cash users are less likely to proactively switch payment methods.

But beyond that, there are also significant numbers of people who want to *choose* to use cash. There's a variety of reasons why people choose cash, including because it is a useful budgeting tool, it is quick, and it works when other payment methods do not. In a recent survey commissioned by the Bank, 61% of respondents chose cash as one of their top two preferred payment methods, and nine out of ten people said they carry cash in their wallets.⁹ It is therefore likely that cash will continue to be used by many people for some time, albeit for fewer transactions.

I therefore expect that cash will remain a critical part of the payments landscape for some time to come: it will continue to be relied on by some for almost all of their payments, and by many for some of their payments – often depending on what is being bought and through what retail channel.

⁴ UK Finance (2018)

⁵ Financial Conduct Authority (2018)

⁶ UK Finance (2018)

⁷ Access to Cash Review (2018)

⁸ Ibid

⁹ The survey was conducted by Kantar TNS in February 2019 and involved c1900 participants.

But a world of lower cash usage is likely to present challenges for those wanting to continue to use cash. This was highlighted by the recent Access to Cash Review that was published in the UK last month, which concluded that the UK is not yet ready to go cashless.¹⁰ That Review set out a number of recommendations to help meet the challenges of dealing with a lower cash environment. The Bank has a role to play in this, and that's what I will turn to next.

The role of the Bank of England

As the sole issuer of banknotes in England and Wales, the Bank of England is committed to meeting the public's demand for cash. But that is not to say that we are seeking to promote cash over other payment methods. The Bank of England is neutral to method of payment - our objective is to maintain confidence in the currency. We do this by both issuing physical banknotes and facilitating electronic payments in a way that maintains financial stability and meets the demands of the public efficiently and effectively.

So what is the Bank doing to ensure this objective continues to be met?

On electronic payments, the Bank is working hard to support payment innovation by building the right infrastructure. We are renewing our Real Time Gross Settlement (RTGS) system, which is the backbone of every payment in the UK. This renewal programme will help to ensure that we deliver a resilient, flexible and innovative sterling payment system to meet the challenges posed by a rapidly changing landscape. We are not planning to issue an electronic equivalent to banknotes (known as a "central bank digital currency") in the immediate future. But we do have an active research programme, working closely with other central banks, to understand the potential benefits and risks of allowing society to make payments and store value in *electronic* central bank money.

On cash, we are continuing to invest in the design of our banknotes. In particular, we are moving to polymer notes, which are cleaner, safer and stronger than their paper counterparts. That journey – which started with the launch of the Churchill £5 in 2016 and which will be completed with the new polymer £50 – will ensure that genuine, good quality notes are available to meet public demand, allowing people to use their banknotes every day with confidence.

But we need to go further than this. Just producing high quality banknotes is not enough. We also need to look at how those banknotes are distributed around the country.

The wholesale cash distribution system is a key part of the cash cycle that enables the public to use the banknotes they want to, when they want to. It sits between us issuing new notes and those notes being sent to individual bank branches, ATMs and retailers. The Bank of England currently contracts with private sector

¹⁰ Access to Cash Review (2019)

The Access to Cash Review (ACR) was commissioned by the ATM network LINK in July 2018 to look at the future of cash access across the UK.

firms to undertake functions of wholesale cash distribution in the UK such as wholesale storage, authentication and quality sorting, and redistribution of fit notes. However, the current wholesale system was designed in a world with much higher cash usage than we have today, or is likely in future. Declining cash volumes mean that we are starting to see excess capacity in the system, which is inefficient. Risks to the resilience of the wholesale distribution system are therefore likely to grow over time, as capacity is withdrawn, making the cash distribution infrastructure less able to support a broad cash footprint in the UK, or cope with potential changes in the demand for banknotes over time.

To address this challenge, the Bank announced last month that we are convening relevant industry players to design and implement a new wholesale distribution model that will support the UK in an environment of declining cash volumes.¹¹ The objective of this work will be to develop, jointly with industry, a model for wholesale cash distribution that is effective, sustainable and resilient, including in a world with lower cash volumes. In bringing market participants together, we will be asking them to evaluate which potential models are: most effective in keeping the costs of cash competitive; most sustainable in their ability to adapt to various paths of lower cash usage, and to encourage innovation and competition; and most resilient to unexpected events. This is likely to include an assessment of the relative merits of creating a jointly owned “utility” of the type seen in several other countries. Any commercial decisions as part of this process will be for the industry players to take. But the Bank will act as a guiding hand throughout this design process, providing advice, support, and momentum and ultimately ensuring that any new model is consistent with our objective of ensuring confidence in the currency.

While an efficient, sustainable and resilient wholesale market is crucial to support the public’s access to cash, it is actually the retail market where most people interact with banknotes – via ATMs, over bank branch counters, in shops and when paying for services. Other UK authorities have more direct responsibilities with regards to retail cash access and distribution. But the Bank still has an interest here. In order for cash to remain a viable payment method, the public needs access both to withdraw cash and to deposit cash. And if retailers cannot easily deposit the cash they receive from customers, they may choose to stop accepting it. A key focus for the Bank is therefore to ensure that our actions on wholesale distribution support retail cash access, facilitating innovation in local cash acceptance and depositing facilities where possible. We have already seen some innovation in this space. For example, the Post Office is playing a larger role in the UK, with almost every UK bank customer now able to deposit cash at their local Post Office branch. There are new technological developments that allow businesses to deposit cash into “smart safes” which is immediately credited to their bank account. And some of the UK’s largest banks recently teamed up to launch a pilot of jointly-run mini-branches for business customers to withdraw cash and deposit cash and cheques. But for cash to remain a viable payment method in society this innovation needs to continue, and the Bank will do what it can to support that innovation.

¹¹ <https://www.bankofengland.co.uk/news/2019/march/boe-welcomes-access-to-cash-review>

Ensuring that people can continue to choose to use cash isn't something that the central bank can do alone, though. This is an issue that touches on social policy, financial inclusion and systemic resilience. And solutions are going to require a joined up approach across the cash market as a whole. We are therefore committed to working with the cash industry and relevant authorities, such as HM Treasury, the Payment Systems Regulator and the Financial Conduct Authority to further understand how best we can support innovation and to address, as far as possible, the concerns identified in the Access to Cash Review.

So, standing at the crossroads in my cash landscape today, I feel confident in saying that cash will remain a critical part of the UK payments landscape for some time to come. But we are clearly bridging to a new world, with lower cash usage, and we need to start preparing now in the UK to ensure that in that world people continue to have choice in how they make their payments. The Bank of England is committed to supporting cash as a viable means of payment for as long as the public still wants to use it. We will do that by helping to create a new wholesale cash distribution system that is efficient, resilient and sustainable, and that is fit for purpose in a lower cash usage world. And we will also work to ensure our efforts are co-ordinated with the cash industry and other authorities in the UK. It is only by doing so that we can continue to support people's ability to choose how to make their payments as the landscape evolves, and importantly, make sure that no-one is left behind.

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