HOUSE OF COMMONS

Treasury Committee

Oral evidence: Acceptance of cash, HC 324

Tuesday 17 December 2024

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Watch the meeting

Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Rachel Blake; Bobby Dean; John Glen; John Grady; Lola McEvoy; Dr Jeevun Sandher; Yuan Yang.

Questions 63 - 139

Witnesses

I: Ross Borkett, Banking Director, Post Office Limited; James Lowman, Chief Executive, Association of Convenience Stores; Carrie Aspin, Senior Researcher, Union of Shop, Distributive and Allied Workers (USDAW); Graham Wilson OBE, Deputy Chief Executive, National Association of British Market Authorities.

Examination of witnesses

Witnesses: Ross Borkett, James Lowman, Carrie Aspin and Graham Wilson.

Q63 **Chair:** Welcome to the Treasury Committee on Tuesday 17 December 2024. Today we are continuing our inquiry into the acceptance of cash in the UK, and we are talking to various representatives of businesses. Sadly, we do not have the Local Government Association with us, and we do not have representatives of larger retailers, but we are seeking evidence from them through other routes and hope that that will inform our inquiry.

From my left to right, I am pleased to welcome James Lowman, chief executive of the Association of Convenience Stores; Ross Borkett, banking director for the Post Office; Carrie Aspin, senior researcher at the Union of Shop, Distributive and Allied Workers, also known as USDAW; and Graham Wilson OBE, deputy chief executive of the National Association of British Market Authorities. I am really pleased to welcome you all here today.

I just want to go across the panel with my first opening question. All the evidence shows that cash acceptance obviously has reduced; do you think that cash has a future in the areas you represent? Mr Lowman, we will start with you.

James Lowman: Yes, absolutely. The broad picture, in terms of cash usage in convenience stores, is that it has been declining over a long period of time, but still represents nearly half of transactions in our sector. In recent history, during the covid pandemic there was a significant increase in the use of card over that time, and that has now slightly corrected. The other big period of time since then has been the cost of living crisis, where we have seen an increase in the use of cash, particularly as people use that as a way of managing cash flow and managing their finances in their households.

The overall trend is for decline in the use of cash. I see it taking a very, very long time to get to the point where we are viewing it as de minimis, or something that retailers would not accept. Almost all our members accept cash. There may be the odd example where someone is in a workplace, or in a very, very specific location or environment where they might not accept cash, but all but a handful of our 50,000 convenience stores in the UK accept cash. We see cash as being a very important part of a number of payment methods that consumers are going to be using for a long period into the future.

Q64 **Chair:** Mr Borkett, from the Post Office's point of view, you receive the cash.

Ross Borkett: We receive and provide access to it. You are absolutely right, our postmasters across the country are providing an increasing amount of cash services. Last month alone, we served over £3.5 billion in cash transactions. It is a staggering amount of money that we are supporting communities with, and we are seeing that grow month on month. We absolutely see it as a really important part of supporting communities, and we do not see it going away. I agree with Mr Lowman; I think we will see it decline slowly over time, but it will remain a very important payment method for many people.

Carrie Aspin: We represent 365,000 members and a large proportion of them are low-paid workers. Our members tell us that access to cash and cash usage is really important. We know that for a lot of our members, cash is really important in terms of budgeting and managing their finances. We see a future for cash. It is not just a choice that consumers are making; it is absolutely necessary for low-paid workers and more vulnerable groups across society. We are seriously concerned that the decline in cash acceptance is going to lead to people being left behind.

Graham Wilson: The ability to use cash is absolutely vital to the preservation and future of the markets industry. If you look at 1,000 years of history where cash has been king in market transactions, in the last 20 years in particular, we have moved to a situation where a significant percentage of transactions is undertaken by card and other banking means. In the context of the audience we serve, the nature of transactions, and the social role that markets play, we strongly believe that cash should continue to be a main contributor to transactional activity on markets.

Q65 **Lola McEvoy:** Mr Wilson, it is almost like you pre-empted my question, because my constituency of Darlington is a proud market town dating back to medieval times. Our first market transactions were over 1,000 years ago, and I am particularly interested in the impact of the reduction of cash on our heritage and culture. I feel quite strongly that haggling and bargaining at markets is part of our culture, especially for those on a low budget, as Ms Aspin mentioned. I am interested in your analysis of the impact of cash reduction on this cultural element as an activity, but also as a budgeting tool.

Graham Wilson: In anticipation of appearing at today's hearing, we did a snap survey of our membership. It is interesting that one market in particular said that since covid they have moved to taking something in the order of 90% in card transactions. That is exceptional. Based on the other returns we received, we think around 30% to 40% of transactions that take place in markets are now by card. Most markets continue to rely on cash transactions for the majority of transactions, and this arises from a number of reasons. First, the people who trade on markets tend to be families or individual traders. They have a history of using cash, particularly in the context that the majority of our traders are 45-plus and come from a tradition where cash has been used. Secondly, our research shows that the majority of people using markets come from an older age group and from lower-income groups. Those sorts of groups tend to want to use cash rather than rely on other forms of transaction.

We also find, based on feedback from our membership, that the majority of transactions in markets are small in nature. It is not like going to a supermarket and taking a lot of commodities off the shelf in a trolley; you go and buy perhaps half a dozen apples or half a pound of potatoes. The nature of the transactions is small. In that context, cash makes more sense, and markets find it helpful to deal with it. In recent years, markets have very much taken on a community and social role. This is very important to the markets industry. We are seeing markets set up in disadvantaged areas, being able to provide the local community there with fresh fruit and vegetables and the opportunity to buy other commodities. It is this social role that markets need to embrace more effectively. Certainly, the industry is looking very carefully at how we can enhance our social value to local communities.

Q66 **Lola McEvoy:** That is fascinating to me, because I really recognise that social value role of the market in my constituency. We talked before you came in, and there are quite a lot of us on the Committee who have markets. I am also interested in the auctioning element. In Darlington they have just recently restored a bell, which historically they used to ring and everything in the market was then auctioned off, and people would come in for a bargain. It fascinates me in terms of the food supply chain part of it as well. Do you have any thoughts on the knock-on effect of removing this? My assumption is that it is harder to haggle with card, and if you have any thoughts on that I would be grateful. If you remove the auctioning element, how does that impact markets, on the whole, in the way they traditionally operate?

Secondly, on regional disparity, did you have any analysis. when you did your snap survey, about whether different regions take more cash or card, or any thoughts on that?

Graham Wilson: Dealing with that last point first, our survey suggests that particularly the midlands and northern markets take more cash. The survey indicated that London markets, particularly one or two such as Borough Market, which has a fantastic reputation as one of the best markets in the world, take a significant amount of card transactions. There were significant cash transactions in the north and midlands, particularly the urban centres.

In terms of the auctioning and bartering, sadly, much less of that goes on now at markets. Markets are very colourful places; the activity and the vibrancy are characteristics that make markets what they are. Unfortunately, the calling out to come and buy and the haggling are not as prevalent as they were 20 to 25 years ago. There is much less emphasis on that as a reason for cash transactions. Based on our survey, it is primarily in respect of the nature of our audience—the elderly and the lower incomes—and the nature of the transactions, which are relatively small.

Q67 **John Grady:** I should first mention that I am a member of USDAW, and of course, Ms Aspin works for USDAW. I should also mention that my first job was on a market stall, when I was 14, and it was a brilliant job; I would still say it is the best job I have ever had until this one. Mr Wilson, just a few quick-fire questions: in 2020 your organisation commented that efforts to persuade traders to accept cards had met with limited success. Is that still the case?

Graham Wilson: Covid was a watershed in the transition to card and other banking arrangements. Because markets took a leading role in responding to the covid crisis, new ways of providing a market service were implemented, and many required online transactions. There was a significant uplift as a result of covid, and that prompted a lot of traders to look at ways in which they could take payments in alternative form. Although it has a high level of older traders, the markets industry is attracting significant numbers of new starters. These new starters are much more inclined to be savvy with social media and card payments. We are certainly in a much better position than we were in 2020, first, as a result of the covid crisis and what we had to do to respond to that; and, secondly, because we are seeing a new generation of market traders emerge, and they are looking at ways of dealing and trading in different and up-to-date ways.

Q68 **John Grady:** In 2022, your survey found that half of market operators no longer carried out cash collection from stalls. What is the trend? Is it still reducing? Are these markets going cashless, or are traders making their own cash handling arrangements?

Graham Wilson: In terms of collection of fees, the survey we did last week suggests that the vast majority of market operators now collect fees by way of card, bank transfer, direct debit or standing orders. Where cash is collected, it is normally in respect of casual traders, who just come and fill an empty stall on the particular day. I would say that since we did our survey in ’22, there has been a significant uplift of collection by banking and other means.

Q69 **Lola McEvoy:** You just sparked something in me, because I was shopping in our market this week and they had fantastic new young people who had created really beautiful artisan products, and they obviously accepted card. What would your message be to new starters—new entrepreneurs getting into the trade? Is there an opportunity for them to broaden out the range of people who might spend at their stalls if they accept cash?

Graham Wilson: Yes. We obviously want the markets to reflect modern trends. As I said at the outset, there is a very real role for cash going forward. We try to encourage all traders to use multiple forms of transactional activity so they can take advantage of all opportunities to enhance their business. That is not only in terms of the cash and card situation, but using social media to promote, and ensuring they have a facility to do online sales. There is a whole raft of measures to bring markets into the current century.

Q70 **Lola McEvoy:** For these micro-businesses that are starting up, are there any blocks to them using cash? We have heard evidence about how it can be quite cumbersome to take the cash, deposit it and that sort of thing. Is there anything wider that we could be asking other industries to be doing to support micro-businesses to take cash?

Graham Wilson: I am not aware. We have certainly had no feedback of any difficulties or problems emerging in operating markets via cash. It is something that has not come across our radar.

Chair: Mr Wilson, you mentioned some interesting research you have done, both from ’22, which we may have seen, and the work you did last week. Even if it is not a full, detailed bit of survey work, could you please share that with us?

Graham Wilson: Yes, of course.

Q71 **Dr Sandher:** Cash use has declined from 50% of transactions in 2013, to 30% just before the pandemic, to 20% today. The panel seems to believe there is always going to be a role for cash, but can I ask why you think it will not go to 0%?

James Lowman: Yes, there are a couple of reasons. Some customers will always prefer to use cash. There are some consumers who are unbanked and operate in cash—that is typically their normal way of operating. Retailers of all kinds will be reluctant to be entirely reliant on card payments. When you think back earlier this year to the CrowdStrike issue, for example, where due to some problems with an online antivirus security system, a number of card payment systems went down for certain retailers. It was luck of the draw, really, how you were affected. There have been other examples as well where consumers have not been able to pay by card; basically the technology has broken down and has not worked for a period of time. Cash is a very, very useful fallback in circumstances like that. There will always be an element of preference around that.

There is a tendency towards cash among the sorts of consumers and retailers who are more likely to have a higher proportion of cash transaction, for example if you are dealing with small baskets and very small transactions. In our sector, the average basket value is just over £8, and many of them are smaller than that. Also, independent businesses may not have the technology in store to accept cards. Most do now—pretty much all do—but not every single one. It may be rural sites, and places that are not selling high-value items like fuel. Pretty much all retailers who sell fuel will accept cards, and the proportion of cash in those businesses will be less, if they are petrol stations. When you have other sites, particularly low-value sites, they are less likely to have that technology. For all those reasons, we will continue to see a decline, but I do not see it going to zero. Cash will continue to be part of the way we accept payments from consumers.

Q72 **Dr Sandher:** Does any of the rest of the panel have anything to add to that?

Ross Borkett: I would say something very similar. It is down to need and choice, and we will continue to see that. In particular, if you look at those who are on low income, we definitely see a bigger preference towards cash, but also among those who are financially and digitally excluded. That is not just the elderly; research this year by Link has looked into this, and actually financial exclusion has been growing in young people. From a budgeting perspective, it is much easier to do that in cash, and we will still see both a need and a choice from some people to use it.

Carrie Aspin: Among our members, we have seen a clear correlation in recent years between the cost of living crisis, and higher prices and high inflation driving a trend and a return to cash usage. We certainly do not see it fully declining.

Graham Wilson: I have just one other point to mention. Many markets operate in open spaces. Traders come on a day, and then at the end of the day they pack up and go home, and they come back another day. We found that in respect of people who want to use card sales in those open spaces, one of the big issues raised by our members is wi-fi connections. It was interesting that when we did our survey last week, several of our rural members said that one of the biggest obstacles they had to getting traders to use card was the poor wi-fi connections in their area. There is nothing worse than saying to a customer, "Can you wait five or 10 minutes while I get a signal before I can take the payment?" That was an additional issue that was raised, which was hindering some movement to card and other banking payments.

Q73 **Dr Sandher:** Mr Wilson, I am also from a market town; it is 803 years old, I believe.

Chair: We have a competition here on the Committee.

Dr Sandher: You said that people prefer to take small payments in cash. A naive view would be that you are not going to lose any change from a card transaction. Could you just explain to the panel why market traders prefer small payments to remain in cash?

Graham Wilson: I go back to what I said earlier about the history. In markets, cash has been king for many, many years. The feedback we have received is that the majority of transactions in markets are often for £2 or £3, and traders prefer that transaction to be conducted by cash means. Part of it is historical tradition, and part of it is the way they have been brought up. I said earlier that the age profile of the majority of market traders is 45-plus. It is something in their blood that they have been used to and are comfortable with, and the customers they serve, particularly the elderly and those on low income, are comfortable working within a fixed budget. Those are the reasons why the transactions are in cash and continue to be so.

Q74 **Dr Sandher:** It is not the size of the transaction; it is the historical tradition?

Graham Wilson: The transactions at the market are small in nature, by and large. You do not get many transactions at a market stall that are £15, £20 or more. What we tend to find is that the majority of transactions are in single figures. What we also learned from our survey is that the traders are comfortable in those situations; in the context of the history and their relationship with their customers, they want to deal in cash.

Q75 **Dr Sandher:** I am not sure I am quite getting it, but it is best to move on. My dad had a shop and I worked in it, and I was thinking in terms of the blood. I suppose we have used cash transactions for over 1,000 years, as has been mentioned, and we seem to have moved quite fast. I suppose I am slightly struggling with that, but maybe we will move forward. Finally—I suppose for you in the markets, this is probably the most important thing—if we are to move to a completely cashless society, would you like to see more support for market traders to help move towards cards?

Graham Wilson: As I said earlier, it is vital that we retain cash as an element. If cash is removed, it will be a very severe blow to the running of markets. With all the goodwill in the world, in terms of offering training and support, it will be a case of many of the market traders in the age group I have indicated saying, "I'm sorry, this is too much of a change. We are not going to trade any longer."

Q76 **Lola McEvoy:** Ms Aspin, I am interested in the low-paid element and the access to cash, specifically in supermarkets, because obviously a lot of your members at USDAW work in supermarkets. There is a preference for having somebody at the checkout using the traditional checkout method if you are on a low budget, because you can always say, "Oh no, take that off" and it is less of a wait. There are elements of behaviour if you are budgeting; you might have counted up how much you think it is going to cost, and then you do not want that issue to come up on the self-checkout. Do you think supermarkets are doing enough to support cash acceptance, and to facilitate low-paid people and people on a low income at that checkout point?

Carrie Aspin: The majority of the retailers where our members work are still accepting cash, and that is obviously helpful to those on lower incomes. In terms of the self-service and the checkout, we have not seen any evidence in terms of the budgeting difference between checkout and self-service. I am not saying that is not the case, but that is not something we have heard from our members.

Q77 **Lola McEvoy:** Do all self-checkouts in all our supermarkets accept cash and card?

Carrie Aspin: Some machines are now card only, but there is always an option to pay with cash within the stores, at least in the majority of cases and retailers where we have agreements.

Q78 **Chair:** Do you have any evidence of whether there is a longer queue for a joint till, compared with the card-only tills? Has any research been done?

Carrie Aspin: We have not seen any evidence of that, no.

Q79 **Rachel Blake:** My questions are for the Post Office. In your own evidence, you recognise that so long as deposit services are easily available, businesses would continue accepting cash. You talked about how the framework ensures that businesses are not turning customers away. The British Independent Retailers Association said that most businesses said they have no trouble obtaining cash, but of those who do, many said the top two reasons were that post office and bank locations were not convenient, and that bank and post office opening times were inconvenient. To what extent does cash acceptance rely on a functioning post office network?

Ross Borkett: There is a major reliance. If we look at the trend over the last 10 years and the way that cash usage has changed, we have seen more and more customers come to us for withdrawals, but more importantly for deposits, in particular as bank branches have changed their bank networks. We have seen more businesses come to us to deposit. Certainly, when we responded to the Treasury's consultation around access to cash, we made the point that we felt that if there were good, convenient places to deposit cash, then it would be easy for businesses to continue to accept it. That would provide a good level of protection around acceptance.

As we have gone through these few years, and we are just seeing the first few months of access to cash come in, and the additional interventions from those new regulations—which we welcome—we need to keep looking at whether that is going to follow through. Are we going to always have acceptance in all places? Certainly, from our perspective, businesses generally should have a choice as to how they serve their customers, but I am worried that as time goes on and cash overall declines, we might get to a place where we leave people behind. We should consider whether essential services should have some form of mandate to make sure they continue to accept cash, and that we give certainty to businesses early. That is a direction we may want to go in.

Back to your point around convenience, our network operates under a set of access criteria. We have over 11,500 branches across the country in almost every community, to try to provide convenient access to cash. Many of our branches are open later in the evening or the weekends; we have 4,000 branches open on a Sunday, as an example. That helps provide additional access to services, probably more than many bank branch networks have done previously. We have certainly seen that in the level of cash that has now come through the network in the last five years.

Q80 **Rachel Blake:** The Post Office is currently consulting on 110 Crown post offices closing, including nine in the cities of London and Westminster. Is cash at risk under this review?

Ross Borkett: We are consulting around franchising those 108 branches that we still directly manage. All our other branches operate under a franchise basis, and we have had a long-stated intention to move to a fully franchised model. We are consulting about those branches, but we will continue having a presence in line with those geographical access criteria. When we are looking and consulting around those sites, it will not be a case of us not having a service in that community, it will be about looking at how we are providing that service in those local communities.

Q81 **Rachel Blake:** You have talked about access to cash. In terms of acceptance of cash in businesses, we have established, in both your evidence and that of other small businesses, that the network is really important for that. How will cash acceptance, given that it is not a direct function, affect your decisions on those franchises?

Ross Borkett: Cash is making up a bigger and bigger part of postmasters' businesses. Making sure we are staying in communities, providing cash services as well as other services, is a key part of how we are looking at our network. As we look at the options around franchising those sites, we will be looking at where in those communities we are going to provide those types of services, to make sure that we still support businesses with cash so they can accept cash.

Rachel Blake: Just so I understand, the acceptance of cash in local businesses will factor into your decision-making?

Ross Borkett: Yes.

Q82 **Chair:** I am just picking up on Ms Blake's point. In the very helpful evidence that you provided, in figure 1 on page 2 you have a graph showing the volume of transactions, and in figure 2 the value. What is interesting is that the volume seems to go up and down, but the value is definitely on an upward trend year on year. Is there any light you can shed on that? Is that more businesses coming in? What is happening?

Ross Borkett: Absolutely. There is an increase in businesses using us, and we think inflation has also had some impact, so the value of the total number of transactions has gone up; we have seen some of that as well. We are picking up more and more both personal and business customers, and they are bringing larger amounts to us.

Q83 **Rachel Blake:** I wanted to put some questions to Mr Lowman. Your members both work within the network and rely on the network because of the nature of your members' businesses. What more could be done to maintain post office services within your membership?

James Lowman: There is a whole range of things. We host most of the post office network across the country. Ultimately, it comes down to retailers. These are independent businesses that offer lots of other things, and they can make a choice about whether they offer a post office or not. If they offer one now, they might keep it or they might not. If they do not offer one now, they might choose to take it into the business. Ultimately, it is about making the choice to bring in a post office as attractive as possible for them. It is ultimately up to Ross and his colleagues to do that. That comes down to remuneration, ease of operation, service levels—all of that together.

Picking out a couple of specifics within that, the Post Office is operating in a number of very competitive markets, but in some cases growing markets. One would be around banking services. It is very exciting to our members to be offering more services, for two reasons: first, it is an extra income stream, and, secondly, you are making yourself more relevant to the community where you are operating. A lot of our members are the only service, or certainly the main service, in a secondary or tertiary area—a housing estate, a village or somewhere away from a major centre. Bringing banking services to those places is really attractive. It is also true that some services can be offered through other routes as well, so it is up to the Post Office to make that an attractive thing.

There are loads of services, and the other one I would pick out would be parcels, which is a significant and growing area, obviously, with a move to online shopping. We can benefit from that and work with that by offering the point at which parcels are dropped off, but also the point at which they are collected by consumers. It is about making that as operable as possible and helping retailers to operate it, often in quite small locations, so they can offer that service to their consumers. In a competitive market there are lots of people who are moving parcels around, and lots of people are accepting parcels through different platforms.

I see post offices being in some really quite exciting and growing markets, but they are all very competitive markets as well. The challenge for members is whether they want to be in the business of offering those services. Often the answer is yes, because they want to become more relevant to their communities and attract more footfall into the business. Do they want to work with the Post Office, or another operator or combination of operators to do that?

Q84 **Rachel Blake:** I agree with you that this is a really exciting opportunity for lots of small businesses in their communities, yet so many places are losing post offices and fearful of losing post offices. Why are more people not taking up this opportunity?

James Lowman: There is a real commitment to running a post office in terms of space and staffing time, and there are other ways of doing it. There is an operator called PayPoint, for example, which offers some services that the Post Office offers under that banner, and there are other operators. You can become a pick-up point for a different parcel operator, or you can offer an ATM through a variety of operators. That is a choice a retailer is ultimately making.

This is very, very top line and Ross may disagree, but ultimately what you have with the Post Office is a very strong, very heavily established brand. What you have with some other operators might be a bit more nimbleness in terms of them being able to maybe pick and choose the services they are offering and doing that on a slightly different basis. I do not quite recognise the picture of decline in terms of post office branches; that number has been pretty stable. We have members who are taking on new post office branches as well, so there is real excitement about being involved in offering those services, whether through the Post Office or with someone else.

Q85 **Rachel Blake:** The comments you have made about the parcel machines, the level of competition for your members, whether they want to attract a post office service or they want the parcel machine, and the comparative income, are really interesting. Do you have any data that you could share?

James Lowman: I do not have any hard data to share now, but we can certainly look into it. There are various offers there. One of the reasons it is difficult is because correctly apportioning the costs of operating those is really quite difficult. You can have a model where you have parcel lockers outside, for example. It is relatively cheap to do and there is very little colleague involvement in that, versus parcel or banking services over the counter, where there is more colleague time and training and a lot of skill in order to offer those services properly. That involves a lot more but also brings people into the store.

The other thing that is incredibly difficult to put a value on is that footfall of people coming into the business. There clearly is a value to it, but different retailers will assign a different value to those customers coming to the store. Are they existing customers who would have come anyway? Are they new customers? It is a very, very complex debate, but we can certainly expand on that a little more and send more information to the Committee.

Chair: If there is any data you can share with us, Mr Lowman, we would be very grateful to receive that.

Q86 **Dame Harriett Baldwin:** For cash to be accepted by market businesses, or businesses anywhere, ultimately a business has to be able to take that cash somewhere and deposit it into its bank account. So many bank branches are closing across the country—often the last ones in town—that the role of the banking hub and the Post Office become increasingly important. I wonder if I could start by asking Mr Borkett about the role the Post Office plays in providing those services to businesses. That is quite dependent on the framework agreement you have with the banking sector, and it would be incredibly important and interesting for the Committee to hear how the negotiations for the next stage of your framework agreement are going.

Ross Borkett: You are absolutely right. We have a commercial agreement with 25 banks to provide the cash services over our counters. We have been in negotiation with the industry through this year. I am pleased to say that we concluded those discussions in November, and the banks now have until March to decide whether they plan to continue. We are very hopeful that they will continue to work in partnership with us in providing cash. That is what underpins the services we have in branch, but also underpins those services we provide in banking hubs.

Q87 **Dame Harriett Baldwin:** If you are banking with one of those 25 banks, you can have confidence now that you will be able to continue to take the cash that your business takes, and deposit it at the post office. Does the post office have any limits? You mentioned this astonishing figure of £3.5 billion a month, so £42 billion annually; I worked that out in my head. If you are a business, and you have had a really good day on the market, do you have any limits in terms of how much cash you can then take down to the post office?

Ross Borkett: We have limits at our counter on how much you can do in a single transaction: at some bigger post offices you can do up to £20,000, and some smaller ones it is up to £4,000. Each bank, depending upon the account you have with that bank, will set its own limits. I am afraid they are different by bank, just to make this nice and complicated. Depending on the type of account you have and who you are banking with, you have different limits, and it will be different if you are a personal customer versus a business customer. They are normally cumulative limits, so it would normally be either a monthly or annual limit of some form, and if you reach that limit then you will not be able to deposit with us.

Q88 **Dame Harriett Baldwin:** Okay, and then who is responsible for the money laundering angle on that? Presumably if someone shows up with a great big sack of cash, someone—either the post office or the actual bank that is taking it—is accountable for making sure that is coming from a good source.

Ross Borkett: Banks are accountable, but we work together in trying to combat that. You are absolutely right that we are now seeing more and more cash come through our postmasters' branches, and so we have an important role to play in trying to combat that. We look out for suspicious activities, and we can decline transactions if we are suspicious or not happy about taking it on board. We work very closely with law enforcement in trying to identify where we are seeing organised crime activity, in particular. We have collectively had some success in the last few years in managing to stop and arrest where we are seeing those types of challenges.

Dame Harriett Baldwin: Under the new framework agreement, what I am hearing is that there are not going to be any changes in terms of the acceptance of cash for businesses, provided the banks agree to the new framework. Are you happy with the outcome of those negotiations?

Ross Borkett: Yes.

Q89 **Dame Harriett Baldwin:** In terms of banking hubs themselves and the rules around banking hubs, we have heard about the importance of access to cash, but are there any changes that you would like to see in terms of the banking hub rules that would change the probability that a town where the last bank closes gets a banking hub?

Ross Borkett: Very good question; that is quite topical at the moment. My simple answer is that it is a bit early. We have the new regulations that came in in September. Prior to that, the banking industry had a voluntary scheme where it assessed communities and decided whether that community would receive a hub or not.

Q90 **John Glen:** You could apply for one?

Ross Borkett: Yes, you could apply as a community and request a community assessment. Since the regulations came in, we have seen communities that have previously been assessed being reassessed, and now getting an intervention like a hub. The bar has already been raised with the new regulations coming in, but we are only three months in, and we just need to let them play out over these next few months. The FCA has a very clear role in making sure that the outcomes around access to cash are delivered against the criteria that have been set out. If it feels that that is not being done, initially it will want to look at that. At the moment it is early, and we probably need to wait three to six months just to understand whether the trigger events and assessments that are occurring are then resulting in the right outcomes, and then if they are not, make adjustments from there.

Dame Harriett Baldwin: Post Office Ltd at this moment in time does not have a view on this, but you will keep an eye on it? Okay.

Q91 **John Grady:** Mr Lowman, are the operational costs of accepting cash for your members increasing, decreasing or staying the same?

James Lowman: They are increasing. The British Retail Consortium has estimated that the increase in the cost of accepting cash is about 25% over three years. Going back to what Graham Wilson from the markets was saying earlier about the reasons why there is a disincentive to accepting very small transactions on card, it is because often there is a fixed element to that. Therefore, if you are accepting lots of those, you have lots of those fixed costs, which then affect the margin of the business. That is why you still see quite a lot of convenience stores have a lower limit for what they will accept as a card payment, and that is a decision that they can make.

Yes, the cost of accepting cards has gone up. It is also worth saying that the cost of handling cash has gone up. If you are a relatively low-turnover business and you have a post office close to you—you may even operate one—then you can bank cash cheaply with the limits that Ross talked about. If you are not in that situation, you are generally into cash-in-transit and other means of handling that cash. Our members actually report quite a broad range of cash-handling costs, around 40p per £100 banking, up to £1.50 per £100 banking, which obviously starts to eat into tight margins quite significantly.

Q92 **John Grady:** Is there a point at which the cost of accepting cash overrides the wish of your members to serve their customers by accepting cash? Is there a point at which your members would say, "We just can't afford to accept cash; relatively, it is better to accept card"?

James Lowman: Probably not, because the cost of accepting cash is entirely linked to the volume you take. You could certainly imagine retailers, and I know some retailers, who say, "We'd rather accept card." Card is just easier; there is less staff time and there is less contact. People talked earlier about self-checkouts, where a higher proportion of transactions will be by card, and in fact having a self-checkout that does not accept cash makes the cost of that unit quite a lot less, so that is an option that some retailers think about. They might have a mix of the two—some that accept cash, some that do not.

There are incentives for retailers to move towards card, if that is what they want. There are equally incentives to move towards accepting cash because they want to reduce those card fees. Retailers can take a view, but ultimately, they are bound by what the customer wants to do. If a retailer takes a very small amount of cash, it is still able to handle that, whereas if you have a lot of very, very small card transactions, that is disproportionately quite expensive. No, retailers will still be able to accept relatively small quantities of cash going forward, if that is what their customers want, ultimately.

Q93 **John Grady:** In your written evidence, you say that payment methods are diversifying. Could you just talk us through a bit what you mean by that?

James Lowman: The next thing that will be a big factor in payments will be open banking, or direct payments. People call it different things, but essentially, it is where you take out the Visa or Mastercard part of the transaction and it is just my bank account paying your bank account for the products I am buying over the counter at that time. Our sector will be towards the end of that journey because we are very low value—as I say, £8 average per transaction, so very small transactions.

Where those models will start coming in will be more towards large transactions, with people buying sofas and kitchen sets or whatever. That might be a more efficient way of doing it, because you are taking out the card costs, and they can then have a smaller cost in terms of the bank transaction there. There is a lot of work being done on that, but our sector will experience that towards the end of that journey. We do not know where that goes, and ultimately whether the cost of an open banking transaction will become less than the cost of a card transaction. At some point that might happen, but that is speculation.

Q94 **John Grady:** Do you have a feel for when you think this would hit the smaller stores that you look after?

James Lowman: It is not something that we are especially thinking about right now. It is not in our immediate frame of reference. The other diversification, of course, is card payments through phones. That now is increasingly common, of course, but essentially that is the same thing from a financial transaction point of view; it is just a different device that is doing it.

Q95 **John Grady:** There is a paradox there, is there not? With larger transactions with your credit card you get consumer protections, and you lose those if you pay directly with your bank. That is for another day, perhaps. Another interesting point in your written evidence is that you talk about active management of a transition away from physical cash. What do you mean by active management, Mr Lowman?

James Lowman: It is whether you would do things to encourage payment by a certain method. That might be a minimum limit on payments by card, or it might be through self-checkouts that only accept card. There are ways in which you could influence that, which are largely driven by the operation cost of the business, rather than through a preference about where we necessarily want to end up. That is ultimately driven by the consumer.

Yes, there are things retailers can do that might influence that decision. Ultimately, when I speak to retailers, sometimes their cash costs are a bit higher and they say, "Oh, I wish I didn't have to bother with so many cash transactions, particularly with increasing employment costs and handling that and everything that goes around that." Sometimes I speak to them, and they are saying, "Oh, my card transaction fees have gone up, and I wish I had a higher proportion in cash." Ultimately, they will respond to how the customer wants to pay.

Q96 **John Grady:** I am taking from that that you are not seeing a pattern among your members where, as a group—say, 60%—they are saying, "We want to actively move away from cash"? It is a mixed bag.

James Lowman: No, I am not seeing that. No, not at all. It is a site-by-site, retailer-by-retailer decision about how they want their businesses to operate, and what their customer base is. They will see how their customers are responding and how they want to pay.

Q97 **John Grady:** Are you seeing groups of retailers, or shall we say a reasonable body of retailers, actively managing their operations away from cash?

James Lowman: Certainly not in a co-ordinated way. There is a broader movement towards taking out friction and handling in store. For example, more retailers that accept cash now are accepting it through automated systems at the till. You put your note into the till, and it spews out the change, and so the colleague never touches the cash. We are seeing those sorts of things to try to reduce friction. That is the driver, but we are not seeing anything driven by a preference for cash or card particularly.

Q98 **John Grady:** That makes sense to me. In your evidence you also say that cash usage is gradually declining, but it is expected to remain a significant payment method for at least five years. What happens at the end of five years?

James Lowman: That is not a hard stop. That is probably as far as you can see, realistically. The reason we say it is that the circumstances around the pandemic were probably about as extreme as you can imagine, in terms of discouraging people to use cash. Everyone was saying, "Don't touch anything." The tap and go contactless threshold was increased over that time, so more transactions could go through that method, and you had a rapid increase in the adoption of technology like payment on phone. Pretty much everything was geared towards that, and still, for most retailers upwards of a third of transactions were in cash at that time. We are looking to quite a long horizon before there is a point when we consider cash not being part of our business.

John Grady: I am mindful of time, so that is enough from me.

Q99 **Bobby Dean:** We have heard quite a bit about market forces, the needs and preferences of consumers for cash, and firms' desire to match that. We have also heard about the unreliability of card systems sometimes. As part of this inquiry, we have been told that all commercial traders should have an obligation to accept cash. That is a slightly different question. Does anybody agree with that statement? All traders should have an obligation to accept cash.

James Lowman: No, we do not agree with that. Now, I am saying that from the perspective of an organisation where all but literally a handful of the 50,000 shops we represent accept cash. I do not see that changing significantly at all. It is simply because there might be specific circumstances or specific environments—it could be within a workplace or within a more controlled, discrete environment—where the retailer does not want to accept cash. They know that that customer base is so inclined to be using card, and they want to take out the cost of handling cash, the systems to take cash and things like that. We are not in favour of obligating retailers.

We also want our members to have the maximum flexibility to offer whatever they think is appropriate for their customers, but that is it. It is not because we see any time soon where we are not accepting cash in all but a handful of the outlets we represent. It is an important principle that we should not be told how we can and cannot accept payment.

Q100 **Bobby Dean:** In saying that, do you not accept that while that would suit the businesses and most of their customers, it might be quite exclusionary for some potential consumers?

James Lowman: If it was, they would not do it. In a sense, as a business, if you are excluding potential customers, that is a bad business decision. That is what is going to drive their decisions.

Q101 **Bobby Dean:** That is not necessarily true, because if it is a small proportion of your customer base, you might be prepared to relinquish that for the hassle that comes with it. That small proportion actually is quite meaningful and important, and who gets excluded counts. What would you say to that?

James Lowman: I just cannot imagine a business doing that in a situation where there was not a specific reason to not accept cash.

Q102 **Bobby Dean:** I will give you a hypothetical example, where we are in a small village in which there is one person who is severely disabled and really needs to use cash in their transactions, and they no longer have access to this business because it is just one customer.

James Lowman: That is not a realistic scenario. In a village situation, every retailer is accepting cash. I do not represent them, but for example, a lot of football stadiums do not accept cash any more. As I said, that is not our business, but that is up to them. That is their decision whether they deal with it or not. You can see it much more in the environment there, where you have a set group of people who are using that facility at a certain time. We would support a business's right to make decisions like that. In a convenience store environment, it is incredibly unlikely. There is no way any stores in a village are not accepting cash.

Q103 **Bobby Dean:** Essentially, we should leave it to market forces and if the consumers start demanding it less, then retailers should be able to stop?

James Lowman: Yes. Ross's point earlier is worth considering. I accept that when we see those market forces heading towards a point where there may be some areas where you could see exclusion in certain locations if cash were not accepted, then there might be something there in thinking about how you promote provision of cash acceptance in those areas. We are so far away from convenience stores on any mass-market level not accepting cash that it is almost quite a theoretical discussion. I welcome that discussion about how you maintain those essential services in those communities, but they will be maintained.

Graham Wilson: Given what I said earlier about the importance of cash transactions in the markets industry, we would probably come close to arguing that it should be an obligation.

Q104 **Bobby Dean:** On all traders?

Graham Wilson: On all traders, to accept cash.

Carrie Aspin: I do not know whether we would necessarily say that it should be an obligation on all businesses, but certainly essential services, which would include things like food retail and pharmaceuticals spring to mind. This was reinforced in the pandemic when we saw how crucial food retail was. If there is going to be an approach where we are prioritising different sectors, we would want to see retail viewed as an essential—food retail, certainly.

Q105 **Bobby Dean:** We will probably come on to definitions about what essential goods are later on. I accept what you were saying, Mr Lowman. I have statistics here about how 98% of small business owners said that if a customer needs to pay cash, they would not refuse them. That is probably because they are not in a position to turn away customers.

Ms McEvoy mentioned this earlier on, but the large retailers are already starting to phase out cash from many places. We do not have representation from the large retailers here today, but I would welcome your thoughts. Lidl has made its self-checkouts cashless, Tesco just made 40 of its café sites cashless, and Asda has made 14 petrol stations cashless and plans to go up to 68. It feels like the larger retailers, at least, are moving towards a cashless model as much as possible. Do you think they should be obligated to accept cash?

James Lowman: I am not sure; I am not speaking for those larger stores. In a way, they seem to be moving towards card being the norm, but still offering a cash facility in those sites. That is a very clear distinction. Look, as a point of principle, we do not want our members to be compelled to take any particular form of payment. We do not want them compelled to take cards, for example. It is up to them to decide, notwithstanding the fact that it is a situation that should be kept under review, ensuring there is not exclusion from essential services. If we are talking about essential services, during the pandemic, the Government helpfully defined essential, which includes food retail. We would expect that to be included in any such definition. But no, we would not want any businesses obligated in that way.

Ross Borkett: Just to add to your point about market forces, I tend to agree. Right now, the market forces mean that there will be very good cash acceptance because the majority of retailers would want to serve as many customers as possible, and my hope is that will continue. What is useful is to be thinking longer term now about how if that level of cash usage comes down, and certain retailers decide actually it is not something they want to continue to do, we do not leave people behind. That is really why our position is that we should be looking at something around essential services, but not all retailers, to make sure that people are not left behind. Starting to think about that now gives everyone a bit more long-term certainty and time to think.

Just referring to what Mr Logan was saying, a number of retailers have made some investments in how they handle cash in their stores, whether it is through self-service or automation behind the scenes, which means it is much more effective and efficient. They are doing that because they know there is good long-term certainty that they are going to transact in cash. That gives everyone a chance to plan for that going forward.

Q106 **Bobby Dean:** I have just one more question, which is not really about the withdrawal of cash acceptance but about making it far more difficult to pay by cash. You can go into many supermarkets now, and you are ferried towards the self-checkout aisles. There might be one person on a till that is still accepting cash, for example. That could feel quite exclusionary to the people who need to use cash, and they might end up opting out of going into the stores altogether. Do you have any views about the long queues that some of the most vulnerable in our society might have to face just to pay by cash?

Carrie Aspin: In terms of vulnerable individuals, we know from the pandemic that they preferred using checkouts, not only because of the tangible nature of cash and how it is somewhat easier to manage, but also because of that interaction and speaking to someone. We know that there is a preference there, and the majority of supermarkets and retailers where we have agreements still operate some checkouts and self-service. Ross made this point, and it is about making sure that we are not leaving people behind, so we would strongly advocate that there is always an option to pay in cash.

Q107 **Yuan Yang:** The lack of traceability of cash is obviously a great strength from some perspectives, but it can also be a vulnerability, and my colleague Harriett Baldwin MP brought up the issue of money laundering. I was wondering if anyone on the panel could speak to the question of cash as a form of tax evasion, and if that is a risk that has been brought up by HMRC, or that you have encountered with your members in recent years.

Chair: Mr Borkett, I guess, because you have to do some checking.

Ross Borkett: We do some checking, and we obviously ask questions at the counter about where the cash has come from, but I am not sure that I can really talk about tax evasion specifically.

Q108 **Chair:** Do you report it up if you think someone is coming in with an unusually large amount of cash unexpectedly? Do you report it to the authorities?

Ross Borkett: What we do is we report it back to the bank. We will go back to the bank to say, "We've had this individual come in, there's a suspicious amount of money and we've asked them some questions." Maybe our staff felt uncomfortable declining the transaction, so our advice is, "Take the transaction but report it." The bank may investigate. There are some cases where we will go directly to law enforcement if it is a very clear situation, but we would often pass it to the bank, which will have much more information about that customer and can look within their account to decide whether it then should be taking that further.

Q109 **Yuan Yang:** Mr Wilson, I am aware that many new market traders may be on a journey from it being a side gig, and they are not really earning that much profit, to it being a full-blown business. Do you see a risk of not paying taxes properly if people are holding on to cash for too long in that process?

Graham Wilson: One of the things that the market industry prides itself on is assisting new traders with the development of their business. We have various mentoring and support schemes, and obviously those take into account business planning and the need to organise a business arrangement. Certainly, as an industry, we are not aware of significant issues with regard to tax matters. It is something that has not come across our radar, and we pride ourselves in the help that we give in enabling traders to manage their affairs effectively.

Q110 **Yuan Yang:** Thank you. I have a separate question, if I may, about security and the risk for retailers of holding large amounts of cash on site. I was speaking to shopkeepers and shop managers in my constituency of Earley and Woodley, which is in Reading, over the last few weeks, and one of those shop managers told me that their shop was shoplifted as many as 10 times each day, putting their staff at significant risk. What does the panel see as the physical security risks of cash? Do you see that as a target for shoplifters potentially, and if so, what could be done to help safeguard shopkeepers?

Chair: Ms Aspin, because I know USDAW has been doing a lot on this.

Carrie Aspin: For us, the safety of staff in stores is paramount, and that is something that we take very seriously. We have done a lot of work around it with our Freedom from Fear campaign, so it is something we have looked at. I welcome the fact that we are having this discussion around security and staff in stores, when it comes to cash usage. Our view is that provided there are safe and secure systems in place, we do not necessarily see an additional risk from cash handling, or mandatory cash handling in stores. A lot of the retailers where our members work already have secure systems in place, and that can vary. We see drop boxes or deposit boxes in the floor, so if there are large amounts of cash coming through, they do not have to keep that in the till. Technology is being used in different ways, so CCTV and surveillance, and staff training on how to handle cash discreetly. What we have also seen in terms of retail crime is that actually it is the value of the goods in the store that is the main target, unfortunately. A lot of retailers are very proactive in terms of store layout and where the tills are.

For the benefit that it would offer to, yes, the minority, but making sure some of the most vulnerable people in our society are not left behind, on balance, we do not think there is an additional risk.

James Lowman: It is a very important consideration for two reasons. In terms of normal acceptance of cash, as Carrie said, it is all about the systems you have for managing it, storing it, putting it in safes quickly, and so on. There is another very important role we play in the availability of cash. That might be through operating ATMs; sometimes ATMs are targeted for ram raids and so on. It might be from offering cashback, whether that is more informally, cashback with purchase, or various cashback without purchases, including through the Post Office and other systems as well. It could be things like paying out national lottery prizes, up to a limit; things like that.

Not only is it the acceptance of cash, but we have to have—or most retailers would choose to have—the ability to pay cash over the counter too. Managing that from a security point of view is very important, and it is a consideration for retailers. It does not outweigh the benefit of offering consumers a way to transact as they wish, and to access cash, which is particularly important to them now there are not so many bank branches. Our offering of free-to-use ATMs, cashback and other services is increasingly important.

Ross Borkett: I agree with both of those, and I guess we come at it from two perspectives. Postmasters are often running a retail environment and running the post office. Thankfully, we have not had many incidents on the post office side. We take security very seriously.

Obviously, we are handling a lot of money and we put various security measures in place, and certainly in our high-risk branches. However, I get fed back from postmasters that shoplifting is a real challenge right now. We had a postmaster in last month who said the post office side was not the issue, but they had £24,000 of loss in the last year on the retail side. That was not cash; it was taking of goods.

Q111 **Yuan Yang:** Is that going up over time?

Ross Borkett: We have certainly felt this year that we have seen an increase in that. There have been some reports this year to say that there have been some real challenges around shoplifting. That is the challenge we see. I do not see that linked to the fact that the retailer is taking cash. It is a wider challenge.

Q112 **Dr Sandher:** Mr Lowman, can you talk me through the processing fees you have for card transactions, and how that works? It went up in 2023, but from the point of view of an individual retailer, if I have taken a transaction, what are the fees I have to pay?

James Lowman: Essentially you have a fixed cost element to that, and then you have a percentage of the transaction. Because we have quite a lot of small transactions, we are quite impacted by those, where they are weighted towards the fixed cost. With some, there will be an agreement with the operator in terms of the acquirer and the business that you are working with to accept those transactions, which will be on a sort of blended, weighted basis.

Some elements have been regulated, essentially, in terms of the transaction fees, but other elements of that fee—the scheme fee, the acquirer fee and things like that—have crept up, which is where that 25% increase over three years comes from. There is certainly a feeling among our members that the cost of doing business and the cost of accepting payments in any form is going up, whether that is cards or cash, and they are at the mercy of, or certainly not able to influence as they would ideally like to, some very large financial institutions that are essentially setting the price they have to pay for those services.

Q113 **Dr Sandher:** The fixed fee then would mean that smaller transactions, for your goods costing £8 or for lower income businesses—basically, they face a more expensive transaction cost than those with higher ticket items and higher margin goods. Is that correct?

James Lowman: Yes, so the higher the fixed elements of that, the more we are negatively impacted by it. That is one of the reasons, from our point of view, why there is an incentive to keep accepting cash as well: it is good for us to have that blend of acceptance methods.

Q114 **Dr Sandher:** So you would like to see some more regulation in this area?

James Lowman: Yes. With card fees, attempts to regulate are a bit like a game of whack-a-mole: whenever you regulate one part, there is another type of fee that comes into the mix, which increases the overall amount that retailers are paying. If we are serious about keeping these services available to people in local communities, part of that has to be allowing retailers to accept payment on a viable economic basis, and retailers are reporting increasing card costs.

Q115 **Dr Sandher:** Have you heard of a tiered model, where you pay a smaller percentage on lower priced goods and higher ones on higher priced goods, to essentially kind of reverse the incentive around card transactions? Is that something that your businesses would be in favour of?

James Lowman: There are various models in the market, but yes, certainly what we want is the best competition and the best choice for retailers of different types to choose the one that works best for them, in terms of the profile of the transactions that they have. So yes, we would be in favour of that being available for retailers to choose.

Q116 **Dr Sandher:** Would that be true for you as well, Mr Wilson?

Graham Wilson: Sorry?

Dr Sandher: Would you prefer a tiered model? At the moment, obviously there is a flat fee on the card transactions, so lower value transactions have a greater processing cost as a proportion of the payment than higher transactions. Obviously, in your industry you have lower value transactions. Would they be in favour of a tiered model so you would pay smaller amounts on those?

Graham Wilson: Yes.

Dr Sandher: I know that is a matter for the Payment Systems Regulator, but I will leave that to other members of the panel.

Q117 **Dame Harriett Baldwin:** Just carrying on with the same theme, in terms of the interchange fees and the fees that you have to pay as people who are accepting card payments, do you have any strong recommendations for the Payment Systems Regulator? We have a role in scrutinising its work, and it is quite striking how high those fees can be; there is essentially a duopoly, is there not, in terms of contactless payment? Given that we are looking at cash, and really looking at it in the context of the alternatives; the acceptance of cash will vary depending on how much more expensive it is to take a card payment.

James Lowman: Top line, there should be much greater transparency and much more downward pressure on those fees, and there should be competition to try to drive down those fees for retailers.

Q118 **Dame Harriett Baldwin:** So you are a bit disappointed by the way that the Payment Systems Regulator has been regulating this, then?

James Lowman: There needs to be much more. There needs to be much more to help retailers of all kinds, actually, but obviously I am speaking particularly for the sort of retailer who is often the last one in that community—and who, for all the challenges they faced through covid, through cost of living, through inflation and through increasing trading costs, also have to cope with another, really serious one, and that is the cost of accepting card payments.

Graham Wilson: I would agree entirely with that.

Dame Harriett Baldwin: Does anyone have a different view? No? They are doing a great job and they are absolutely on top of it? No? Okay.

Q119 **John Glen:** I would like to build on what Dame Harriet said, in terms of the transparency around costs and the apparent lack of regulatory oversight over those costs, versus what I believe you have said, which is that in the short term you want the regulators to take a more active role in scrutinising that and so on. But is there any evidence that there are market disruptors and new ways of transacting? We mentioned open banking earlier, bank-to-bank transactions, which could be hugely disruptive. Do you have a view on the pace at which that transition is happening, and whether regulators could play a role in encouraging an acceleration of those disruptors to try to ease the pain of the existing fee structure?

James Lowman: That can be a disruptor, and anything done to accelerate that would be positive. I am also conscious that our members will be experiencing the benefits of that quite late compared to retailers who deal with larger transactions.

Where we are actually already seeing more bank to bank is in business to business. Gor our members dealing with wholesalers, for example, that is really helpful and we are starting to see some benefits coming out of that. Food service wholesale is probably where we are seeing that coming to the fore particularly at the moment.

But yes, that is the major disruptor, and it is interesting that we are having discussions about whether there is a point when cash goes to zero. We cannot see a point where that actually happens; we think cash is part of the market. But whether there is a point where open banking replaces card payments as we know them—that is actually probably more feasible and plausible, in terms of looking to the future.

Ross Borkett: That really supports the work the Government have just announced around the National Payments Vision. We welcome the focus on that, and further focus and acceleration of that work through next year can help look at how open banking can become part of that, but also other payment methods could become part of that ecosystem and create more competition, which, ultimately, is probably the answer to this challenge. But I accept that will take time to filter through the system.

Q120 **John Glen:** I know this is delicate, but can we just get to the heart of what is going wrong with the Payment Systems Regulator's oversight here? Can you tell us what is happening that is not suiting the sort of market realities that your members see, Mr Lowman?

James Lowman: I am not sure that I am able to give a really detailed answer. All I can say is, there needs to be much more action to drive down those costs and to increase transparency. I cannot speak to the reasons why that has not happened to the degree that we would like, but when we speak to the Payment Systems Regulator, that is what we are telling it. It is listening to that, but the remedies are probably not happening quickly enough.

Q121 **John Glen:** What is impeding it from taking actions that suit your members and your interests?

James Lowman: I honestly do not know. I genuinely do not know what is driving its decision making.

Q122 **John Glen:** Does anyone else have anything to say about this? No. Earlier, Mr Wilson talked about the range of behaviours in different parts of the country, and mentioned the northern urban thing. I do not use cash at my market in Salisbury, and I wondered about the whole use of cards as actually driving up activity. In a population where the preference is for card use, surely there is evidence that using cards in that environment, notwithstanding the costs of the transactions, encourages more trading. Do you see that side of it in some market environments?

Graham Wilson: Yes, the markets industry has approximately 1,150 traditional markets around the country, with over 40,000 small businesses. There are different characteristics to many of these markets, and some have declared themselves cashless. When you go beneath the surface, they are not really cashless, but there is that emphasis on changing the methods by which they operate.

There are regional variations because the markets are managed in different ways, with different resources and different arrangements. I mentioned the market where currently it is considered that 90% of the transactions are on card, and it is a very touristy market. In those situations where you have markets with a particular appeal, they are catering for that appeal by using diversity of transactional means, and in that situation card use is very substantial. So there are local differences and regional variations. The industry is very local and susceptible to local resources and initiatives.

John Glen: Thank you for your answers.

Q123 **John Grady:** I want to pick up on what Mr Borkett said about the lack of certainty about the future of cash in the longer term, which means people will not necessarily invest in the cash mechanisms. But cash is a competitor to the card systems, is it not? Is there a risk that, with the lack of certainty about cash, unlike in other jurisdictions where cash acceptance is mandatory, we will fall into the trap of taking out a competitor? Competition is what keeps market operators honest. Perhaps we can have a quick comment from each of you, because I am mindful of time.

James Lowman: I hear your logic, and it is a really interesting point. The market is still allowing for significant use of cash at the moment, and therefore I do not necessarily think that would make that big a difference. There may come a time when some encouragement is required, or something needs to be done to give that extra certainty. I do not believe there is any lack of certainty among my members that they are going to be accepting cash in five years' time and probably much, much, much longer than that. I do not think that is an issue right now, but it is a good point.

Ross Borkett: All I would add is that the more certainty businesses have about the rules they need to comply with, the better, so it is helpful to give a long-term indication of what is expected.

Q124 **Yuan Yang:** We talked earlier about the need for essential services to maintain cash acceptance. Can we have a quick whip around the panel and you can all nominate your best bets for what counts as essential?

James Lowman: During the pandemic, the Government defined essential retail and non-essential retail, and that would be a pretty good starting point, in my view. When we speak to consumers about what they see as the most essential services, what tends to come out at the top are convenience stores, I am pleased to say, Post Offices and pharmacies, and then they quite quickly talk about banks. Banking services are clearly essential; sadly, they are not being offered in most communities at the moment, and that is why post offices and convenience stores are stepping in to provide those services. But I would look at the rules in the pandemic as a starting point for defining essential.

Q125 **Yuan Yang:** Would you be happy with the Government mandating convenience stores as accepting cash because they are essential?

James Lowman: On a point of principle we probably would not, but, on a point of practicality, it is actually a reasonably technical point at the moment, because I do not see any point where our members in any great numbers are not going to be accepting cash. For that reason we probably would not support that, but the practical difference of them doing so or not is very small at the moment, and for the foreseeable future.

Ross Borkett: Food, fuel, medicine, healthcare and utilities for me would be the key ones. Utilities meaning being able to pay your energy bill in cash, and we know there are a large number of people in the country that still have that requirement. We are in long debate internally about whether elements of public transport should be included in that or not. If you think about some individuals who may need to travel for healthcare, for example, being able to do that if you are a cash-only user is really important.

Q126 **Yuan Yang:** How about Post Office services, yourselves?

Ross Borkett: The Post Office, yes.

Carrie Aspin: For us food retail and, as James touched upon, what happened in the pandemic gave us a really helpful definition in terms of what is essential. We have been saying for many years that retail, and food retail in particular, is an essential service, but the pandemic certainly reinforced that. If we are looking at which sectors would come under that definition, we would want to see food retail covered, and retail generally.

Graham Wilson: If you were designating essential services, I would say the markets industry per se would be regarded as an essential service, particularly in the context of the audience and the customers that we deal with, so the industry as a whole.

Yuan Yang: So you want to see your retailers mandated to accept cash?

Graham Wilson: Yes.

Q127 **Yuan Yang:** I understand the point that Mr Lowman made—that in principle it might not make so much of a difference in practice. But if that did happen, now or later down the line, how do you think one could manage or help manage that regulatory burden, if it does become a burden, and minimise that cost? I will start with Mr Lowman.

James Lowman: The burden of mandating accepting cash?

Yuan Yang: Of mandating accepting cash, yes.

James Lowman: At the moment, the practical implications of that would be relatively small, but whenever the Government changes rules, I would encourage them to think about support for businesses that would have to make practical changes to their operations. If a business was not accepting cash and was mandated to do so, for example, what could be done in terms of supporting investment in systems and tills, cash in transit and all the other things that would come with that? There are mechanisms for doing that, again, which we used during the pandemic, for example, the business rate system for supporting those businesses, or through investment incentives and other things. As I say, the total bill will be tiny at the moment, but we have to recognise where there is an additional cost that would arise for businesses and acknowledge that and support them in meeting that cost.

Q128 **Yuan Yang:** Do you see that bill changing quickly over time, or do you think it is likely to stay the same?

James Lowman: No, I am expecting if I was back here in five to 10 years' time, if we still had 50,000 convenience stores, hopefully, I expect it would still be a small handful that did not accept cash.

Graham Wilson: I do not see a major problem for us, in that cash is such a vital part of the markets industry make-up at the moment. Any mandating of the requirement to accept cash would not be a problem for us to manage.

Ross Borkett: I have two thoughts on that. If we get to a point where cash acceptance has reduced and then there is a change in the rules and it has to be reintroduced, there could be a cost in doing that. That is why it is important to be having this conversation early, while we do not really feel like there is an issue, so that we can give that long-term certainty to business, but we are not creating a reversal and reinvestment.

Chair: A very good point.

Q129 **Yuan Yang:** So you would rather see it happen earlier than later; is that what you are saying?

Ross Borkett: Yes. The second thing I would say is that there are some good international comparisons where other countries have looked at exemptions where they were concerned. For example, Spain has some very small businesses that have some exemptions around it. If they just do not have change that day, they are allowed to not offer it that day. Over a certain value—getting to higher values—actually was not an issue. That might be a problem in essential services, but if there are concerns in particular areas, exemptions can always be considered.

Q130 **Rachel Blake:** There are a couple of tensions coming out of this panel in terms of the evidence that you are all bringing forward. The first that I would like to draw out is the contrast between mandating around outlets. Mr Lowman has talked about maybe doing the convenience stores, the Post Office, the pharmacies or particular areas. Others have talked about the product, so the fuel, the food or the medicine. I can see real risks in just choosing an outlet, because there are non-essential goods in outlets. Some people in my life—I won't go into it—are always saying, "Can we not go into that shop and buy some sweets?" which are non-essential goods. How do you overcome that?

James Lowman: It is a very good question, and again, we experienced this during the pandemic, when food outlets, including convenience stores, were defined as essential. We sell sweets and all sorts of things that you may get a long debate about as to what are essential and non-essential products, but they are defined as essential outlets because of being food outlets.

You have to define it by the outlet. If you were to get to the point of saying, "Here is a business that is mandated to accept cash, but only for certain things," that would be almost impossible to manage and enforce, really. You have to take it by outlet, and you have one set of systems; as a retailer it does not make a difference to you if you are accepting cash for a courgette but not for a chocolate bar, because that transaction runs through essentially the same system. You probably will have to go to outlet level and make decisions about what is deemed to be essential, if this is deemed to be the right approach.

Q131 **Rachel Blake:** This is a scenario that you may well knock down, but if you are selling magazines in an outlet and it is beginning to cost more to receive cash, in your sector would you accept the mandate, even though someone was buying something non-essential from the outlet?

James Lowman: It is quite hypothetical, but yes. I would expect our members to make their own decisions about whether they accept cash or not, and in almost all cases, the answer would be yes, they do.

If they are mandated to but otherwise would not—I know we are talking about a really small number of outliers now—I believe they would accept it for everything. There are different margins across different products, and if you had lower margin products and you felt that the cost of taking in the cash was disproportionate because you were not dealing with much of it, maybe you would have an incentive not to accept for certain low margin products. I just think it would be too complicated. Retailers—again, driven by customers, fundamentally—would just say, "We accept cash for everything".

Q132 **Rachel Blake:** You think there would be an adaptation?

James Lowman: Yes. I cannot see them saying, "We will accept cash for certain things and not for others." It would be unlikely.

Q133 **Rachel Blake:** Mr Borkett, you talked about the product: food, fuel and medicine.

Ross Borkett: I came from the consumer's need. What are the things that the individuals are worried about, and what are the essentials that they would need? I guess that is the angle I took it from. I would probably have to think a bit harder about actually how that would play out, and the potential unintended consequences, of whether you did it by the product type versus who that provider is. I am not sure that I have an answer for you today, but it is a good thing for us all to consider.

Q134 **Rachel Blake:** An unintended consequence that I would worry about is that if you mandated the outlets and large supermarkets were not involved, there could be a real price differential. That is an unintended consequence that I would worry about.

There is just another tension that I wanted to draw out. Mr Borkett is saying, "Do something now to give stability", and so is Mr Wilson. But Mr Lowman is saying, "It's all fine. We don't need to do anything. Cash is being accepted anyway, so do don't anything." Can you elaborate more, Mr Wilson, on, "Do something now"? There is quite a similarity of experience but a difference in proposal coming from the panel.

Chair: That is the Division bell ringing; we do not need to worry about it.

Graham Wilson: I thought it might be a fire drill. In terms of the position of the market industry, I can only say again that cash is absolutely vital to our wellbeing. We have to seek to preserve that position and ensure that cash continues to be an important integral part of the industry. I said that I felt the requirement was to designate the industry as an essential service, so that would mean we got that action. But in terms of action now, our position is simply looking for that acknowledgement and assurance that cash will continue to be an important element of the transactional affairs of the markets industry.

Ross Borkett: I covered a number of my points earlier, but I guess the only one I would add is that we all know it takes time to implement new rules, and we should not wait for the problem to occur but try to think about it now.

Chair: A very good point.

Ross Borkett: Give everyone some certainty, and then avoid it happening in the first place.

Q135 **John Glen:** Can we turn to the sufficiency of the electronic infrastructure that underpins payments? Mr Lowman, could I ask you how your members feel about the stability of those payments, and whether they have confidence in it?

James Lowman: For the most part they have confidence, but we have seen a number of incidents where individual retailers or a number of retailers have been affected. I mentioned CrowdStrike earlier, as an example. Retailers are very conscious of that, and that is one of the reasons why they will continue to accept cash for a very long time. The more reliance on technology and the more systems we have in place, the more links in the chain that are standing up those systems and the more risk that comes with that. They have seen that, so it is something that our members are very conscious of. It is one of the reasons they want to continue to maintain cash and one of the reasons why it is very important for them to maintain availability of cash for society more widely.

But of course, these things happen. We are always in a state of being relatively finely balanced about where the cash is and the methods of payment that are being accepted. For example, we have members who were affected by CrowdStrike on the Friday before Easter, or something like that, but on a very busy trading day, as people were heading out on their holidays. Obviously those retailers still accepted cash, and in fact they offered free-to-use cash machines in their businesses, but they were empty within about half an hour because obviously consumers needed to get cash to pay with, and so they were not able to offer that service more widely to the community. The whole system is quite finely balanced at any time in terms of how much cash is out there in the market in cash machines, and the ability to accept.

If you add up all the transactions, clearly very few are affected by those sorts of outages. But when they happen, they have quite a significant impact—obviously on the retailers, but also, more widely, on the costs in terms of sorting it out, and lost sales as well. This was a time of relatively tough trading for convenience and for many sectors, and this was a day that had been earmarked, and the sun came out for the first time in a very long time as people headed off on holiday, and some retailers in that area were not able to accept card payments. It can be very consequential in terms of when it might hit. As I say, that is not the only example of when card payments have not been available in certain retailers at certain times, and there have been a number of documented incidents over the last few years. So yes, it is something that affects retailers, and it is one of the reasons why accepting cash in a variety of payment methods is really important to them.

Q136 **John Glen:** Mr Borkett, if the Post Office goes offline, what happens? Do you have good contingency arrangements in place? I should imagine people would want some reassurance from you.

Ross Borkett: Resilience in our systems is really important, as you can imagine, and we work very closely with our various suppliers and network providers so that we have backup. If our main data centre were to go down, we can flip to a second data centre, for example. Thankfully, we do not have many of those types of instances. The other benefit we have is that if an individual branch were to go down, we can obviously direct customers to another nearby branch, and so we have good physical, as well as technical, resilience.

Back to your previous question, we do not see feedback from postmasters concerned about the resilience of the electronic payments systems but, very clearly, cash is an important backup in a scenario where we have incidents. We have seen some in the last few years, and we know we see a big increase in cash withdrawals on days when there is an outage of some form with a payments system.

Q137 **John Glen:** Thank you. May I turn to Ms Aspin, in terms of the familiarity you have through the negotiation of USDAW with larger retailers? Presumably that is reliant on electronic systems for customers to be able to pay for things. Do you have any concerns around the durability of the electronic infrastructure?

Carrie Aspin: Yes, generally speaking we would have concerns about systems going down and people not being able to buy food. It is not something that we have experienced yet, but it is certainly something that we need to be aware of.

Q138 **John Glen:** Thank you. I have one final question for anyone to respond to. Several years ago, Sweden moved very quickly to cashlessness but has now pulled back from that, and you see France and Spain mandating the use of cash. Despite surveys showing what the public think, we have not mandated that cash use in the UK. What do you think about that?

James Lowman: Mandating the acceptance of cash?

John Glen: Yes.

James Lowman: We have discussed that a bit today; in principle, we would rather that was not required by our members. It is a relatively minor practical issue at the moment and will be for some period of time.

Q139 **John Glen:** It is quite instructive in terms of the Swedish experience, where it went down one route thinking that was the future, but it has not been. I visited Sweden in April, and it is concerned about all these different scenarios in terms of the legislation around civil contingency. How do you view the UK's resilience in the context of the experiences of other countries?

Ross Borkett: If you look at those countries you named, they all use cash to very different amounts. You are right in that Sweden and Norway are much further along that journey than we are. We are maybe somewhere towards the end, but not as far. If you go somewhere like Spain, there is very heavy use of cash still, and so when it mandated that all retailers had to continue taking cash as a payment form, I do not think that was a big deal, because actually there is very heavy of cash already. It is important to look at that context.

I certainly think the feedback we have looked at with somewhere like Sweden, where it has had to pull back from that, is that it has clearly left people behind. It has been worried about not just the backup of having cash as an alternative payment, but those who were reliant on it just not being able to continue to operate. There are some useful lessons there about how we balance it. That is one of the reasons we have been very supportive of the new access to cash regulations that have come in, to try to provide a managed process around how cash is operated, as it slowly declines across the country. There is a final bit around acceptance, which is what we need to consider to make sure we get that whole system working effectively.

Graham Wilson: The situation is working reasonably well at the moment in the market industry. I mentioned earlier that in terms of using card and other arrangements, there are issues to be addressed such as the level of wi-fi.

In terms of actually getting cash to go and spend at the market, there is an issue about the availability of cash points. We have numerous examples from our members of significant reductions in cash point numbers over the last 10 years, so actually getting the cash is another issue. We think at the moment we are managing a gradual transition, without the need for regulation, from reliance on cash to embracing much more technology, but cash will continue to be a vital part of markets: it is part of the history and part of the way that markets have actually operated over 1,000 years. We would not want to see the mandating unless you felt there was strong reason. If there is mandating, we would ask that the industry has a privileged position in that, because of the nature of the job that we do and the way that the transactions are conducted on the markets.

Chair: Thank you very much, Mr Wilson. We began on markets and we have finished on markets. One of the things we have really heard loud and clear today is that we have thriving cash-based markets still in this country, and they are a very important part of our culture; we all say amen to that. But covid did drive traders to look at online payments, and so it is quite interesting that there has been a change there.

We have also heard that cash is still very much used and it could leave people left behind if it is phased out completely, but definitions of essential items are quite challenging, as we discovered during covid. Access to banking is pretty key for small businesses as well, in order to make sure that cash can be used, as well as the availability of cash, which is not the main focus of this inquiry.

I thank our witnesses very much for their time. We will be having a roundtable with various affected groups towards the end of January, and then we will have the Minister in to put some points to her about this issue. Thank you very much indeed.