HM Treasury

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Meg Hillier MP
Chair of the Committee of Public Accounts
House of Commons
London
SW1A 0AA
[via email]

20 April 2021

Dear Ms Hillier,

THE PRODUCTION AND DISTRIBUTION OF CASH: CASHBACK WITHOUT A PURCHASE

I wrote to you on 9 April on the Production and Distribution of Cash.

The Government considers that cashback without a purchase has the potential to be a valuable facility to cash users in future, play an important role in the UK's cash infrastructure, and comes with the additional benefit of supporting local cash recycling. Cashback with a purchase was the second most frequently used method for withdrawing cash in the UK behind ATMs in 2019. There were 123 million cashback transactions when using a debit card to make a purchase amounting to a total value of £3.8 billion.

As set out in my letter, an amendment to the Financial Services Bill was tabled on 7 April, seeking to facilitate the provision of cashback without a purchase through legislative changes.

The Government supported this amendment and it is now being taken forward as part of the Bill. This amendment has provided an opportunity to make a specific and targeted legislative change now, while work on broader cash legislation continues.

This change is only possible now that the UK has left the EU. Under the existing legislation, which derives from the EU's Second Payment Services Directive, if a merchant wanted to offer cashback without requiring the customer to make a purchase, that shop, or its agent, would have to be authorised or registered with the Financial Conduct Authority. This is a significant burden for many businesses, especially small shops. The amendment removes this requirement and will bring the law into line with the existing regulatory treatment of cashback with a purchase.

Once enacted, this new provision will mean that shops, cafés, or other local businesses across the UK will have discretion to make the service available. Where the service is offered, customers will be able to walk into that local business and withdraw cash without having to make an accompanying purchase.

The Committee has taken a close interest in this issue, and I hope members will welcome this development as an important step towards protecting access to cash.

The Committee may find it useful to have further information on the issues to be considered as the Government decides on future legislation for access to cash more generally. As set out in the Government's Call for Evidence, published in October 2020, key considerations include access for personal and business customers to deposit and withdrawal facilities, including cashback, and regulatory oversight of the cash system. Finalising legislative proposals in this area will require the Government to strike a balance between accommodating current and future cash access solutions, alongside uncertainty around changing demand and use of cash by individuals and businesses over time. It will also be important to ensure that regulators have the appropriate responsibilities and powers, without placing undue burdens on business. The Government will set out its next steps in due course.

I am copying this letter to the Treasury Officer of Accounts and the Comptroller and Auditor General.

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