



BANK OF ENGLAND

# Cash and Digital Payments in the New Economy

Response from the Bank of England to HM Treasury's Call for Evidence

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# **Response from Bank of England to the HM Treasury (HMT) Call for Evidence on Cash and Digital Payments in the New Economy**

## **Key points from this response**

1. The usage of cash is evolving, but there is, and is likely to remain for the foreseeable future, a significant public demand for banknotes.
2. Effective banknote denominational mix is important. The Bank believes that there is a strong case to keep the £50 banknote in order to effectively meet legitimate demand and to avoid increased dependence on the £20 banknote.
3. Developing and maintaining an appropriate banknote distribution and authentication model remains an important priority for the cash industry and the Bank of England.

## **Introduction**

i. The Bank of England (the Bank) welcomes HMT's Call for Evidence: Cash and Digital Payments in the New Economy. Given recent forecasts suggest a continued decline in the transactional use of cash, and as the industry starts to plan beyond the currency modernisation initiatives, this is a timely point at which to consider the future role of cash in the economy and how the industry and the authorities will support it.

ii. The Bank is neutral to methods of payment and therefore does not seek to promote any payment method above any other, but does believe that it is important that the public have choice.

iii. The Bank has a wide interest in digital payments, namely:

- Acting as settlement agent for all domestic wholesale and retail payment schemes;
- Operating the Real Time Gross Settlement service and CHAPS high-value payment system; and
- Supervising recognised payment systems. The supervision of recognised payment systems is central to the Bank's objective of maintaining financial stability.

The Bank monitors developments and works with industry to ensure that we can continue to support digital payments as they evolve.

iv. The Bank seeks to support our Mission<sup>1</sup> through promoting confidence in banknotes:

- We are the sole issuer of banknotes in England and Wales, and our objective is to maintain the availability, quality and authenticity of Bank of England banknotes. We seek to meet, rather than determine, demand for Bank of England banknotes; and
- We regulate the holding and issuance of banknotes in Scotland and Northern Ireland by the commercial banks (S&NI banknotes) to promote the protection of noteholders.<sup>2</sup>

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<sup>1</sup> Promoting the good of the people of the United Kingdom by maintaining monetary and financial stability

<sup>2</sup> The Government authorises seven commercial banks to issue banknotes in Scotland and Northern Ireland (S&NI). The Bank regulates this activity under Part 6 of the Banking Act 2009

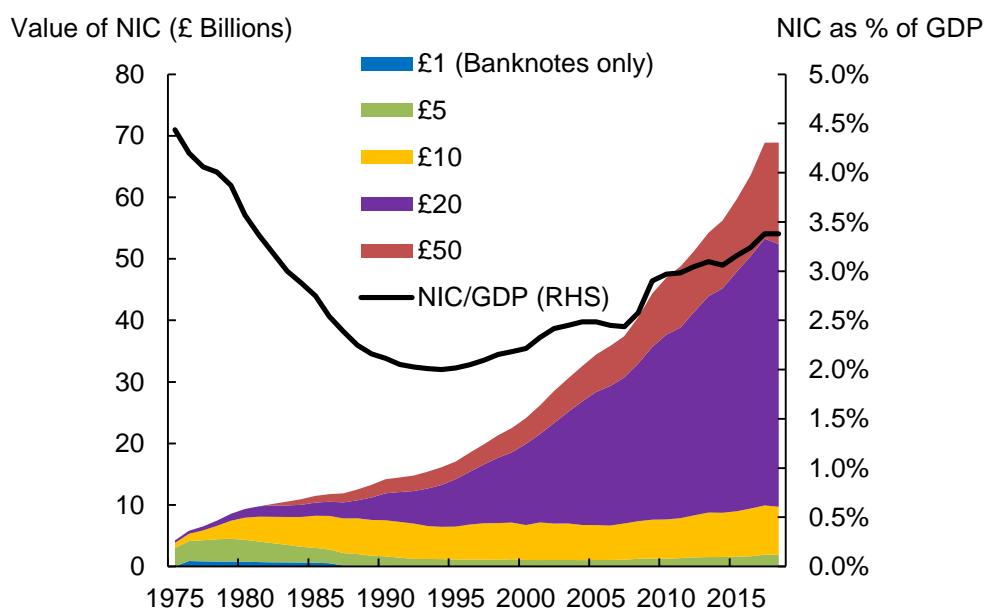
## 1: Trends in Usage of Banknotes

1.1 Whilst some of the recent data suggest a change in the way cash is used, cash continues to play a key role for many, and a crucial role for some. 2.7 million people are entirely reliant on cash across the UK.<sup>3</sup> It is important that the Bank, and the wider cash industry, continue to fulfil our responsibilities to ensure that genuine, good quality banknotes are available to meet public demand.

1.2 Banknotes perform two functions - as a medium of exchange and as a store of value. Although comprehensive data on the end use of cash are limited, and it is therefore difficult to form a complete picture on how cash is used, we can be confident that both functions remain relevant.

1.3 Cash accounted for 40% of all payments in 2016, compared to 62% in 2006.<sup>4</sup> People who choose to use cash do so for a range of reasons including because it is a useful budgeting tool, it is quick and easy to use and because it works when other methods do not (for example when card terminals fail).<sup>5</sup> A recent survey commissioned for the Bank<sup>6</sup> identified that banknote usage (as a preferred payment method) is highest among those aged 16-24 and 65+. It is especially high in the North East and West Midlands. The survey showed those that carry cash typically carry £29 on average, although over half have less than £20. One in ten don't carry cash, and this increases among 25-34 year olds (around one in five), and in London and the South East.

**Chart 1: Value of Bank of England Notes in Circulation: by denomination and relative to annual GDP<sup>7</sup>**



<sup>3</sup> 'UK Payment Markets', Payments UK (2017)

<sup>4</sup> 'UK Cash & Cash Machines' Payments UK (2017)

<sup>5</sup> 'Forecasting future banknote demand', Cleland, V. (2017)

<sup>6</sup> The survey was conducted by Kantar TNS in February 2018 and involved c1800 participants

<sup>7</sup> NIC values as at end February. High value notes used to back S&NI issuance (Giants and Titans) are excluded

1.4 As illustrated by Chart 1, the overall demand for Bank of England banknotes has grown materially in recent years, with the value of total Notes in Circulation (NIC) approximately doubling between 2005 and 2017, largely driven by £20 and £50. Growth in Bank of England NIC accelerated at the start of the financial crisis, peaking at more than 9% year on year in 2009. Since then, growth has averaged between 5% and 6% year-on-year before increasing to 8.3% in the year ended 28 February 2017.<sup>8</sup> In the last few months NIC has been flat compared with a year before. Continued growth in £50 NIC has been offset by declining or flat NIC across other denominations.

1.5 £50 NIC increased 6% between February 2017 and February 2018. This represents a return to a similar level of £50 growth seen in previous years, following particularly strong growth in 2016 partly as a result of the depreciation in sterling post-referendum. Zero or negative growth across the other denominations in recent months could be reflecting falling transactional use of cash for the first time or we may be seeing a correction of the strong NIC growth in 2016. Data on the volume and value of the Bank's notes in circulation over time can be found on our website.<sup>9</sup>

1.6 Demand for S&NI banknotes has followed a similar pattern. The total value of S&NI notes in circulation is approximately 10% of that of Bank of England banknotes.

1.7 The majority of countries have experienced NIC growth in recent years,<sup>10</sup> and Table 1 shows examples of this. There are just a few notable exceptions, including Sweden<sup>11</sup> and Norway<sup>12</sup> which saw declining NIC.

**Table 1: International comparison; examples of NIC growth**

Currency	Year on year growth to end-2017
Canadian Dollar <sup>13</sup>	7%
Euro <sup>14</sup>	4%
Japanese Yen <sup>15</sup>	4%
US Dollar <sup>16</sup>	7%

1.8 The rise in NIC over the past decade, in contrast to the decline in transactional use of cash,<sup>17</sup> suggests increased use of banknotes as a store of value. A 2014 survey commissioned by the Bank<sup>18</sup> estimated that 18% of the public in the UK choose to hold cash as a store of value, primarily to provide comfort against potential emergencies. Increased demand for higher-value denomination banknotes following the onset of the financial crisis in mid-2007 demonstrated that there are also circumstances where some members of the

<sup>8</sup> Year on year growth measured at the Bank's financial year end, 28 February

<sup>9</sup> ['Banknote Statistics', Bank of England](#)

<sup>10</sup> ['World Cash Report', G4S \(2018\)](#) and ['The cash comeback: Evidence and possible explanations', Vox \(2017\)](#)

<sup>11</sup> ['Banknotes in circulation', Riksbank](#)

<sup>12</sup> ['Notes and coins in circulation 2008 – 2017', Norges Bank](#)

<sup>13</sup> ['Bank of Canada Assets and Liabilities', Bank of Canada](#)

<sup>14</sup> ['Banknotes and coins circulation', European Central Bank](#)

<sup>15</sup> ['BOJ Time-Series Data Search', Bank of Japan](#)

<sup>16</sup> ['Currency in Circulation: Value', The Federal Reserve](#)

<sup>17</sup> ['UK Payment Markets', Payments UK \(2017\)](#)

<sup>18</sup> The survey was conducted by GfK NOP and involved 1,000 respondents

public prefer to hold banknotes as a store of value rather than rely on access to commercial bank accounts. Some of the growth in demand has also been from overseas, where there is a strong demand for brand new banknotes still in wrappers (see section 2.9).

## 2: Denominational Mix and £50 Banknotes

### Denominational Mix

2.1 Optimising the denominational mix of banknotes in circulation helps to ensure that:

- Retail outlets have sufficient low denomination banknotes (£5 and £10) to provide their customers with optimal change;
- ATMs can be filled with a mix of banknotes that satisfies the needs of customers, and is supported by operators;
- Providers of foreign exchange can meet tourist demand for banknotes, which typically includes a higher proportion of £50 than demanded domestically; and
- Usage is spread and managed across a number of denominations to help to reduce the dependence on any single note design. This reduces the disruption caused when launching or withdrawing a design and minimises the potential impact of any future counterfeit threat targeting a specific denomination.

2.2 There is some variation, across different denominations, in the motivation for holding banknotes.<sup>19</sup> Lower denomination banknotes are used predominantly for transactional purposes: £5 and £10 are used by retailers as change items and are popular with those on a limited budget who may withdraw small values in order to limit their spending. By contrast those who want to hold banknotes as a store of value or for contingency purposes are more likely to favour £50. Demand drivers for the £20 (the most prevalent note accounting for over 60% of NIC by value) are more mixed.

2.3 The public typically receive £10 and £20 banknotes from ATMs: 90% of public cash withdrawals from accounts are via ATMs<sup>20</sup> and over 90% of banknotes dispensed by ATMs (by both volume and value) are £10 and £20. £5 notes are typically received as change items. £50 banknotes are acquired mainly over a bank counter or at a bureau de change, though they are also becoming more prevalent in ATMs.

2.4 The Bank sets targets for the mix of denominations dispensed by ATMs. This aims to balance the public's preferred denominational mix (which includes demand for £5 and £10) with ATM operators' preference for efficiency (ATM operators display a strong preference for dispensing £20). Although these targets are voluntary they have proven effective in increasing the proportion of £5 in total ATM dispense.

### The £50 denomination

#### Usage

2.5 The Call for Evidence suggests that some £50 banknotes are used for illicit means. It is also really important to bear in mind that many are used for a variety of legitimate means, for example higher value purchases and tourist spending.

<sup>19</sup> 'Addressing the limitations of forecasting banknote demand' Miller, C. (2017)

<sup>20</sup> Calculated from 'UK Cash & Cash Machines' Payments UK (2017)

2.6 The £50 banknote accounts for approximately 24% of Bank of England NIC by value (£16.5bn) and 9% by volume.<sup>21</sup> The strong growth in £50 NIC, despite reduced transactional use of cash in aggregate, suggests there remains strong public demand for this denomination of banknote, particularly as a store of value and for high value transactions.

2.7 Domestic transactional demand for the £50 is generally associated with large value purchases. A survey undertaken by the Bank in 2013 found that 27% of respondents had used a £50 in the previous year (with the most frequent users based in London), while 29% had never used one. However, all else being equal, steady inflation is likely to increase the transactional demand for higher denominational banknotes over time and there are signs that domestic transactional use of £50 is increasing. When it was introduced in 1981, the modern £50 had a purchasing power of around £145 at today's prices. Assuming that prices rise in line with the 2% inflation target then by 2030 £50 will have a purchasing power of £39 at current prices. Some high street banks are now increasing the availability of £50 in ATMs, with 600+ ATMs issuing £50. Although £50 remains a low proportion of overall ATM dispense, those banks report that feedback from customers has been positive and may lead other banks to follow suit.

2.8 The £50 banknote's higher value makes it convenient for storing wealth. There are a number of legitimate reasons for doing so – for example, some people have a preference for holding wealth in the form of tangible assets which they can access quickly, whilst others hold cash for contingency purposes such as a disruption to digital payment methods. Whilst holding wealth as cash foregoes any return which might be earned through investment or interest payments, some people prefer the benefits of immediacy of access in all circumstances (with no inconvenience or charges). Some people may also choose to hold banknotes as they are a direct claim on the central bank. Whilst estimating the scale of such 'hoarding' is difficult,<sup>22</sup> it is highly likely that many £50 banknotes are held in this manner, given that those choosing to store cash are more likely to prefer higher denomination notes to minimise physical storage requirements. This store-of-value function could be particularly important during times of significant financial instability or lack of confidence.<sup>23</sup>

2.9 The £50 banknote is commonly held overseas as a physical manifestation of sterling's role as a reserve currency and is often sold by bureaux de change to overseas visitors for later transactional use in the UK. Demand for £50 banknotes has increased significantly in recent years – in line with trends in other high denomination banknotes – for example CAD100 and AUD100.<sup>24</sup> Econometric modelling of the relationships between banknote demand and economic variables leads us to estimate that a 1% depreciation in the sterling exchange rate increases total banknote demand by 0.09%<sup>25</sup> (approximately £60mn), much of which materialises as additional demand for £50. There was for example a notable increase in growth in £50 NIC in mid-2016 following the fall in the value of sterling.

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<sup>21</sup> As at end February 2018

<sup>22</sup> [How has cash usage evolved in recent decades? What might drive demand in the future?](#) Fish, T. and Whymark, R. (2015)

<sup>23</sup> [High-denomination Banknotes in Circulation: A Cross-country Analysis](#), Reserve Bank of Australia (2018)

<sup>24</sup> Ibid

<sup>25</sup> Calculated from [Addressing the limitations of forecasting banknote demand](#) Miller, C. (2017)

## International comparison

2.10 Internationally, the Bank of England is one of only a few issuers with just four banknote denominations:<sup>26</sup> aside from Japanese Yen, the others are not reserve currencies.<sup>27</sup> We are not aware of any countries that use only three denominations. Many countries have five or six denominations of banknotes, but seven or more is also common.

**Table 2: International comparison of banknote denominations (major reserve currencies)**

Currency	Number of denominations	Highest denomination banknote	Highest denomination £ equivalent <sup>28</sup>
Australian Dollar [AUD]	5	AUD 100	£57
Canadian Dollar [CAD]	5	CAD 100	£58
Chinese Renminbi [CNY]	6	CNY 100	£12
Euro <sup>29</sup> [EUR]	7	EUR 500 [EUR 200]	£437 [£175]
Japanese Yen [JPY]	4	JPY 10,000	£69
Swiss Franc [CHF]	6	CHF 1,000	£761
US Dollar [USD]	7	USD 100	£75

2.11 The value of £50 is not atypical for a highest value denomination and is low compared to some countries' highest denominations. Whilst there has been international debate about the role of high denomination banknotes in facilitating money laundering and other economic crime, the lower value of £50 has generally meant that the focus is on other, higher value international banknotes. It was in response to this debate that the ECB stopped producing the highest value euro banknote (€500) in 2016 and it will cease to be issued later this year (although it will not be withdrawn). The next highest value euro banknote, €200, is still of significantly greater value than £50.

## Future of the £50 denomination

2.12 The Bank's view is that the current denominational structure of sterling banknotes is efficient and cost effective. Removal of the £50 banknote would not significantly impair the Bank's ability to meet current UK demand for transactional banknotes. It would however require increased production and use of the £20 to compensate, as we would expect transactional users (and many of those who hold £50 banknotes as a store of value) to substitute £20s for the withdrawn £50.

2.13 Even if we assumed that half of the £50s in circulation were replaced by £20s, circulation of £20s would be increased by nearly 10% to over 70% of NIC - requiring more than 400m additional £20s. The c.10m of transactional £50s processed by wholesale cash centres each month would be replaced by the equivalent value of £20s – increasing the

<sup>26</sup> The Bank issues four denominations. S&NI banknotes cover six denominations - £1, £5, £10, £20, £50 and £100

<sup>27</sup> Countries/territories with currencies with four banknote denominations include Curacao and St Martin, Israel, Japan, Rwanda, St Helena, Sierra Leone, Tunisia, UK and the French Pacific Territories

<sup>28</sup> Rates as at 30 May 2018. [‘Daily spot exchange rates against sterling’, Bank of England](#)

<sup>29</sup> The ECB stopped producing the highest value note (€500) in 2016 and it will cease to be issued later this year, but it will not be withdrawn

number of notes processed by the industry and requiring additional storage space at cash centres and increased cash-in-transit movements. Overall, substitution of £50s by £20s would increase production, storage, processing and transportation costs for the Bank and the industry.

2.14 Further, without the £50 banknote, there would be an even greater dominance of the £20. The large proportion of £20 banknotes already poses some risks to the Bank and industry, albeit that these are currently managed. Further dominance of the £20 would increase the potential impact of any counterfeit threat to this denomination, as we would have only two smaller denomination banknotes as substitutes, with their total value in circulation constituting only a small proportion of £20 circulation. It would also make future launches of any new design £20 more logically difficult for the Bank and industry due to the increased scale of the £20. Storing and moving sufficient notes ahead of, and in the early stages of, any such launch would stretch Bank and industry capacity – potentially to the point where longer co-circulation periods would be needed, increasing risks and the potential for public confusion.

2.15 Finally, the Bank would be concerned that a reduction from four to three denominations of banknotes could reduce our flexibility to actively manage optimum denominational mix. The current four denominations allow us to factor substitution between denominations into our policy and contingency planning approaches. With only three denominations, this would be more constrained.

## Coin denominations

2.16 The Bank has no responsibility for the production or circulation of coins, and changes to coin denominations are unlikely to have significant monetary policy implications. The Call for Evidence raises the potential scenario of removal of certain coin denominations and/or the reduction in their use through encouragement of rounding schemes. Our initial consideration of the evidence from other countries (for example, Canada's removal of the one cent coin in 2012) suggests that removing or reducing use of low denomination coins has no appreciable effect on prices, either inflationary or deflationary. In many cases where rounding has been adopted, it has been at the level of the total bill, rather than for individual items, and applies only to cash payments, not to digital payments. So far there has been no automatic need for prices of individual items to change. Even if individual prices did change, the competitive retail market in the UK could mean it is more likely for prices to be rounded down, and hence have a deflationary impact. At the total bill level, the statistical likelihood of rounding down is equal to that of rounding up, so applied at this level there would be neither an inflationary nor deflationary bias. Even if, contrary to expectations, prices (either individually or at the bill level) are rounded up more often than down, this would be a one-off price level shock, rather than a sustained change to the rate of inflation.

## 3: Distribution of Banknotes

3.1 The Call for Evidence poses questions relating to coin distribution. The Bank does not have responsibility for, or direct experience of, coin distribution and therefore it is not appropriate for the Bank to respond directly to these questions. The current banknote

distribution arrangements and supporting structures<sup>30</sup> have proven effective at authenticating, sorting and distributing banknotes and should continue to evolve to meet the changing requirements of the cash industry. The key elements of the banknote distribution arrangements are set out below.

## **Wholesale processing**

3.2 The Bank's direct involvement in cash distribution is limited to issuing new banknotes, withdrawing banknotes following the launch of a new series and destroying banknotes that are no longer fit for circulation. Bank of England banknotes are distributed primarily by Members of the Note Circulation Scheme (NCS),<sup>31</sup> who have a contractual relationship with the Bank and between them currently operate 19 cash centres located around the UK.

3.3 Through the NCS, the Bank promotes the sorting and recirculation of genuine, good quality banknotes. Members sort banknotes returned by their customers to check that they are of the current design, genuine and in good condition. NCS Members remove counterfeit banknotes from circulation, and recirculate banknotes which meet the quality standards set by the Bank. It is harder for the public to authenticate a poor quality banknote or pay these into a machine and therefore it is important to maintain a high quality of banknotes in circulation.

3.4 The NCS also promotes efficiency in the production, distribution, sorting and recirculation of banknotes by reducing the requirement to return and collect banknotes from Bank of England cash centres. The NCS enables:

- Banknotes to be assessed against the Bank's standards for authenticity and quality during the sorting process at commercial cash centres.
- The accommodation of seasonal fluctuation in the demand for banknotes. NCS Members can sell surplus banknotes back to the Bank and repurchase them when they are required without needing to physically remove them from their cash centres.
- The redistribution of banknotes to where they are required. NCS Members can, under certain conditions, access surplus – Bank of England owned – banknotes held by other NCS Members.

3.5 The infrastructure requirements for wholesale banknote processing mean there are economies of scale within the industry. The current level of participation in the NCS, along with the number and geographical distribution of cash centres, means that there is currently in-built resilience in wholesale banknote processing and distribution. Should one centre or Member experience problems, flows can move to alternative centres, co-ordinated where necessary by the Bank.

## **Local recycling**

3.6 Where banknotes are recirculated outside of the NCS, they do not go through the same authentication and quality assessment processes.

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<sup>30</sup> This section describes the arrangements for Bank of England banknotes. Scottish and Northern Ireland banknote issuers have separate, but similar, arrangements for their banknotes

<sup>31</sup> The current NCS Members are: G4S Cash Solutions; Post Office; National Westminster Bank; and Vaultex UK

3.7 To minimise the possibility that counterfeit banknotes are dispensed during this process, the Bank has worked with industry bodies (Cash Services, LINK, British Retail Consortium and Payments UK) to implement the Code of Conduct for the Authentication of Machine-Dispensed Banknotes (the Code). The Code was introduced in 2013 for Bank of England banknotes, and will cover Scottish and Northern Ireland banknotes by March 2019.<sup>32</sup> The Code states that banknotes dispensed by machines must first be authenticated by a machine capable of detecting counterfeits.

3.8 Compliance with the Code is voluntary. The Bank has had significant levels of engagement with industry participants to achieve a high level of compliance. In 2017 94% of self-service checkouts (which dispense banknotes as change or cashback) and 85% of ATMs were compliant,<sup>33</sup> substantially reducing the risk of a machine dispensing a counterfeit banknote.

### **Authentication elsewhere in the cycle**

3.9 The Bank supports retailers and the public by providing tools and information to help prevent counterfeits from entering circulation. This includes advice and technical guidance and a range of education and training materials targeted at different audiences, as follows:

- The public: The Bank produces a range of materials on how to authenticate banknotes<sup>34</sup> and we actively promote this information at key times (e.g. around the launch of a new note).
- Businesses accepting cash payments: The Bank offers a range of education and training materials for businesses and their staff and we recently launched the Banknote Checking Scheme,<sup>35</sup> promoting the routine checking of banknotes at the point of sale.
- Manufacturers of banknote accepting / authentication machines and their customers: the Bank's Machine Testing Framework (MTF) enables manufacturers to annually test their machines against counterfeit banknotes to ensure that they accurately identify genuine banknotes and detect counterfeits.<sup>36</sup> The Machine Testing Framework has provided wider authentication of banknotes benefits since its inception in 2009, with improvements seen in the robustness and capabilities of machines to detect counterfeits.
- Police: The Bank seeks to train the police so that they have sufficient knowledge to appropriately handle incidents where they encounter counterfeits. We work closely with the National Crime Agency (NCA) and regional police forces to support them in finding and preventing instances of counterfeit manufacture, distribution and passing offences. In particular, when necessary, we provide expert witness testimony in criminal proceedings in courts of law.

## **4: Future banknote distribution infrastructure**

4.1 Declining transactional use of banknotes could lead to a reduction in the infrastructure that supports banknote distribution and use, both in the wholesale sector and more widely:

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<sup>32</sup> Full details of the Code's principles can be found on the [Cash Services website](#)

<sup>33</sup> Other types of machines which dispense banknotes to the public (e.g. ticket machines, currency exchange machines) are covered by the Code, however the scale of banknote dispense from these is too small to warrant the formal collection of compliance information

<sup>34</sup> ['How to check your banknotes', Bank of England](#)

<sup>35</sup> Full details of the Banknote Checking Scheme can be found on the [Bank of England's website](#)

<sup>36</sup> The Association of Commercial Banknote Issuers have their own [MTF](#) for testing that machines can correctly identify genuine S&NI banknotes

- The volume of banknotes sorted by NCS Members fell by 7% in 2016 and a further 5% in 2017. This is likely to reflect both lower transactional use of banknotes and greater local recycling (see 3.6). In recent years, a number of smaller NCS cash centres have been closed. If the decline in wholesale sorting volumes continues, there may be further closures.
- Whilst cash is, and will for the foreseeable future remain, an important payment method, the reduction in transactional use of cash is likely to continue and may lead to reductions in infrastructure for accepting and depositing cash. We cannot yet know the pace or extent of this but the rate of change could increase if the cash industry does not respond by keeping costs of cash competitive, continuing to innovate, and having a model that can effectively support cash in an environment of reduced volumes.

4.2 Evidence suggests that those parts of the industry that directly service the transactional use of cash (offering access and depositing services direct to the public and small businesses) are in a period of evolution. Some traditional players and locations have a declining role, whilst alternatives are becoming more important. In particular, access to branch banking at the Post Office<sup>37</sup> enables a means of accessing, and particularly depositing, cash.

4.3 Banknotes also play a role as a contingency payment method. In future, this role may become increasingly important. In the event of inability to use digital payment methods, people are likely to turn to cash as a secondary payment method to purchase essential items.<sup>38</sup> This could be a result of either: a systemic issue (e.g. a system or service failure); or personal (e.g. through the loss of a card or loss of internet connection to a retail till). Therefore the public expectation for cash infrastructure to be available for contingency purposes may remain unchanged, even if digital payments become more prominent in day to day transactions. If this expectation is to be met, it will be important to maintain the infrastructure required, alongside the ability to accept payment in cash and to deposit receipts, even if business as usual use of cash infrastructure falls.

4.4 Concerns surrounding the ability of existing alternatives to replicate the role played by banknotes during a crisis have been highlighted by the Governor of the Sveriges Riksbank.<sup>39</sup> Sweden is one of the most ‘cashless’ economies.

4.5 The Bank’s current contractual arrangements with the industry have proven sufficient to support confidence in banknotes. We work closely with the industry to: understand their plans to adjust their infrastructure; and help to ensure that any reduction does not result in a level of infrastructure below that required to support transactional and contingency demand.

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<sup>37</sup> [‘Branch Banking – Personal Accounts’, Post Office](#)

<sup>38</sup> In Bank commissioned survey conducted by Kantar TNS in February 2018 38% of respondents cited cash as their second preferred payment method

<sup>39</sup> [‘Payments in the future and legal protection for the Swedish Krona’, Ingves, S. \(2018\)](#)

## **5: Summary**

5.1 Cash will remain an important payment method and store of value for the foreseeable future. The current denominational mix is efficient and provides the Bank, cash industry and the public with a range of banknotes that meet demand effectively.

5.2 Current distribution arrangements for Bank of England banknotes have proven effective. As overall cash distribution infrastructure evolves to meet changing demand, it must continue to enable demand to be met efficiently whilst maintaining the quality and authenticity of banknotes in circulation. In addition the system must be: able to meet contingency demand when required; capable of scaling up for significant events such as note launches; and adaptable to further changes in demand.

5.3 The Bank supports HM Treasury's Call for Evidence, and will continue to support initiatives to promote confidence in banknotes.