



BANK OF ENGLAND

Speech

Insights into the future of cash

Speech given by

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We are here today to celebrate an important birthday. Something known to, and used by, the vast majority of the UK adult population, and which certainly lives up to the motto on its blue plaque “lives made much easier”. On 27 June 1967, fifty years ago almost to the day, the world’s first cash dispenser was installed in Enfield, North London. In 1972 following innovation from the cash industry, the machines were linked to a central system enabling the ‘on line’ cash withdrawals on which so many of us now rely.

Technology had a big impact in 1967 and has since become ever present in our daily lives. We rely on it to keep us informed about the news, for shopping, for navigating, and keeping in touch with, and even making, friends. Technology has also had a huge impact on the payments industry. There are now a myriad of different ways to pay, with digital currencies emerging, mobile payments developing and innovations such as contactless cards gaining real traction. There is also growing interest in time banking and non-monetary based exchanges. And we have even considered whether there might be a Bank of England issued digital currency, but do not envisage this in the foreseeable future.

As a central bank, we welcome this choice. We are neutral to methods of payment, indeed the Bank also operates, and is in the process of renewing, the Real Time Gross Settlement System. Our objective is to meet demand for our banknotes. We do not attempt to influence demand but we do seek to understand what direction cash demand is heading in, to ensure that we are prepared for different future scenarios.

Many people are surprised to learn that demand for cash continues to grow. The value of Bank of England notes in circulation peaked in the run-up to Christmas 2016, reaching over £70bn for the first time - an increase of 10% on a year earlier. This is the fastest growth we’ve seen in a decade, and a giant leap compared to the £2.9bn when the ATM was born.

Strong growth in banknote demand is not unique to the UK. The vast majority of the world is seeing an increase - and countries including the US, Canada, Australia, and the Euro Area are all experiencing year-on-year growth in the 5% to 10% range; some countries are well in excess of this. The main outliers are Sweden, where the value of notes in circulation has been falling for a decade, and Norway which is experiencing a slight decline in demand. Yet even in Sweden - where homeless people can accept credit cards for selling Stockholm’s equivalent of the Big Issue - cash still accounts for around 15% of sales and a new series of banknotes were issued recently.

It is important for the cash industry to understand and respond to demand, and what is driving it. Many commentators focus on the transactional demand for cash. In the UK the number of payments made in cash fell 11% to 15.4 billion between 2015 and 2016 - although cash remained the most frequently-used payment method accounting for 40% of all payments and 50% of spontaneous payments¹.

¹ UK Payment Markets (2017)

Changing consumer preferences have been instrumental in this shift. The growth in online shopping (up 19.5% in the last year²), greater adoption of existing technology such as contactless cards (use of which tripled in 2016) and mobile payments, and the launch of new apps that can monitor and even restrict spending for budgeting purposes are all contributing factors.

Analysing such statistics and the presence of a myriad of different payment types has led many to predict the death of cash. But if we dig further, it is clear that cash is very much alive and kicking. Globally there are over 500 billion banknotes in circulation (nearly 80 per adult) and cash accounts for 85% of transactions³.

The total value of cash spending in the UK has stayed relatively stable over the past decade, albeit with a quicker decline in 2016⁴. ATM withdrawals, the main method of accessing cash, show the aggregate value of withdrawals have also stayed relatively stable with an average of £192 billion being withdrawn each year over the past decade⁵.

This resilience is because cash is relied on by some and valued by many. 2.7 million people, 5% of UK adults, spread relatively evenly across age groups⁵, rely almost entirely on cash to make their day-to-day payments.

Cash is valued as a budgeting tool. It is also extremely useful as a contingency as anyone who has tried to buy a cup of tea on a train with poor signal before, or to catch a cash only taxi in the rain will know! It is often quicker than the alternatives, is universally accepted, there is immediate certainty the transaction has taken place, and some value its anonymity from a civil liberties perspective. It is also vital in supporting financial inclusion.

Looking ahead we need to be alert to factors that could change this transactional demand, such as the relative costs of payment methods to retailers. Whilst cash is relatively cheap to process at present - 0.15% of tender value compared with 0.22% for debit and 0.79% for credit cards⁶, the gap is narrowing. Were this to reverse, merchants may look to nudge customers away from cash. Furthermore, actions from government, for example electronic payment of state benefits, could influence spending behaviour.

But cash is far more than a domestic transaction mechanism. Indeed our research has suggested that between 21% and 27% of cash was held in the domestic transactional cycle in 2014⁷.

² Office of National Statistics (2017)

³ MasterCard (2013)

⁴ UK Payment Market (2017)

⁵ Payments Council (2014) and Payments UK (2017)

⁶ BRC (2015)

⁷ Fish, T and Whymark, R (2015)

There is significant overseas demand for our banknotes, particularly the £50. Our research has shown our notes are used by tourists; overseas investors, those looking for a reserve currency as well as expats⁸. There will also be some cash used in the shadow economy. HMRC estimates that the value of uncollected tax has been broadly stable in the last decade⁹, a time when demand for cash has increased 75%, suggesting that contrary to some commentators the shadow economy is not a key contributor to the strength of cash demand.

Cash is also used as a store of value, often motivated by having access to cash in case of emergencies¹⁰. And some people, despite the FSCS Deposit Protection Scheme, prefer to store funds outside of financial institutions. Because cash has such a wide range of uses and is valued by different people at different times for different reasons, it does have a future, and a significant one.

It is therefore crucial that we as a central bank, with a core objective to maintain public confidence in the availability, quality and security of the currency provide cash that is fit for the future. Our commitment is demonstrated by our investment in a new series of polymer notes. The Jane Austen £10 will be issued in September 2017, following the transition to the Churchill £5 in 2016.

The cash industry also has a key role to play, and much of the resilience in cash demand to date is due to the work of the industry to flex models to meet customer demand. The introduction of the ATM in 1967 was a key example of this. And since then we have seen deposit-taking ATMs, recycling ATMs, and the ability to top up your mobile phone and give to charity via an ATM.

The cash industry should not be complacent. There are many alternatives and with time more people will move to them. The rate of change could increase if the cash industry does not respond by keeping prices competitive, continuing to innovate, and having a model that can effectively support cash in an environment of reduced volumes.

Technology is not a threat to cash - it provides opportunities. The Bank has used the latest technology to introduce state of the art polymer banknotes. Technology helps to authenticate notes, and supports our banknote education efforts, for example the interactive Mobile App¹¹. And automation has helped to improve efficiency, with more of the industry now sorting and recirculating the notes they receive, saving on transit costs. It is important to continue to ensure that notes remain secure as the industry locally recycles more notes. The Code of Conduct for the Authentication of Machine Dispensed Banknotes¹² helps to ensure that recycled banknotes are genuine.

⁸ Miller, C. (2017)

⁹ HMRC (2016)

¹⁰ In answer to the question "Why do you keep cash at home rather than in a bank, building society, or credit union?" 43% of 1000 respondents answered "In case I need it for emergencies". (GfK NOP, 2014)

¹¹ <http://www.bankofengland.co.uk/banknotes/Pages/banknoteapp/default.aspx>

¹² <http://www.bankofengland.co.uk/banknotes/Pages/retailers/codeofconduct.aspx>

In 2017, this Code continues to be strongly supported by industry with many retailers and ATM operators achieving full compliance. The Code was extended earlier this year to cover Scottish and Northern Ireland (S&NI) banknotes. We look forward to seeing compliance levels rising for S&NI dispensing machines in the coming years.

In response to public demand for more £5 notes, the Bank in 2010 set dispense targets for the ATM operators. The operators rose to the challenge and over the past seven years the number of £5 dispensing ATMs rose by a factor of 7 to 5,100 ATMs.

The ways that industry worked together to achieve a smooth transition to, and successful distribution of, the polymer £5 is another case in point. Over 5,000 ATMs and many thousands of self-service checkout machines were upgraded for the launch, staff were trained to recognise the new security features; and the wholesale cash industry masterminded the switch over from paper to polymer distribution of around 300 million notes. I do not underestimate the effort required from all of you to make this so successful - thank you.

Between now and the launch of the Jane Austen £10, the Bank will be seeking assurance that the cash industry will be ready. We will continue to engage and listen, and will help where we can. In July, we will roll out training materials for banks and retail staff, alongside a public communication initiative. Together, we have achieved a great deal over the past few years and as we move closer to launching the new £10, we all need to retain this momentum.

While reliance on cash is less significant than in the past, it is still crucial to everyday life and I encourage the cash industry to continue to innovate, to evolve, and to keep cash relevant and fit for purpose. To quote Jane Austen, or more precisely Mr. Knightley in her novel 'Emma', "Surprises are foolish things. The pleasure is not enhanced, and inconvenience is often considerable". Understanding the drivers in demand for cash will help us to avoid surprises.

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