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#Buildbackbetter for personal financial wellbeing - insights into policy development priorities for a post Covid-19 environment

Briefing Paper BP6/2020

Coping with Contactless: Covid-19 and cash

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Introduction

Covid-19 poses urgent challenges for digital exclusion. Money is crucial for everyday life but social distancing measures that are likely to be in place for the immediate future promises to make life more difficult for those who rely on cash to pay for goods and services. Those who pay by cash can expect to be increasingly excluded on the high street.

UK government advice encourages shops and retailers to rely on contactless payments as far as possible to maintain physical distancing between staff and customers (HM Government 2020). Contactless payments can be made in a variety of ways such as debit cards, smartphones or key fobs (with contactless technology). Usually contactless payments are linked to a bank account although there are pre-paid contactless cards that can be loaded with cash.

UK Finance (2020) notes debit cards were the most common payment method in 2019 comprising 42 per cent of all payments. Cash was the second most popular payment method. Cash dropped from 58 per cent of all payments in 2009 to 23 per cent in 2019. UK Finance (2020) says that the growing use of debit cards and contactless payments is the main reason for the decline in cash payments.

The unbanked

The unbanked, that is those without a current account or alternative e-money account, have more limited access to contactless payments. The Centre on Household Assets and Savings Management's financial inclusion 2019 monitoring report suggests that there was just over one million people in the UK who lacked a transactional bank account in 2018. Half of these unbanked people lived in a household where someone else had an account. About 500,000 people then did not have a bank account themselves or have access to a bank account in their household (McKay, Rowlingson and Overton 2019).

The Financial Conduct Authority (2017; 2018) financial lives survey shows that 62 per cent of the unbanked have a household income of less than £15,000. The Financial Conduct Authority (2017; 2018) research also shows that other parts of the population that are likely to be unbanked include women (58 per cent of the unbanked) and those who do not use the internet (25 per cent of the unbanked). A fifth of the unbanked live in London, with 14 per cent in the North West, 12 per cent in the West Midlands and 11 per cent in Scotland.

Excluding those people who rely on cash matters for at least two reasons. First, this may restrict the goods and services available to those people who use cash. This constrains individual choice.

Second, this may impose higher costs on those people who use cash. LINK is the UK's cash machine network. In 2018, LINK commissioned an Access to Cash Review chaired by Natalie Ceeney CBE to examine how access to cash may be guaranteed for the future. The Access to Cash Review (2019) states that poverty is the biggest indicator of dependency on cash. People may have then to pay for more expensive alternatives or may only be able to access more inferior substitutes. This might add to a 'poverty premium' of being excluded from mainstream financial services.

What is to be done?

The Financial Conduct Authority's (2017; 2018) financial lives survey shows that 3 in 8 of the unbanked would prefer to have a bank account. But 60 per cent of the unbanked are unaware that banks have to offer a basic bank account. One obvious step is to raise public awareness of basic bank accounts, particularly among the unbanked.

The Access to Cash Review (2019) notes that it is important to maintain access to cash to help those who rely on cash. Ceeney is now leading on Community Access to Cash Pilots which aims to explore ways of improving access to cash. There are eight initial pilot areas across the UK and this project runs until 2021 (McDevitt 2020). But the Access to Cash Review (2019)

notes that there may be little point in guaranteeing access to cash if cash is not accepted in shops.

A key issue then is to ensure that cash is widely accepted. This was already an issue before Covid-19 but has now become more important since the pandemic. For understandable public health reasons, the UK government is encouraging greater use of contactless payments (HM Government 2020). Although this will protect many employees and customers alike there is a danger that this may make things worse for the digitally left behind.

One solution might be to make it cheap and easy for those people who have relied on cash to be able to switch to contactless payment methods. The fact that the Financial Conduct Authority (2017; 2018) research suggests that around 3 out of 8 of the unbanked would want a bank account signals that there is a portion of the unbanked that may be willing to switch to contactless payments. Innovation in financial technology might also play a role in reducing the exclusion of those that rely on cash. For example, closing a digital divide between urban and rural areas might support more switching to contactless (Access to Cash Review 2019; Financial Conduct Authority 2017; 2018). Research shows that around 70 per cent of those people who do not use the internet live in rural areas (Financial Conduct Authority 2017; 2018).

But such reforms are unlikely to be enough for everyone. Some people may prefer to use cash for a range of reasons. For example, the Access to Cash Review (2019) notes that people may find it easier to budget when they have cash rather than contactless. This points to the wider issue of poverty flagged by the Access to Cash Review (2019) as the main reason for cash dependency. Broader government action on poverty is important alongside steps to guarantee access to cash. The Access to Cash Review (2019) also mentions that some people with health issues find it easier to use cash rather than contactless. This means that it will probably always be the case that some people will prefer cash to contactless.

Supporting citizens who prefer cash is likely to involve some form of government regulation. Government guidance is right to highlight the importance of contactless payments as it sets out public health measures to protect society as the economy comes out of lockdown. But these steps should also be complemented by measures to protect those who use cash. This would stop digital exclusion leading to further financial exclusion.

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