

PAYMENTS COUNCIL

DRIVING CHANGE IN UK PAYMENTS

UK Cash & Cash Machines SUMMARY



www.link.co.uk



www.cashservices.org.uk

www.paymentscouncil.org.uk

JUNE 2014

This is a summary of UK Cash & Cash machines 2014, which presents information on how and where we obtain cash for daily use, as well as forecasts covering the next ten years. A full copy of UK Cash & Cash Machines 2014 can be purchased from enquiries@paymentscouncil.org.uk

Cash is still the primary payment mechanism in the UK

Cash remains the most commonly used payment mechanism, it is highly valued by consumers from all walks of life for its familiarity, wide acceptance and speed of transaction. As a consequence, LINK's cash machine network continues to show robust growth and by the end of 2013 there were more cash machines with more people using them than ever before. During 2013, around 20 billion payments were made in cash, and accounted for 52% of all payment volumes.

The planned modernisation of the currency by both The Bank of England and HM Treasury underlines the continued importance of cash to the UK economy.

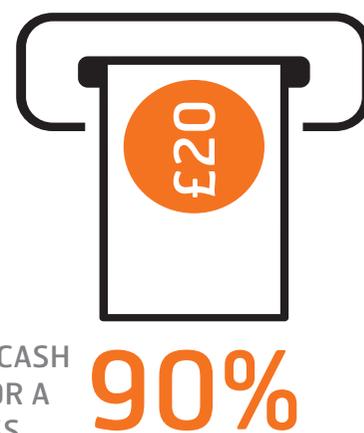
20
BILLION



CASH PAYMENTS IN THE UK REPRESENTING
52% OF ALL PAYMENTS BY VOLUME



ABOUT 60% OF ALL CASH
PAYMENTS WERE FOR A
VALUE OF £5 OR LESS,
WHICH INCREASES TO 90% FOR VALUES UP TO £20



67,693
OF ATMS

AT THE END OF 2013, OF WHICH
48,012 WERE FREE-TO-USE



86%
(45 MILLION)
OF ALL ADULTS USED A
CASH MACHINE IN 2013



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Spending our cash

There were 20 billion cash payments in 2013, representing 52% of all payments

Of the almost 20 billion cash payments in 2013, 99% were made by consumers, and of these nearly nine in ten were made for retail, travel and entertainment purposes. Most consumer cash payments are for fairly low values. About 60% of all consumer cash payments were for a value of £5 or less.

Chart 1

Cash payments below £1 by purpose 2013

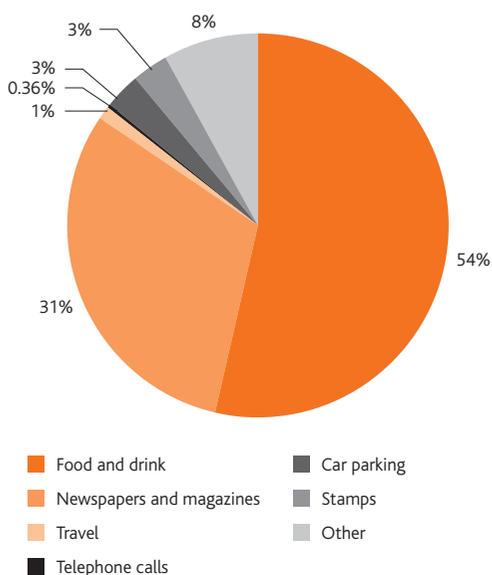
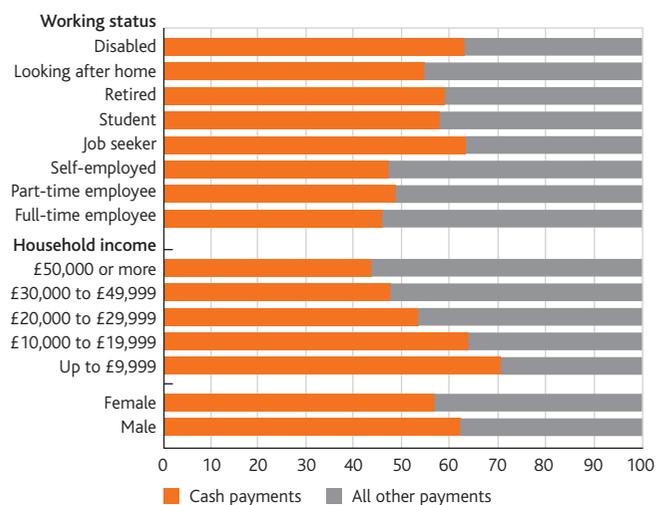


Chart 2

Proportion of payments made by adults in different demographic groups 2013



During 2013, about 64% of spontaneous payments were made in cash

The majority of cash payments are for spontaneous purposes. In 2013, around 64% of spontaneous payments were made in cash, and again a majority for retail, travel and entertainment purposes. Many cash users also use other payment methods to make spontaneous payments, but for a sizable minority cash is the only payment instrument used. These consumers tend to be those on lower incomes or in receipt of benefits, who use cash as a means to budget. However, cash use for regular commitments such as rent is less common. Older consumers also tend to prefer cash because of its familiarity and convenience.

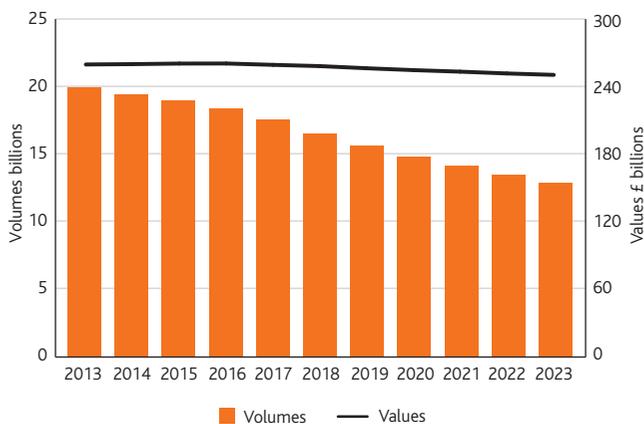
Cash volumes are forecast to fall by around 1% each year over the next 10 years. Cash values will remain at around £250 billion over the period

Cash payment volumes have been decreasing for most of the last decade. This decline slowed-down in 2010, a likely reflection of the economic downturn. Looking forward, it is expected the number of cash payments will decline over the next decade driven by a number of factors – growth of mobile phone payment services, a continuing migration towards debit cards, in particular contactless debit cards and migration of spending from the high street to the internet. This decline may however be offset by the implementation of Universal Credit, which could boost cash use if recipients choose to withdraw the full value of their monthly payments in cash and make all their payments this way. These projections are however subject to developments in the coming years.

It is forecast there will be 13 billion cash payments in 2023, representing around 33% of the total volume of payments, down from 52% in 2013. The sum of cash spent is forecast to fall from £260 billion in 2013 to £251 billion in 2023.

Chart 3

Forecasts for cash payments



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Cash acquisition using cash machines

A record 67,963 cash machines deployed, which were used by individuals to acquire 75% of their cash

The number of people using cash machines continues to grow, a reflection of their widespread availability. At the end of 2013 there were more cash machines than ever. Cash machines accounted for nearly three-quarters of cash acquired by individuals during the year, with almost nine out of ten (45 million) adults using a cash machine in 2013. Robust growth in the number of cash machines comes despite the growing presence of alternatives to cash in recent years, and indicates that commercial opportunities still exist within the cash industry.

Almost half of all cash machines are owned by independent ATM deployers

Independent ATM Deployers (IADs) have driven the strong growth in the cash machine industry in recent years. During 2013 the number of IAD machines continued to grow, increasing by 1,843 to 33,280 machines. In recent years, IADs have migrated away from the pay-to-use business model and have increasingly deployed machines that do not incur a charge.

In contrast, growth of cash machine estates owned by banks and building societies (BBS) has been more modest. The number of BBS machines stood at 34,683 at the end of 2013, virtually unchanged from 2012.

By the end of 2013 just over seven in ten cash machines were free-to-use

Of the total number of cash machines a record 48,012 were free-to-use, which reflected the increased movement of IADs into the free-to-use market. Other drivers include increased deployment of cash machines at off-site locations in expanding sectors such as re-franchised petrol stations, mini supermarkets and other retail outlets.

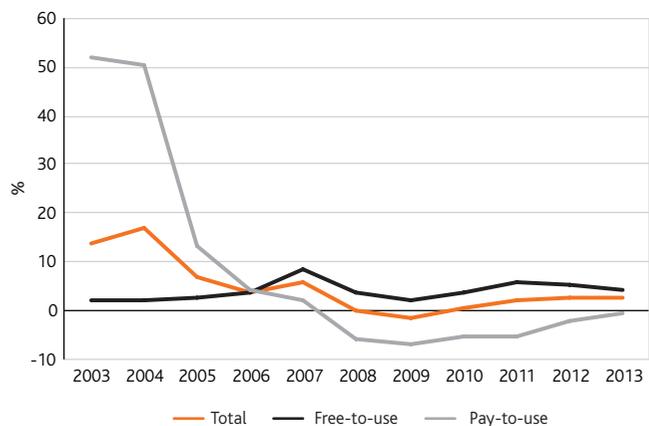
The industry has also worked to increase the coverage of machines through initiatives like the 'Suggest a Site' scheme for cash machines, and to increase the number of cash machines in deprived areas through LINK's Financial Inclusion programme. As part of the programme, about 1,700 of the most deprived areas in the UK have been targeted by LINK and so far, 1,425 additional locations have a free-to-use cash machine.

Cash acquisition using cash machines has increased over the years in line with the increase in the number of machines. The number of withdrawals remained at its 2012 level of 2.9 billion following a slight decline of 0.5%. Corresponding values declined by 0.9% to £192 billion. The average withdrawal value was unchanged at £66. Interestingly the entire reduction in transactional activity was confined to BBS cash machines. In contrast, activity at IAD machines recorded double-digit growth rates for the fourth consecutive year.

Over time there has been a considerable shift in the behaviour of cash machine users away from using cash machines at branches of the bank or building society that holds their account, with an increasing number of cardholders using cash machines wherever they find them. These types of transactions are termed 'not-on-us' and are routed via the LINK network. As such LINK's share of total cash machine transactions continues to grow.

Chart 4

Growth rate in the number of cash machines



The younger generation and full-time employees have a higher propensity to use cash machines

The likelihood of being a cash machine user in a particular demographic group largely follows expectations. Adult users tend to be more affluent or in full-time employment, with the young more likely to be users than those in higher age bands. Those in lower socio-economic groups¹ as well as those who have lower levels of household income are much less likely to use cash machines. Only around half of those in socio-economic groups D and E use cash machines. One possible explanation for this is a preference for small or exact values of cash.

This perhaps explains the high demand among some consumers for lower denomination notes which aids budgeting. In response, since 2010 the cash industry has been working to increase the proportion of cash machines that dispense £5 notes. By the end of 2013, around 5,500 cash machines were dispensing £5 notes, with a wide geographical spread, compared to just 670 in 2009.

NOTABLE INNOVATIONS AT CASH MACHINES:

- ▶ Mobile wallet top-up facility
- ▶ Audio assistance / 'talking cash machines'
- ▶ Financial inclusion – 'suggest a site'; roll-out of free-to-use cash machines in deprived areas

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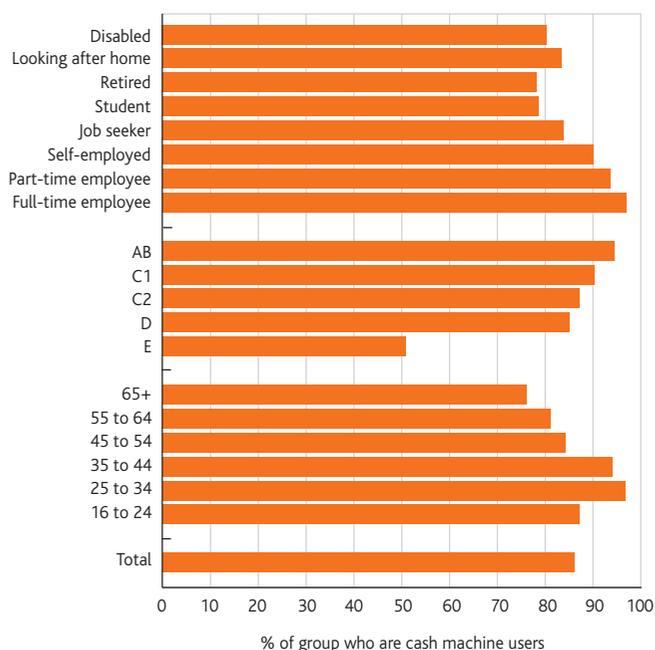
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Chart 5

Cash machine users 2013



Cash acquisition using other methods

About £37 billion was withdrawn using other methods

Account holders can also withdraw cash from their accounts using a number of other methods. These include debit card cashback, card withdrawals at counters, cheque encashment and passbooks.

The largest volume of withdrawals using one of these methods is by debit card cashback, which is offered by some retailers. Account holders can also withdraw cash at the branch counters of banks, building societies and Post Offices, using cheques and passbooks. Users of this service tend to be those who prefer to withdraw larger amounts. However cheque encashment and passbooks are used less frequently now. The decline has been steepest in cheque encashment, reflecting the broader trend in the declining use of cheques. Passbook accounts tend to be savings accounts that have been open for many years and volumes have been broadly steady over the last few years.

These ways of withdrawing cash will probably continue to be alternatives to making withdrawals from cash machines. However, it is expected their use will decline as the use of cash falls and generational preferences migrate towards cash machine withdrawals.

Industry developments

Innovations

While cash withdrawals and balance enquiries are likely to remain the key function of cash machines for the foreseeable future, there continues to be a focus on innovation by LINK members, with an emphasis on enhancing the customer experience. The LINK network also supports charitable donations and non-cash transactions such as mobile wallet top-ups from its cash machines. Other innovations include the utility to recognise consumers, and offer them their most regular transaction in terms of cash withdrawals and balance enquiry preference. LINK also is one of the two networks that underpins the new account-to-account mobile payment service – Paym² – launched by the Payments Council in April 2014. Paym is an innovation, which enables customers to send and receive payments using just a mobile phone number.

Modernising the currency

In December 2013, The Bank of England announced that new £5 and £10 banknotes³ would be produced on polymer – a thin flexible plastic film, rather than on the cotton paper currently used. This followed a three-year research programme and a public consultation. Alongside this, in the Budget of 2014, the Chancellor of the Exchequer revealed that HM Treasury would be introducing a new £1 coin⁴ in 2017. The proposed design will be a twelve-sided shape that evokes memories of the pre-decimalisation three pence piece.

Local recycling

Recent advances in cash handling technology are leading a number of banks, building societies and retailers to look to use banknotes tendered by the public to refill cash machines and self-service checkouts. Within the cash industry, this process is termed as 'local recycling'. Banknotes that have been recycled need to be authenticated to the same standard as notes sourced from The Bank of England, to ensure public confidence in the physical integrity of the currency. To this end in 2013, the industry introduced a new code – Code of Conduct for the Authentication of Machine-Dispensed Banknotes notes⁵.

If you have any queries on this report or require further copies, please contact the Payments Council Research and Policy team:

Tel: 020 3217 8421 or 0203 217 8720

Email: inform@paymentscouncil.org.uk or pmr@paymentscouncil.org.uk

For details of other publications, please contact the Payments Council Communications Team:

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¹ <http://www.nrs.co.uk/lifestyle-data>

² <http://www.paym.co.uk>

³ <http://www.bankofengland.co.uk/banknotes/polymer/Pages/default.aspx>

⁴ <http://www.royalmint.com/aboutus/news/the-new-1-pound-coin>

⁵ http://www.paymentscouncil.org.uk/what_do_we_do/cash/cash_recycling_code