



ACS Submission: Cash and digital payments in the new economy

ACS (the Association of Convenience Stores) welcomes the opportunity to provide evidence to HMRC on the role of cash and digital payments in the modern economy. ACS represents over 33,500 local shops and petrol forecourt sites including Co-op, BP, McColls and thousands of independent retailers, many of which trade under brands such as Spar, Budgens and Bestway. Further information about ACS is available at Annex A.

The convenience sector is now worth £38 billion and retailers have invested £812 million in their businesses over the past year in items such as refrigeration (33%), in-store lighting (28%) and store signage (15%) to respond to changing consumer demands¹. Customers from all demographics and ages visit local shops for a range of shopper missions and retailers are responding to payment innovations to allow customers to pay through contactless and mobile payments as well as cash².

Convenience retailers operate consumer-led businesses that are responding to changing demands for payment services from their customers. We do not support one payment method over another, but we want consumers to have the right payment options available to them. Convenience stores have a low average basket spend of £6.28 and cash is currently the most popular payment method, used in 76% of transactions³. Cash will remain important for consumers to facilitate spending in convenience stores and must be accessible and secure in the long-term.

Convenience retailers are playing an increasing role in providing access to cash as bank branches close alongside their associated ATM infrastructure. Currently, 45% of convenience stores host a free-to-use ATM and 13% a fee-charging ATM. Retailers are concerned that the increased cost of hosting ATMs, from business rates bills and changes to LINK interchange fees, could force retailers to either move more ATMs onto a charging model or remove ATMs altogether. Following the LINK decision, the Payment Systems Regulator must be prepared to intervene to protect national coverage of the free to use ATM network.

This submission has been informed by polling from ACS' Voice of Local Shops Survey (VOLS). VOLS is a quarterly survey of 1,210 independent retailers, 110 retailers from each of the 11 British regions. The May 2018 edition of VOLS has polled retailers on the costs of processing card payments, preferred payment methods for consumers and how much cash they handle and expect to handle in their business in the future.

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¹ ACS Investment Tracker: August 2017 – May 2018

² <https://www.conveniencestore.co.uk/have-your-say/blogs/him-think-tank/355560.bloglead>

³ ACS Local Shop Report 2017

Executive Summary

- Convenience retailers are responding to changing consumer demands for payment services by offering contactless payments (71%) and mobile payments (50%). The average basket spend in a convenience store remains low at £6.28 and 76% of customers pay by cash.
- More than three-quarters (77%) of retailers do not expect cash to be the preferred payment method in five years time. However, cash is valued as a payment method by customers and will dominate payments in the sector for a long time to come. Access to cash should be protected to support this customer choice and facilitate spending in local shops and other cash-led businesses.
- Following the LINK decision to reduce interchange fees and high business rates bills for ATMs, convenience retailers are concerned that the increasing cost of hosting ATMs could force them to either move more ATMs onto a charging model or remove ATMs altogether.
- The Payment Systems Regulator must be prepared to intervene to protect national coverage of the ATM network. Cashback is not a suitable alternative to ATMs, which would increase processing costs, security concerns and insurance premiums for retailers.
- The cost of handling cash is increasing for retailers. Almost half (48%) report that the cost of banking cash has increased over the last three years and bank branch closure programmes have increased the distances retailers must travel to deposit cash. 21% of convenience stores host Post Offices that can accept cash deposits up to £2,000 per day and larger prearranged cash deposits.
- The cost of processing card payments is not transparent and varies widely according to transaction numbers and card type. Merchant Service Charge bills for retailers are increasing significantly as card schemes increase their fees which are not capped the same way as the interchange fee.
- The denominational mix should remain flexible for retailers to set exact prices in a highly competitive grocery market with price-sensitive consumers. Retailers have only asserted strong views about the £50 note, which is rarely used in their business.

CHAPTER 2: SUPPORTING DIGITAL PAYMENTS

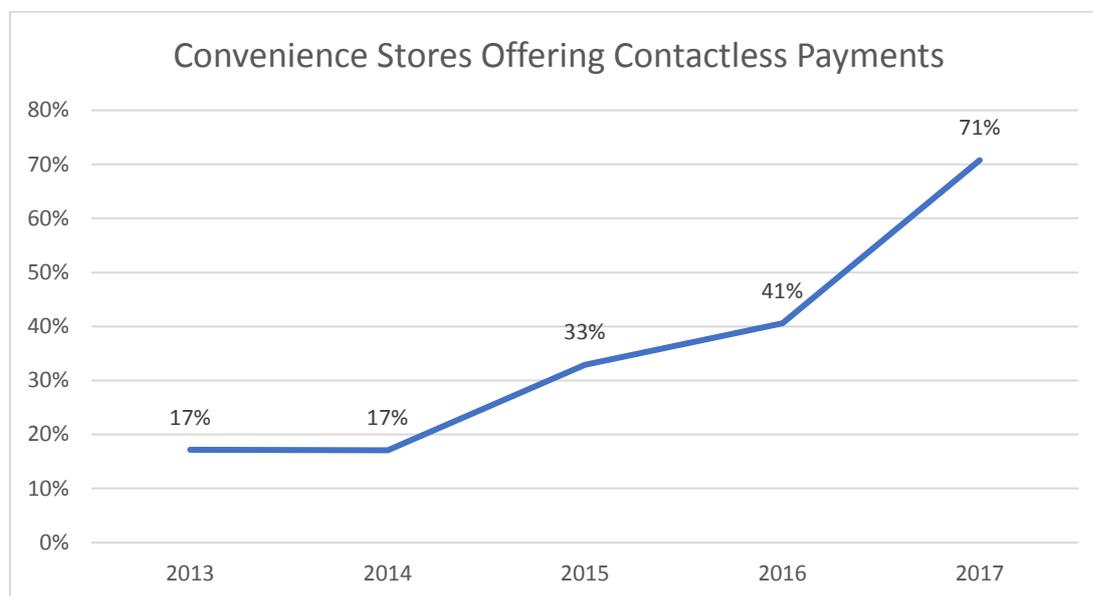
Q1) How do you expect digital payment methods, and the adoption of these by merchants and consumers, to change over the next 10 years? What are the drivers of this?

ACS' annual Local Shop Report provides a comprehensive overview of the sector and tracks the services offered by retailers, including payment services. Figure I shows the sharp increase in retailers accepting contactless payments since 2014, which can be understood as a proxy for accepting other Chip and PIN transactions. Retailers with EPOS systems are also highly likely to have card terminals and the use of EPOS has increased steadily from 48% to 60% since 2014⁴. Customers are increasingly able to pay using mobile payment

⁴ ACS Local Shop Report 2017

systems such as Apple Pay, with the number of convenience stores offering mobile payments almost doubling between 2016 (27%) and 2017 (50%)⁵.

Figure I: ACS Local Shop Report



These trends towards retailers accepting a wider variety of digital payment methods have been driven by changing consumer demands. The average dwell time for a customer is less than five minutes and the local shop business model is built on providing a range of goods and services at unrivalled convenience and accessibility⁶. The demand from consumers for efficient service means contactless payments suit the convenience store business model and can speed up transactions for retailers.

The average terminal contract for card payments is 3 – 4 years for retailers with their card processing supplier⁷. We expect more retailers will move onto contactless-enabled terminals to accept contactless payments after their existing contracts expire and digital payment systems may be used to pay in a higher proportion of convenience store transactions in the future.

Despite these trends towards digital payment systems, cash remains the dominant payment method used by consumers in convenience stores. Over three-quarters (76%) of indicate they pay by cash in convenience stores⁸. Although this has declined slightly from 87% of customers paying by in 2013, cash remains dominant with some customers preferring to use cash for low-value transactions^{9,10}.

More than three-in-four (77%) convenience retailers do not expect cash to be the preferred payment method of their customers in five years time¹¹. However, access to cash and cash payments in convenience stores will remain extremely important for some customers and for

⁵ ACS Local Shop Report 2017

⁶ [Customer missions: winning the everyday shopper](#) Convenience Store. 5 December 2014

⁷ <https://www.cardswitcher.co.uk/2013/05/a-brief-guide-to-contracts-for-your-card-processing/>

⁸ ACS Local Shop Report 2017

⁹ ACS Local Shop Report 2013

¹⁰ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/557331/Uses_of_Cash_and_Electronic_Payment.pdf p3

¹¹ ACS Voice of Local Shops Survey: May 2018

retailers for a long time to come. Therefore, local access to cash must be retained for customers that will prefer to pay via cash into the future.

Q2) What further action could the government take to support greater adoption of digital payments by merchants and consumers (including civil society groups)?

The cost of processing card payments is not transparent for retailers and varies widely according to the volume of transactions expected through the card terminal, the card scheme and type of card being processed. This makes it difficult for retailers to compare acquirers whom the retailer may enter into a merchant service agreement with to process card transactions on their behalf.

The Merchant Service Charge (MSC) is the fee charged to a retailer by the acquirer when a customer pays by card. The MSC is made up of three separate charges, namely interchange fees payable to the bank or building society providing a customer card, card scheme fees paid to card schemes such as Visa and Mastercard for clearing card payment transactions and the acquirer's fee for completing the transaction. Card scheme fees are often comprised of a fixed pence per transaction fee and percentage of overall transaction value fee, while acquirer's fees are typically fixed per transaction and interchange fees are capped at different rates for debit and credit cards.

The overall MSC can be difficult for retailers to interpret due to its complexity across different payment cards and varying fee structures. The Payment Systems Regulator should develop its understanding about how MSC costs impacts the cost of processing card payments for different types and size of business (see Q4). The Government will need to monitor this market carefully to understand the implication of the introduction the interchange fee and whether caps on other fees are necessary to ensure great merchant and consumer take up of digital payments.

Q4) Why does the cost of processing payments differ between cash and digital payments? How is it changing? And do you expect the change to continue?

Handling cash has become more expensive for convenience retailers as banks increase the cost of depositing cash in-branch. Almost half (48%) of retailers report that their charges for banking cash have increased over the past three years with evidence suggesting the cost of depositing £100 cash can vary significantly from between 18p to £1 depending on the final business banking agreement reached¹².

The cost of handling cash can increase indirectly based on insurance arrangements for the business. Insurance contracts will specify a maximum value of cash that may be stored on the premises, while others will allow higher amounts of cash to be stored on the premises for a higher insurance premium. This can lead to more regular trips from retailers to deposit cash at a bank or Post Office branch.

The EU-derived Payment Card Interchange Fee Regulations 2015 introduced caps on the interchange fees that may be charged by card schemes such as Visa and Mastercard per card transaction. As described in response to Q2, interchange fees form part of the MSC and were capped at 0.2% for debit cards and 0.3% for credit cards. However, since the Regulations, unregulated card scheme fees have increased in price. This could be an attempt by card schemes to recoup costs from charging smaller interchange fees to banks and building societies.

¹² ACS Voice of Local Shops Survey: November 2016

This means the cost of processing card payments for retailers is increasing. The complexity of MSCs for retailers and unclear breakdowns of charges often makes it difficult for retailers to understand the cost of processing card payments (see Q2). We have collected initial feedback from members on the costs of processing card payments but this is a very small sample that we can share with the Treasury separately.

These costs for processing card payments do not reflect other charges retailers may receive for processing card payments, for example terminal rental charges, annual administration fees, authorisation fees and minimum monthly service charges from acquirers. The actual costs for providing card payments is unclear and should be explored further by the Payment Systems Regulator (see Q2). The costs of handling cash are increasing through higher bank charges for deposits and retailers are experiencing higher MSCs through rising card scheme fees.

CHAPTER 3: THE FUTURE ROLE OF CASH

Q5) Who uses cash as their main form of payment and why?

We do not hold specific data about which convenience store customers use cash.

According to the Bank of England, cash is a resilient payment method because it is relied upon by 2.7 million people, spread relatively evenly across age groups¹³. The House of Lords Financial Exclusion Committee found that there are more than 1.7 million people living without a bank account, while around half of people with a basic bank account choose to manage their money in cash¹⁴¹⁵. Cash is universally accepted and supports financial inclusion, contributing to the clear value attributed to it from consumers.

Q6) How does cash usage and need vary by demographics, geography, and socio-economic status?

76% of convenience stores customers indicate they pay by cash and local shop customers come from a range of socio-economic backgrounds and demographics¹⁶. Convenience stores serve local communities and the ultimate hyperlocal customer base with 78% of customers travelling from less than a mile to store¹⁷.

Consumers retain an expectation that they will be able to access their cash free of charge apart from in very isolated or inconvenient locations. The aggregate value of ATM withdrawals has stayed relatively stable with an average of £192 billion being withdrawn each year over the past decade, showing that demand for cash will continue¹⁸. The provision of ATMs is an important service provided by convenience retailers for consumers to access their cash to spend across local high streets and shopping parades, and for retailers to drive footfall to stores.

We therefore regret the LINK decision to reduce interchange fees from 25p to 20p over a four-year period. The decision is causing ATM providers to review the economic viability of their ATM networks and change the existing ATM contracts they hold with convenience

¹³ [Insights into the future of cash](#) Bank of England. 13 June 2017

¹⁴ <https://www.parliament.uk/business/committees/committees-a-z/lords-select/financial-exclusion/news-parliament-2015/financial-exclusion-report-published/>

¹⁵ <http://www.financialinclusioncommission.org.uk/facts>

¹⁶ ACS Local Shop Report 2017

¹⁷ ACS Local Shop Report 2017

¹⁸ [Insights into the future of cash](#) Bank of England. 13 June 2017

retailers to reduce commission payments. Convenience retailers must consider the commercial viability of ATMs, as they do for other services such as the Post Office, National Lottery and bill payment services, which could lead to a reduction in the ATM network and access to cash for consumers.

Changes to ATM interchange fees have the biggest impact on retailers despite them filling the cash access gap left by banks as they reduce their presence on the high street. Bank closure programmes and the associated reduction in the size of bank ATM networks has increased the role that convenience stores play in providing consumers access to cash to facilitate spending. Figures on the closure on bank branches are disputed but evidence from Which? suggests that 16% of the banking network closed between 2015 and 2017¹⁹. Although expanded business banking services at the Post Office have improved cash access, a nationwide ATM network is required to support the customer choice to use cash for a variety of reasons (see Q5).

The Payment Systems Regulator must be prepared to intervene to protect national coverage of the ATM network and access to cash for consumers. The Regulator needs to work closely with LINK to effectively monitor ATM provision at a hyperlocal level and ensure ATMs eligible for subsidy under the reformed Financial Inclusion Programme receive it to protect threatened ATMs.

The LINK Access to Cash Committee, which was announced when changes to interchange fees were confirmed, should consult widely as it explores how to secure long-term access to cash. We do not believe that cashback is a suitable alternative to ATMs to provide access to cash. The use of cashback to replace ATMs would present further challenges for retailers by increasing threats of robberies from holding more cash on the premises, increasing insurance premiums and switch the costs for supplying cash from banks through interchange fees to retailers through their MSC.

Q7) How does the level of cash that you handled or used this year compare to what you handled or used five years ago? What are the drivers for that change (for example, change in customer preferences, currency modernisation programmes such as new polymer banknotes and £1 coin)?

ACS' VOLS survey indicates that two-thirds (68%) of retailers do not handle more cash in their business than they did five years ago²⁰. This could partly reflect changes in customer preferences and the rise of contactless payment and digital payment methods (see Q1).

21% of convenience retailers host a Post Office branch²¹. Retailers with a Post Office will handle a significantly higher proportion of cash than other retailers due to the business banking services they offer, whereby businesses can deposit at least £2,000 at a Post Office counter and domestic customers can make cash withdrawals. These Post Office branches are providing a valuable service to local businesses, especially where local banking provisions have declined.

¹⁹ [Mapped: the 482 bank branches closing in 2017](#) Which? 7 April 2017

²⁰ ACS Voice of Local Shops Survey: May 2018

²¹ ACS Local Shop Report 2017

Q8) How do you think the level of cash you will handle or use in five years will compare to what you handled or used this year? What are the drivers for that change? And how will different sectors be impacted by this change?

Convenience retailers continue to respond to changing customer demands on available payment methods, shown by the increasing availability of contactless and mobile payments in stores. 73% of retailers disagree that they will handle more cash in the business in five years time, compared to 13% who agree, indicating that retailers expect more transactions will be completed using alternative payment methods²².

The increasing use of alternative payment methods and availability of these in convenience stores does not undermine the importance of cash accessibility and cash as a payment method for retailers. The Bank of England recognises that “demand for cash continues to grow” and “while reliance on cash is less significant than in the past, it is still crucial to everyday life”²³.

Q9) What impact has the change in demand had on industries that process cash?

Bank branch closure programmes have exacerbated problems for retailers in depositing cash by requiring them to travel further to a new bank branch or Post Office following a local branch closure. This has a negative impact on productivity by requiring retailers to spend more time away from the business, particularly retailers in rural areas. Banking services are essential for local shops to deposit cash due to the large amount of cash going through the business with 76% of all transactions paid for in cash²⁴.

The Access to Banking Protocol was signed by banks in 2015 as an industry-wide agreement to minimise the impact of branch closures on domestic and business customers. Some businesses were not being notified appropriately about local bank branch closures despite the agreement. Bank branch closures can also cause particular difficulties for retailers needing to deposit cash at a physical branch, regardless of the trend towards online banking for other banking services.

The Protocol was reviewed by Professor Griggs in 2016 which informed the amended Access to Banking Standard. The review also offered a solution to the problem of retailers needing to travel further distances to deposit cash following bank branch closures. He recommended banks should come together to develop: “*generic cash pick up services for businesses across the UK that offers a range of options for businesses to use*”²⁵. This recommendation cannot be accepted due to existing commercial Cash and Valuables in Transit (CVIT) services from Barclays and Santander^{26,27}. The recommendation should be kept under review and considered if access to fair cash collection services changes.

Q10) Does the current denominational mix (eight coins and four banknotes) meet your current and future needs? If not, how should it change?

Convenience retailers are operating in a highly competitive grocery market driven by price-sensitive consumers. Any changes to the denominational mix should retain price flexibility for retailers to ensure the most appropriate prices can be set for goods and services sold.

²² ACS Voice of Local Shops Survey: May 2018

²³ [Insights into the future of cash](#) Bank of England. 13 June 2017

²⁴ ACS Local Shop Report 2017

²⁵ [Access to Banking Protocol Review](#) Professor Griggs. 10 November 2016

²⁶ <https://www.barclays.co.uk/business-banking/ways-to-bank/barclays-collect/>

²⁷ https://www.santandercb.co.uk/s3fs-factsheets/cash_carrier_light.pdf

Retailers only provided a strong view on the domination mix in relation to the £50 note, which is rarely used in a convenience store environment. The average basket spend in a convenience store is low at £6.28 and £50 notes are not used regularly for transactions²⁸. When £50 notes are used, retailers often do not return them to customers, either as change in a transaction or cashback, as few transactions require this level of change and some customers prefer to receive smaller value notes. £50 notes therefore struggle to be recycled in store and are banked by retailers for return to the Royal Mint.

Retailers will incur higher costs for banking £50 notes because they struggle to recycle the notes to customers. Customers are also increasingly using debit and credit cards for high-value payments above £50, due to the insurance and security benefits for transactions via these payment methods from the card scheme.

²⁸ ACS Local Shop Report 2017

Annex A

ABOUT ACS

The Association of Convenience Stores lobbies on behalf of around 50,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parades, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.



WHO WE REPRESENT

INDEPENDENT RETAILERS



ACS represents 22,397 independent retailers, polling them quarterly to hear their views and experiences which are used to feed in to Government policy discussions.

These stores are not affiliated to any group, and are often family businesses with low staff and property costs. Independent forecourt operators are included in this category.

SYMBOL GROUPS AND FRANCHISES



ACS represents 14,659 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits.

Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

MULTIPLE AND CO-OPERATIVE BUSINESSES



ACS represents 12,862 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColl's, Conviviality Retail and others.

Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

THE CONVENIENCE SECTOR



In 2017, the total value of sales in the convenience sector was £38bn.

The average spend in a typical convenience store transaction is £6.28.



There are 49,918 convenience stores in mainland UK. 74% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.



The convenience sector provides flexible employment for around 370,000 people.

24% of independent/symbol stores employ family members only.



20% of shop owners work more than 70 hours per week, while 19% take no holiday throughout the year.

72% of business owners are first time investors in the sector.



Convenience stores and Post Offices poll as the two services that have the most positive impact on their local area according to consumers and local councillors.

79% of independent/symbol retailers have engaged in some form of community activity over the last year.



Between August 2016 and May 2017, the convenience sector invested over £858m in stores.

The most popular form of investment in stores is refrigeration.

OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that differ each time to help inform ACS' policy work.

ACS INVESTMENT TRACKER

Regular quarterly survey of over 1200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

ACS LOCAL SHOP REPORT

Annual survey of over 2400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 6,291 stores. The Local Shop Report also draws on data from HIM, IGD, Nielsen and William Reed.

BESPOKE POLLING ON POLICY ISSUES

ACS conducts bespoke polling of its members on a range of policy issues, from crime and responsible retailing to low pay and taxation. This polling is conducted with retailers from all areas of the convenience sector.

For more information and data sources, visit www.acs.org.uk