

ACCESS TO CASH REPORT

JANUARY 2022

GD 2022/0015



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1. Introduction

To: The Hon L Skelly, President of Tynwald, and the Honourable Council and Keys in Tynwald assembled

In recent years there have been major shifts across the island, the UK and internationally in the ways in which consumers and businesses use cash. For many, digital payments and online banking offer more convenient, cheaper and more efficient approaches to payments.

This move away from the use of physical cash has been accelerated by the viral pandemic and the range of mitigations introduced temporarily to reduce social mixing and the risk of infection.

But there will still be members of our community who choose to continue to use physical currency and some, who for a range of reasons, may not be able to access realistic alternatives.

In July 2021 Tynwald approved a report from the Chief Minister's Committee on Community and Public Engagement and agreed that an Access to Cash review be carried out by the Department for Enterprise.

Following a procurement process by the Finance Agency, Grant Thornton were engaged to conduct an assessment of the island's situation and access to community banking services. I apologise for the delays in reporting back to this Honourable Court on their findings and conclusions.

Since the time of the original Tynwald debate we have witnessed a further decline in high street bank branch networks which has left some of our town and village communities feeling vulnerable and excluded from services. The role of the Isle of Man Post Office has been questioned and the establishment of Community Hubs has been commenced.

The report concluded with six recommendations for further attention and analysis. The Department has considered these in detail and proposes a number of ongoing actions:

1. ATM Network Assessment – Finance Isle of Man will continue to monitor the ATM network in liaison with local banks on an annual basis, and work with them to prevent any gaps that emerge, noting this may be via enhanced cash back services and added deposit services.
2. Survey – The Department will work further with Business Isle of Man and industry (e.g. Chamber of Commerce) to assess the amount of cash taken in by businesses outside of Douglas to understand how it is banked and seek to understand any problems this may cause.
3. Digital Education – Finance Isle of Man will continue work with local banks, the Digital Agency and DESC to improve digital education in respect of online banking services and counter any aspects of potential digital exclusion.

4. Banking Hubs – The Department will take forward this recommendation to discuss further with all relevant stakeholders, including the Treasury, Isle of Man Post Office and the Cabinet Office.
5. Network Coverage – The ongoing roll out of the National Broadband Plan will improve network coverage across the Island. The Department will continue to monitor and review this following completion of this project.
6. Enhanced Cashback Services – The Department will take forward this recommendation via Business Isle of Man in association with the Treasury and the Island's retail sector.

In addition the Department has, on review of the report, added three actions of its own which it will also progress.

7. The Business Agency will identify and if possible remove any barriers to digital payment solutions being made available to Isle of Man businesses.
8. The Department, via Enterprise Support, will develop a support scheme to encourage the adoption of digital payment solutions by small businesses and charities/third sector organisations.
9. The Department will liaise with the Treasury in order to assess how cash is managed so as to ensure the supply of money in circulation in the Isle of Man is sufficient and meets the needs of the population.

The continuing evolution towards a cashless society will be welcomed by, and benefit many. However, the Department will ensure that this transition is managed and, through cooperation with stakeholders and interested parties, that elements of our community are not disadvantaged or marginalised by any reduced access to physical currency.

Dr Alex Allinson MHK

Minister for Enterprise

2. Background to Report

Tynwald approved in July 2021 a report from the Chief Minister's committee on community and public engagement and agreed -

"That Tynwald notes the Access to Cash review being carried out by the Department for Enterprise and that this work and its recommendations are reported to Tynwald by October 2021".

The Department, following a tender process appointed Grant Thornton to undertake the review and their report is attached.

Isle of Man Department for Enterprise

Access to Cash and Community
Banking

November 2021



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The background of the slide is a composite image with a blue and purple color scheme. It features several financial data visualizations: a bar chart with white bars on a dark background, a line graph with a white line and data points, and a stack of silver coins on the right side. The coins have the word 'SIA' and 'BANK' visible on them. Various numerical values are overlaid on the image, including +8.76, 65.32, -12.14, 47.18, 85.17, 55.01, 11.08, 15.44, 75.25, and 23. The text 'Executive Summary' is centered in the middle of the image in a white, bold, sans-serif font.

Executive Summary

Executive summary

Background and approach

Digital payment methods are rapidly becoming more widely accepted and are being seen as “the norm” by today’s consumers and small and medium-sized enterprises (SMEs) as they are deemed to be highly efficient, convenient and more user friendly than cash. Although cash usage trends are declining globally, it remains as legal tender and utilised by certain sectors of commerce and society and as such a certain degree of futureproofing is necessary. The Isle of Man Department for Enterprise (DfE) engaged Grant Thornton to conduct an assessment of the Isle of Man’s (the Island) access to cash and community banking services.

In recent years there has been a major shift, both domestically across the Island, in the UK and internationally, in the ways in which consumers and SMEs use cash. The perpetually evolving and increasingly competitive digital payments landscape now facilitates more convenient, cheaper and efficient approaches to payments.

The role of cash is changing. Historically cash has been used as a method of payment, however it is now more commonly used as a store of value. Analysis of trends and consumer sentiment indicate that cash requirements are expected to continue to decline into the future. In the UK a straight line trajectory of current trends would see the end of cash use by 2026, however due to demographic differences in cash use and reliance it is vital that the rate we move towards digital payments, and eventually a cashless society, is at a pace which does not disregard vulnerable groups. As such, due consideration must be given towards access to cash over the medium to long term.

‘Access to cash’ reviews are becoming more commonplace internationally and the focus on this has intensified following the Covid-19 pandemic. The Pandemic has expedited the shift from cash usage toward digital payments and online, self-serve banking services. In March 2019 the UK conducted its own access to cash review, which in turn has led to a government consultation period led by a ‘Call for Evidence’. This consultation period invited residents and SMEs to share views regarding the key considerations associated with cash. The intention was that the consultation period would influence and guide legislation related to cash access. Further detail on this review can be found within the “UK Cash Trends” section (see page 44).

Grant Thornton was commissioned by the DfE to provide a report summarising the current access to cash landscape on the Island and any opportunities which may exist to take advantage of cash networks currently in place. The report aims to provide an insight into what potential scenarios, networks and infrastructures can sustain consumers access to cash on the Island, whilst also maintaining community services.

This report was developed considering consumer needs and implications for cash access and community banking over the medium to long term. Grant Thornton analysed:

- Cash usage trends;
- Cash supplies;
- The suitability of the networks facilitating cash and banking services; and,
- Options to retain reasonable access to cash on the Island.

Grant Thornton adopted a three-phase approach to the Access to Cash and Community Banking review:

1. Current state assessment

This phase of the assessment included a review of cash today, its role in society and its role in the future. This was supported by extensive external research, at a global level to determine key domestic and international trends regarding cash and banking services. Additionally, Grant Thornton assessed the active consumer types that use cash in today’s society and business domains to ascertain the key trends and requirements for both everyday consumers and SMEs. To support consumer sentiment the current state assessment also included a review of cash networks and banking service distribution channels. To ensure the sentiments of the Island’s residents and business were leveraged to complete this review Grant Thornton facilitated multiple workshops with key Manx stakeholders to better understand the Island’s access to cash and community banking needs.

2. Strategic analysis

The outputs from the aforementioned Current State Assessment acted as key inputs to conduct a strategic analysis of the Island. This analysis identified five key themes regarding the Island’s access to cash and banking services:

- Behavioural and Social Attitude;
- Regulation;
- Cash Supply Strategy;
- Digital Payments and;
- Security.

3. Recommendations development

Following completion of the above phases Grant Thornton developed six recommendations, articulating why they could be pursued, the benefits, limitations, risk impact and implementation options for each. In addition, a high-level indicative cost, time and effort assessment and implementation roadmap was completed for each recommendation. Please see the *Recommendations and Next Steps* section for further detail.

Executive summary

Current state assessment

A comprehensive assessment was conducted to determine the current state of access to cash on the Isle of Man, as well as ongoing key trends internationally and domestically (UK & Ireland). This analysis is further complemented by insights from consultations which were held with key Manx stakeholders.

Key trends



Declining cash use: Internationally cash is declining in popularity as a method of payment. The impact of the Covid-19 Pandemic has accelerated the trend away from cash usage toward electronic and remote payments. Additionally, retail banks are proactively encouraging their customers to adopt greater use of digital payments in an effort to reduce their operating costs.



Increasing cash in circulation: The Riksbank (Swedish Central Bank) has analysed 129 countries, including 19 OECD members, and found that the number of banknotes and coins in circulation is increasing in every country, with the exception of Sweden and Norway, despite cash being used less for payments. As such, it is believed that cash is being utilised as a store of value.



Digital Currency: Central Bank Digital Currencies (CBDCs) are being piloted around the world and represent a central bank guaranteed digital currency, establishing direct connections between central banks, financial institutions and consumers. If implemented they could act as a driving force promoting the reduction of physical cash in circulation within economies.



Digital payments: Digital payments are continuing to grow in popularity as more consumers are using the contactless functionality of their debit/credit cards, mobile phones, smart watches and e-wallets for point of sale (POS) transactions e.g. goods and services. Today's younger generations are now more likely to use digital payments over cash however research indicates that strong growth and movement toward digital payments is prevalent in older demographics.



Declining bank branch networks: Banks are closing branches to reduce operating costs and increase usage of self-serve digital channels. This trend is expected to continue and therefore everyday access to cash will be impacted. Banks are continuously trying to educate customers about self-serve digital channels, which helps to mitigate concerns and issues arising from branch closures.



ATM pooling: The role of ATMs in providing access to cash is becoming increasingly important, however for many banks ATMs are becoming decreasingly profitable. ATM pooling is seen as a solution to this. ATM pooling allows multiple banks to combine their ATM networks under a single entity and operate as one larger ATM network.



Post office banking: Postal service providers have seen their traditional postal revenue streams decline due to new entrants in the market to support the macro economic growth of e-commerce. As a result many postal service providers have developed new revenue streams by entering into financial services and banking.

Isle of Man stakeholder insights

From the Island stakeholder workshops conducted the general consensus deemed the current cash network on the Island to be sufficient. However the distribution of cash points across the Island requires consideration, particularly in rural areas in the West and Southwest.

- Engagement with representative of IOM Banks suggested that the Island could be cashless within the next 25 years following international trends.
- It is predominately the older and more vulnerable demographic that rely on physical cash, while cash usage among SMEs and other residents is declining. The Covid-19 Pandemic drastically declined cash usage on the Island and has resulted in some SMEs operating on a card only basis.
- Retailers and traders have adapted their business models to increase the use of digital payments and have embraced new technologies enabling them to accept card payments, however it was noted that cash was still in use.
- 'Penny' the mobile bank is very popular amongst residents, however it only operates on behalf of the Isle of Man Bank and access to the vehicle and opening hours were considered not to be overly convenient. It is clear that the Island's residents who require access to cash and banking services would benefit from greater accessibility or additional mobile banks operated by other banking institutions.
- Continued digital education initiatives and workshops on digital banking would benefit customers who are more resistant to switching to online banking. This initiative would also ensure that this demographic is not left behind in the digital switch. Banks are working to assist their customers in familiarising themselves with their digital channels.

Executive summary

Isle of Man strategic analysis

A comprehensive strategic analysis of the Island revealed five key themes: Behavioural and Social Attitude, Regulation, Cash Supply Strategy, Digital Payments and Security. These themes provided further insight to access to cash and digital banking trends on the Island.



Behavioural and Social Attitude: The nature of high street trading has changed dramatically on the Island, both retailers and consumers alike are abandoning cash in favour of digital alternatives. Over the last 18 months in particular there has been a significant shift towards cashless due to the Covid-19 Pandemic. However, there are still industries that favour cash such as agriculture and trades. From a demographic perspective it appears to be mostly the older and vulnerable generations that still use cash and require access to same. A common theme from stakeholder engagement indicated that access to cash was not a pressing issue facing other residents and businesses on the Island. It was highlighted that the strategic focus may be aligned to the digital adoption agenda as seen across the UK, Europe and around the globe. Banks believe they are doing their utmost to educate and encourage digital adoption amongst customers, furthermore they believe additional government assistance could support greater digital adoption rates amongst vulnerable customer groups in particular. The Island's Banks and Credit Union could be mandated or compelled by a law change to ensure that all members of society (including "Unbankables") have access to a basic functional current account. The general sentiment from stakeholder workshops was that the current cash needs are being fulfilled and the Island is trending towards a cashless position in approximately 25 years time, which is in line with international trends.



Regulation: Regulation plays a key role in the cash and banking infrastructure, ensuring access to cash is safeguarded. It is important to note that there is a fundamental difference between access to cash and cash convenience – it would be unrealistic for residents to expect cash to be instantly available on their doorstep. There are regulatory provisions and schemes in place to protect the proximity of ATMs, bank branches; and other cash or banking access points. The Link ATM Scheme on the Island actively protects free-to-use ATMs that are more than a kilometre from an alternative free-to-use cash source. The Cabinet Office also believes there is a possibility that the Government could consider assisting in the financing and implementation of "community hubs" in strategic locations to improve access to cash around the Island. Engagement with the Cabinet Office indicated that there is an understanding that should additional ATMs be required to improve cash access, the Government may not expect banks to fund additional cash points.



Cash Supply Strategy: By enhancing existing infrastructure on the Island the cash supply could be greatly improved. The Island's ATM network should be assessed, and ATM relocation or expansion of the current network considered to areas which are under served and removed from over served areas. The Post Office network has the potential to provide banking services across the Island if further suitable commercial agreements can be made between the banks and the Post Office. Additionally supermarkets and other retail units and community hubs could also be utilised as 'Banking Hubs'.



Digital Payments: The trend of digital payments on the Island is in keeping with the international trends identified. The market for digital payment providers has become increasingly competitive with both SMEs and consumers alike having a large choice of providers. Digital payments can provide significant cost and time savings for retailers. SMEs may choose to leverage one of the "adaption grants" currently available across the Island to invest in a digital payment service – such monies could potentially cover the payment platform and/or the digital device required to support it (i.e. Smartphone). Digital payments could be framed in a more favourable light in order to target older demographics, highlighting that 'tapping' is easier and safer than carrying and using cash. We have noted a number of charities accepting contactless donations across the Island which highlights the ease with which they can switch to accepting digital payments. Continued provision of education to the older demographic on digital banking will also allay concerns regarding fraud and assist this transition. Stakeholder workshops also identified network connectivity as an impeding factor of digital adoption in some areas of the Island.



Security: Fear of cyber attacks and cyber crime are some of the largest barriers for consumers and SMEs in adopting digital technologies. These fears are particularly pronounced in older demographics. Financial institutions have invested heavily in technology to ensure that their systems and processes are as secure as possible. This is particularly apparent as the Island has not been subject to any bank system outages within the last ten years. In the main consumer confidence in digital payment security is high. It is hoped that through the provision of effective customer communications and education that this confidence could be replicated within older and vulnerable demographics.

Executive summary

Recommendations

Following completion of the Current State Assessment and the Strategic Analysis Grant Thornton developed six recommendations, articulating why they could be pursued, the benefits, limitations, risk impact and implementation options for each. The below provides an overview of each recommendation. It is worth noting that each of the below is deemed to be low risk.

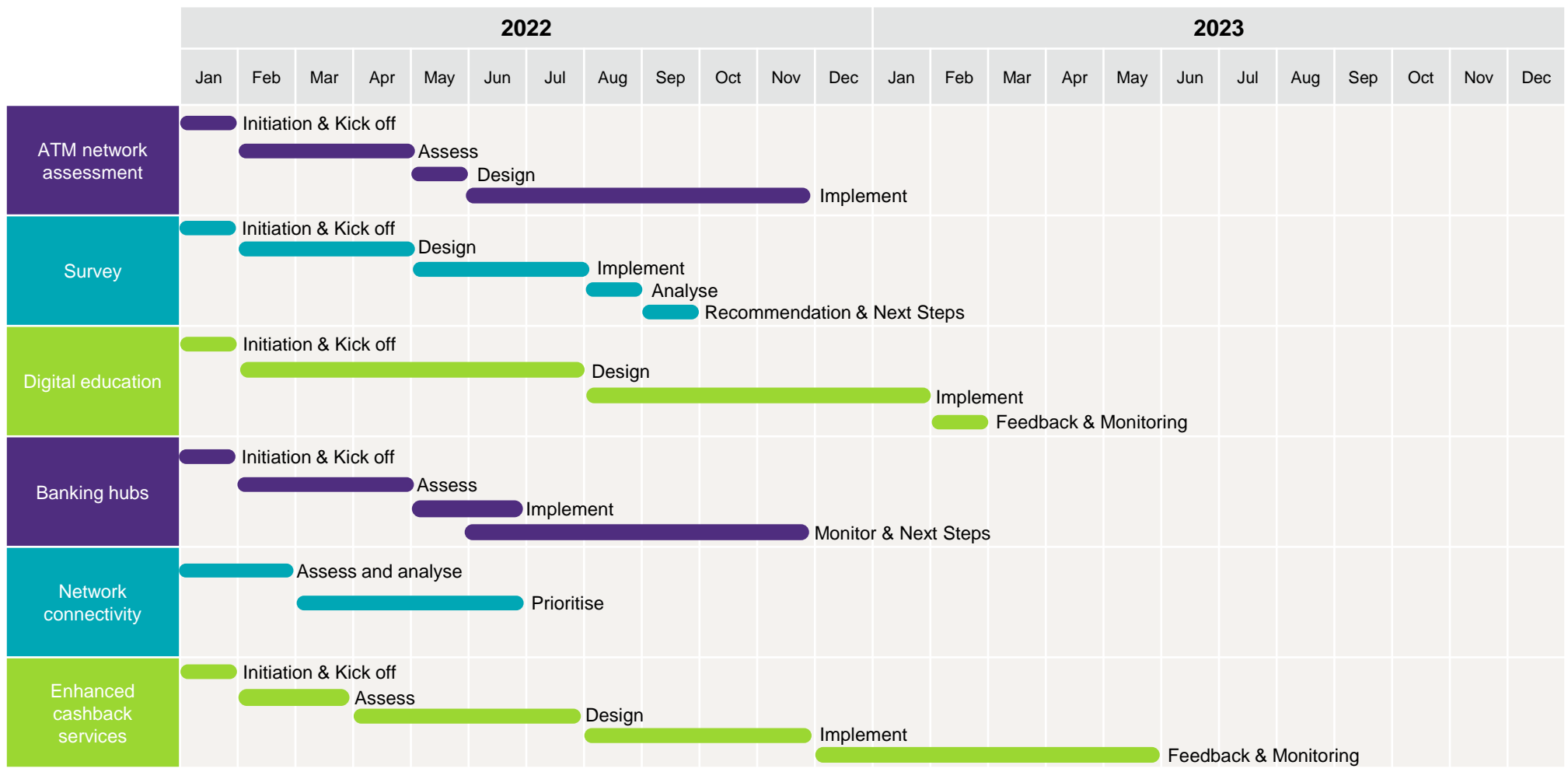
	ATM network assessment	Survey	Digital education	Banking hubs	Network coverage	Enhanced cashback services
Benefits	<ul style="list-style-type: none"> Identify areas which are currently being under served by ATMs and other areas which are potentially being over served. A reliable ATM network can support consumer demand for cash amidst further bank branch closures. Opportunity to innovate and improve the ATM network (e.g. add deposit services) which could bring operational benefits to both consumers and SMEs alike). Consideration of pooled ATMs. 	<ul style="list-style-type: none"> Capture the attitudes and opinions of a large proportion of the Island's population from different demographics. Cost effective method of gathering large amounts of data. Allows for qualitative feedback which could provide deeper insight into why Islanders possess certain views and what alternative banking methods they would be satisfied with. 	<ul style="list-style-type: none"> Extended roll out of digital banking learning initiatives and workshops will reduce individual's reliance on cash and improve their ability to bank remotely. Create a more financially inclusive society, one where everyone has the ability to access online banking resources. Increase the participation and adoption of digital banking from many different demographics on the Isle of Man. 	<ul style="list-style-type: none"> Provide enhanced accessibility for customers to banking services on the Island, at more convenient locations and opening hours. Existing post offices, other retail units or community hubs could be used as locations for Banking Hubs. Additional Credit Unions could also act to support expansion of banking hubs on the Island. Acts as an efficient counter measure to bank branch closures. The social element of banking remains in place with these hubs, an aspect of banking which is very important to older residents. 	<ul style="list-style-type: none"> Reduces any 'blackspots' of poor connectivity and enables access to digital banking and payment methods in an efficient manner to all residents. Reliable connectivity networks allow SMEs and residents to operate in a cashless manner. Strong internet connections keep the Isle of Man connected and provides the Island with many digital opportunities. 	<ul style="list-style-type: none"> Ease of implementation means existing retailers and local authority offices could provide a significant, timely uplift in sources for cash for residents and SMEs. Cashback is an efficient cash management solution for SMEs, reducing their costs of managing and handling physical cash. Cashback allows consumers to access cash for free unlike some ATMs which charge fees. A minor update to existing legislation to allow cashback services without a purchase could potentially increase the availability of cash across the network.
Impact	High	Medium	High	High	High	High
Risk	Low	Low	Low	Low	Low	Low

Please see the *Recommendations and Next Steps* section (Page 52) for further details, including implementation options, effort and impact assessments.

Executive summary

Indicative roadmap for success

The roadmap below outlines, on an indicative basis, the timelines for implementation of the six key recommendations over a two year period and beyond. These recommendations will provide benefits across a number of key areas whilst aiming to overcome the challenges highlighted by key stakeholders during the Current State Assessment phase.



A person in a business suit is pointing at a document on a desk. The document features various charts, including a pie chart and several bar charts. A laptop is open to the right of the document. The background is a blurred office environment. The entire image has a purple overlay.

Context For Review

Engagement and overview

Background and approach

Background

Access to cash is a question being posed to many legislators around the world at present. Against the backdrop of a global trend towards digital payments and retail bank closures, there is concern that access to cash and community banking will be neglected. This in turn may ultimately exclude groups of society who prefer the use of cash or rely on face-to-face banking.

Grant Thornton was commissioned by the DfE to draft a report to produce a forward-looking vision of scenarios which could sustain the population's access to cash with retail bank branches closing on the Island, a trend consistent across the UK and Ireland. DfE sought this report to consider:

- Consumer needs and implications for access to cash;
- Future trends in cash usage;
- Options for retaining cash in communities; and
- To analyse the current cash provisions on the Island.

Grant Thornton Approach

Phase 1: Current State Assessment

- During this phase of the review, Grant Thornton conducted an analysis of trends in cash usage locally and internationally. Research of international cash networks and infrastructures was carried out, noting successful features in place in other countries.
- A series of workshops were conducted with stakeholders on the Isle of Man (including: Isle of Man Post Office, Financial Services Authority, Social Services, Isle of Man Chamber of Commerce, Isle of Man Credit Union, Local Authority Representatives, Retail banks and Sub-Postmasters) to gain an understanding of the current access to cash landscape and preference for future solutions related to access to cash and banking services.
- We also completed a macro analysis of current and future trends and how these might impact Isle of Man residents.

Phase 2: Strategic Analysis

Following an extensive review of the Isle of Man's current cash access landscape and feedback from key stakeholders, coupled with a macro understanding of international best practice and trends, Grant Thornton completed strategic analysis to:

- Assess the viability of options for retaining access to cash in the community and access to sufficient banking facilities to meet the needs of consumers and SMEs;
- Investigated alternative arrangements to the current infrastructures which could satisfy the needs of the community; and
- Investigated alternative distribution channels to supplement the current cash network.

Phase 3: Recommendations Development

During the final stage of the review Grant Thornton:

- Assimilated all information, research and analysis of domestic and international trends in the development of our final report;
- Assessed alternative means of providing access to cash through various cash distribution channels such as, ATM networks, Post Offices, supermarket banking, community banking and mobile banking;
- Developed a roadmap to outline the implementation and prioritisation of the recommendations and the estimated timeline to implement the same; and
- Conducted a risk assessment and outlined the benefits and limitations of each recommendation along with a cost and impact estimate.

Current State Assessment Isle of Man Overview



Isle of Man overview

The Island in numbers

The Isle of Man is situated in the Irish Sea and is home to over 85,400 people. The Island is comprised of 13 parishes, four towns, four village districts authorities, and has a highly skilled workforce. The Isle of Man Department for Enterprise manages the diverse economy across various district authorities robust industries, all of which have experienced significant change since the Covid-19 Pandemic. The tourism industry remains a significant element of the Island's economy and helps to keep its culture and heritage alive.



340,000 visitors

The 'Visit Isle of Man Strategy' aims to welcome 340,000 visitors to the Island by 2023



42,777

The total economically active population of the Isle of Man was 42,777 at the last census, 2016



£159 million

Visitor spending will generate £159 million for the Isle of Man's economy by 2023

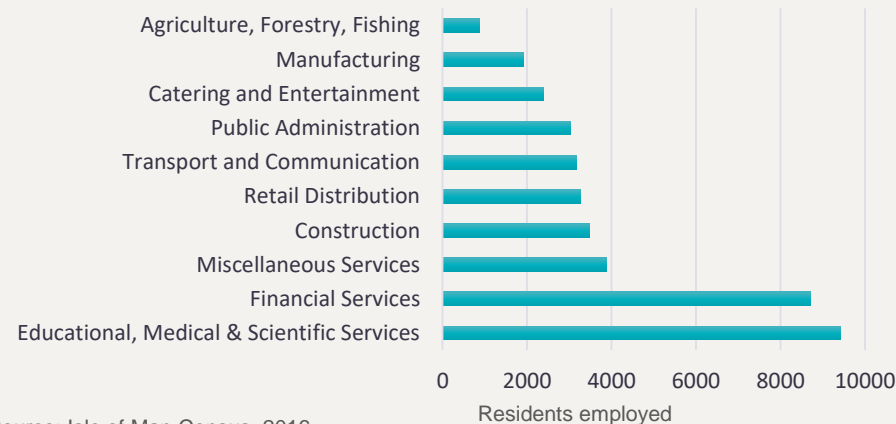
Manx currency issued into circulation (as at 31 March 2021 – figures in £000)

Notes	76,806
Coins	21,977
Total	98,783

Industry analysis

- Approximately 60% of the Island's population works in one of the below industries. This competitive environment results in a highly skilled and diverse workforce.
- The Island's financial services sector is thriving, and continues to grow and develop. The sector is considered an international finance centre of excellence and it is known for its innovation, professionalism and positive international engagement.
- The Island's unique culture and heritage makes it a popular tourist destination. In a typical year over 135,000 people visit the Island annually. The tourism industry aims to employ over 3,500 people by 2023.
- The Island strives to provide opportunities for all residents. This objective is underpinned by an ever-growing economy and driven by an ambitious government.

Chart One: Industry breakdown, 2016



Source: Isle of Man Census, 2016

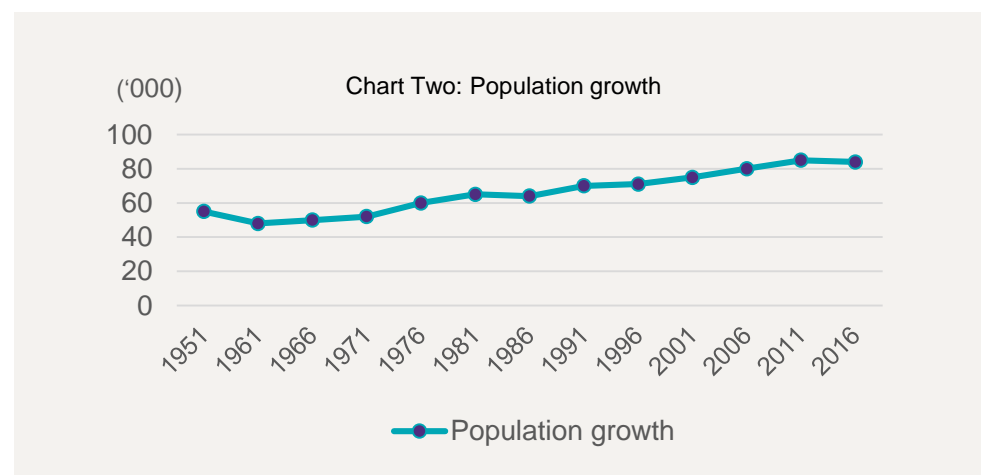
Isle of Man overview

Resident demographic

The Island's population has been steadily increasing since the mid 1960s, this growth has stemmed from the Island's diverse economy and enterprise opportunities. The Island experienced its first decline in population in 30 years in 2016, but has since recovered. However, the number of residents over the age of 65 has been increasing and is currently at a record high. As the working population decreases there will most likely be adverse effects for the Island's economy by way of reduced taxation income and increased government expenditure.

Steady increase in population

- The Island's population has been steadily increasing since the mid 1960s, however it did experience its first decline in 2016 (1.4%) since 1986. Despite this the Island's population has since recovered, and it is estimated that should current trends continue, the population could surpass 97,000 by 2050.
- Nearly half of the Island's inhabitants are native-born, and approximately 27,000 people live in the capital; Douglas, making it the most populated area on the Island.
- The Island strives to be an "Island of Enterprise and Opportunity", which has provided career and life opportunities for thousands of people over the years, which assisted in a steady population growth.
- This steady population growth can be credited to technological advancements aiding a thriving financial sector and tax efficient economy.



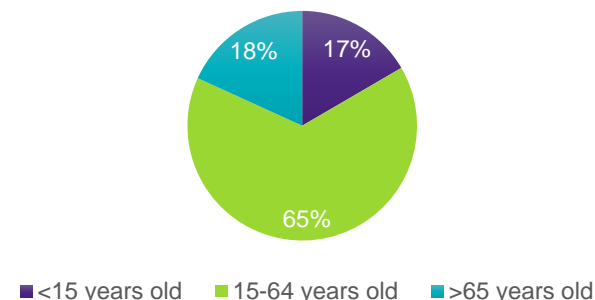
Source: Isle of Man Census, 2016

¹ The World Factbook, CIA.gov, 2021

The Island's ageing demographic

- According to the IOM Government issued "Review of Ageing Population Report" published in 2020, a long life expectancy is considered to be one of the most significant achievements for a country. The number of residents over the age of 65 has reached record high levels and is currently the twelfth oldest population in the world ¹.
- Life expectancy is currently 82.3 years for females and 79.1 for males. This ageing population presents challenges when it comes to protecting access to cash and banking services for residents. This demographic is anecdotally one of the most reluctant to transition toward a digitally focused and cashless life.
- The Island's working population decreased from 54,473 in 2011 to 42,777 in 2016. The percentage of the population over the age of 65 increased from 18% in 2016 to a record high of 21.6% in 2020. It is estimated that the number of retired residents will reach 20,000 by 2036. The pension age on the Island will increase to age 67 between April 2026 - 2028 and to age 68 between April 2044 and 2046.
- As the ageing population increases and the working population declines, it is also likely to impact the Island's economy with a decrease in taxation income and government expenditure, this is an important factor that the Government will have to consider for the Island's future.

Chart Three: Age breakdown

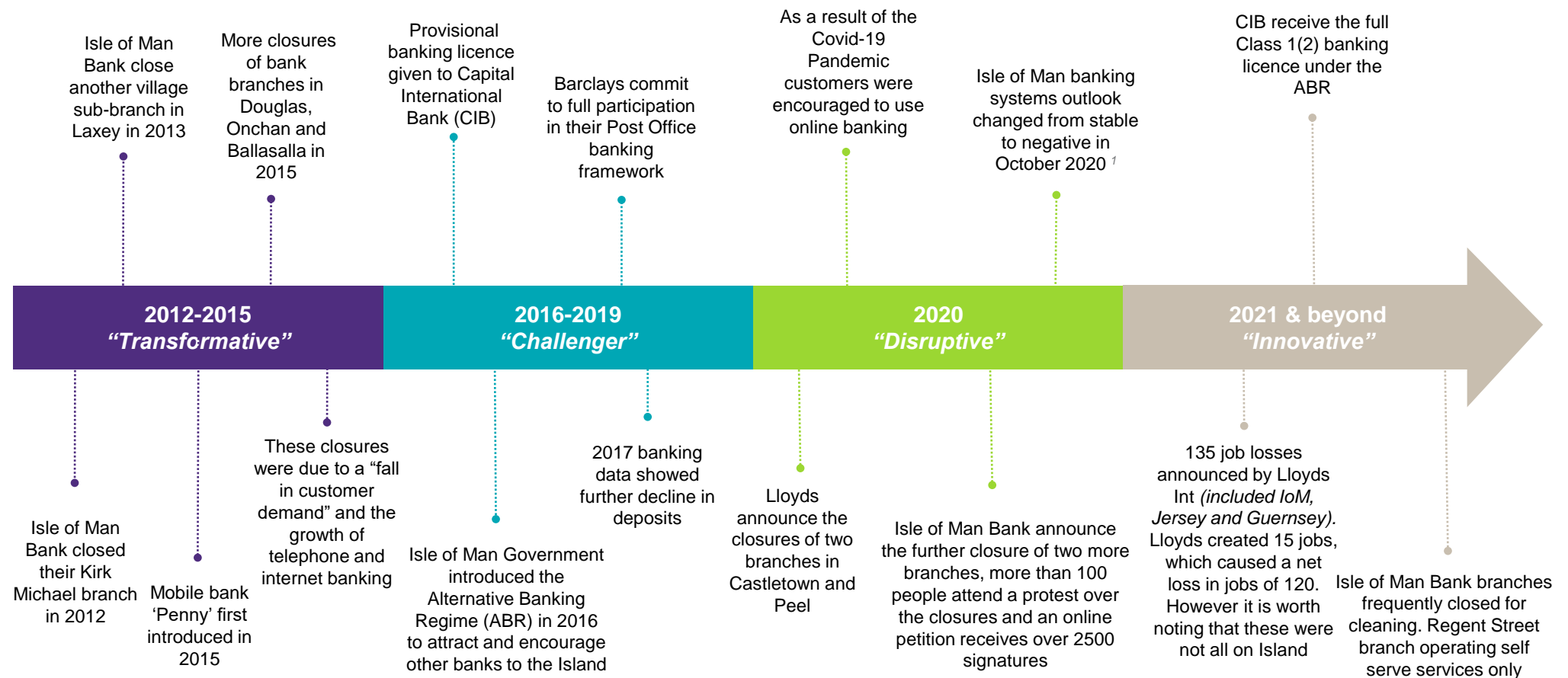


Source: Isle of Man Census, 2016

Isle of Man overview

Evolution of payments and banking landscape

As a result of digital enhancements and adoption, retail bank branch closures have been occurring on the Island since 2012, which have radically transformed the retail banking sector on the Island. Closures and other challenges have been met with resistance from residents, however these disruptions to the banking landscape have resulted in innovative means of banking, which will continue far beyond the reach of the Covid-19 Pandemic.



¹ Moody's Investor Service, 2020

Isle of Man Overview

Cash network and infrastructure & usage trends



The Island has been experiencing branch closures since 2012, this has depleted its traditional bank network and left the Island with 11 branches. When analysing the ATM coverage per capita, it is evident that a strong ATM network exists on the Island. Whilst the number of ATMs is sufficient, the spread of these cash points could be reviewed to better serve local communities. In line with international trends, a large proportion of the Island's population have adopted digital banking and payments. However, segments of the local population remain resistant to this trend, therefore access to cash needs to be maintained.

Key statistics



Possibility that the Island could be a **cashless society** in the next **25 years**



5.97 ATMs per 10,000 inhabitants



Approximately **85%** of ATMs are free to use for residents



4000-5000 'MiCard' users, which allows card holders to collect social security benefits in cash



Approximately **74.5%** internet penetration rate



21.6% of the population is over 65 years old

Cash network infrastructure

- The traditional cash network on the Island has undergone significant change in recent years. The Isle of Man Bank and Lloyds, have closed a combined nine bank and sub-bank branches in Kirk Michael, Laxey, Douglas, Onchan, Ballasalla, Castletown, and Peel since 2012.
- Currently there are 11 branches servicing the Island. The North of the Island is served with four branches in Ramsey, the East with five branches in Douglas and the South of the Island has two branches.
- There are 22 Post Offices on the Isle of Man, five of these offer Barclays banking services, and two Post Offices offer Lloyds banking services, however banking contracts held with the Post Office are costly. The cost of transactions is high due to fixed fee arrangements but the number of transactions is low. Banking and Post Office contracts typically operate on a rolling 12 – 36 month basis.
- There are approximately 50 ATMs on the Island with the greatest concentration being in Douglas and neighbouring areas. These areas are some of the most densely populated locations on the Island.
- There are only five ATMs in the South and West of the Island, the residents in these areas are heavily reliant on these cash machines as there are only two bank branches. When ATMs are out of service or empty of cash residents must travel to another town to withdraw cash. This travel for cash increases the likelihood of residents spending their money in other Island towns rather than locally within the community.

Government and regulatory influence

- This report has been commissioned by DfE to determine if there are any access to cash or community banking issues across on the Island. This report considers other potential cash distribution channels, which may provide access to cash and alternative banking solutions.

Consumer perceptions

- During the Covid-19 Pandemic, cash usage by SMEs and residents has been steadily declining, while the usage of digital payments and other cashless methods has increased and is quickly becoming the preferred method of payment for many.
- SMEs are faced with other commercial challenges in respect to cash. It is often more expensive, both in time and money, to deposit cash in banks or post offices. Moreover, both SMEs and banks struggle with the cost and risks of storing cash.
- Insights from stakeholder engagement revealed many industries and SMEs on the Island have chosen to no longer trade in cash. The financial and professional services sectors would tend to opt for digital payments, whilst other sectors such as tourism and hospitality continue to trade in cash.
- Many of the Island's convenience stores and farmers' markets are still very much cash based. These SMEs often pay their labourers with cash. That said, the UK Farmers' markets has moved towards a cashless environment so it is possible that the Island's markets are likely to follow suit.

Isle of Man overview

Distribution of Banking Services

The map below highlights the cash infrastructure and network that currently exists on the Island, illustrating cash distribution channels available through retail bank branches, post offices, supermarkets, and the Manx Credit Union. As long as cash is required by residents and SMEs, its access needs to be safeguarded. Through effective utilisation of the channels outlined below, coupled with acceptable and viable banking alternatives, such as Community Banking Hubs, the Island's cash network will be deemed sufficient.

Cash infrastructure and network

Retail banks

- There are eleven retail bank branches in total across the Island, spread across the four locations as depicted on the map (adjacent).



Post Offices

- Six Post Offices offer banking services for Barclays and Lloyds ¹.
- There are a total of 22 Post Offices which offer over the counter postal services to residents and SMEs.
- These Post Offices are established channels which present growth opportunities across the Island in terms of greater access to cash and community banking connectivity.
- Services, such as extended opening hours or additional retail bank / Post Office partnerships, could offer a solution to areas across the Island which feel under-served.



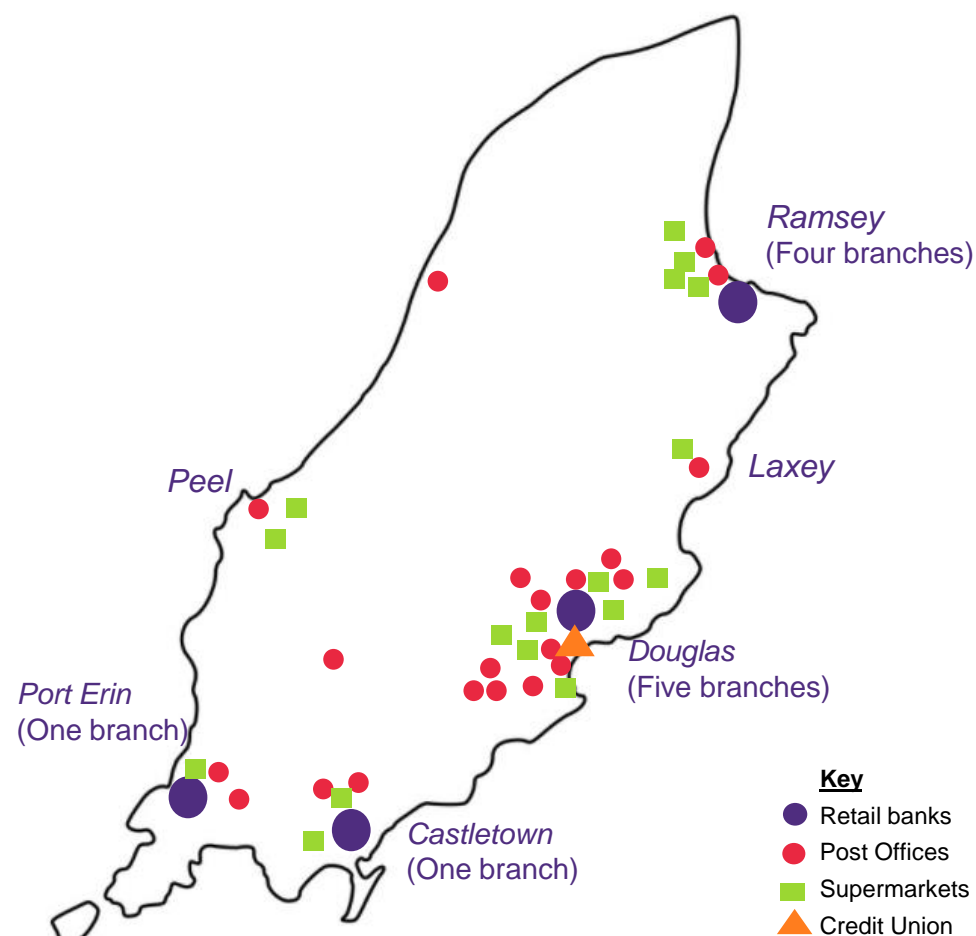
Supermarkets

- Both Shoprite and Co-Op offer cash back services.
- In store ATMs, increase the local resident's access to cash and banking.



Manx Credit Union

- The Manx Credit Union provides savings and loans services and is run solely for the benefit of its members.
- There is one branch, located in Douglas however prior to the Pandemic it also offered services in Ramsey and Peel.



¹ Five Post Offices offer Barclays banking services and two offer Lloyds, however Peel Post Office offer both.

Isle of Man overview

ATM network coverage

The Island is well served by ATMs relative to its population. There are 50 ATMs servicing a population of around 85,400 across the Island, however certain towns and villages are better serviced than others. There are potentially some rural areas which could benefit from additional ATMs or alternative cash point options. The East of the Island offers cash access through 38 ATMs, 34 of which are in Douglas. This would suggest that Douglas is perhaps overserved and the supply of ATMs may exceed demand. In the UK there are on average 7.9 ATMs per 10,000 people, in comparison to the Island where this ratio is 5.97 and specifically Douglas is 12.63, this is higher than any region across the UK (see table below). It is worth considering how the ATM network could perhaps be better placed around the Island.

Access to cash on the East

- The East coast of the Island is very well serviced by ATMs providing the Island's residents and SMEs with sufficient access to cash opportunities.
- Douglas** the Island's largest town with a population of approximately 27,000 and is serviced by 34 ATMs (providing a ratio of more than one ATM for every 1,000 people).
- Onchan** has a population of approximately 9,128 and three ATMs. Onchan however is in close proximity to many of the ATMs in Douglas; the majority of Douglas' 34 ATMs are within a 5km radius from the centre of Onchan.
- Laxey** has a population of approximately 1,676 and is serviced by one ATM. Many Laxey residents are within a 5km radius of the ATMs in Onchan and therefore access to cash is sufficient in the village of Laxey.

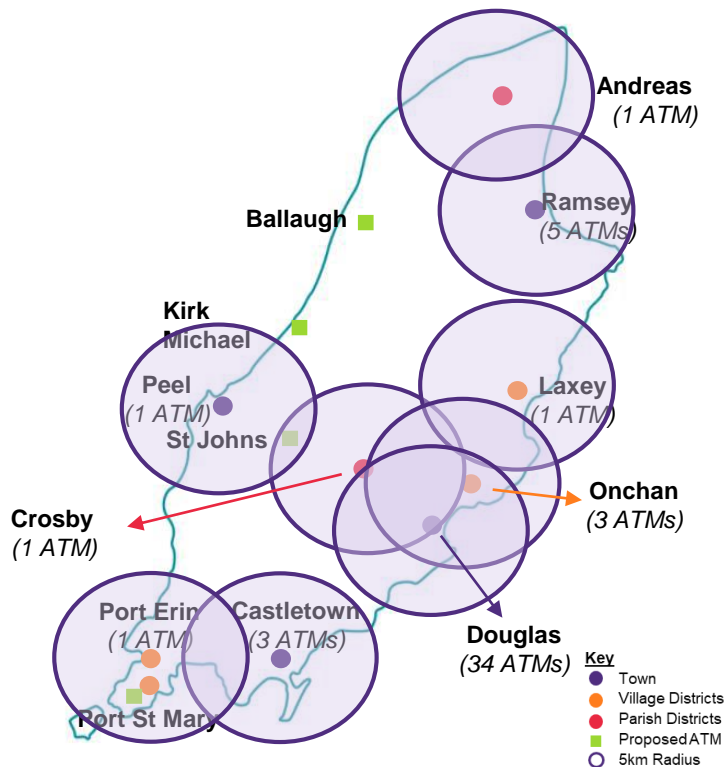
Where access to ATMs could be improved

- The North-West coast of the Island has the poorest access to cash of all towns and villages across the Island.
- Currently Kirk Michael and Ballaugh do not have an ATM within a 5km radius, meaning residents have to travel to Peel or Ramsey for the nearest ATM.
- Along the A1 from Peel to Douglas there is only one ATM in Crosby, leaving residents of St Johns approximately 5km from the nearest ATM.
- Port Erin and Port St Mary have a combined population of approximately 5,400 and are currently serviced by just one ATM in Port Erin.
- Adding ATM facilities to:
 - Kirk Michael and Ballaugh would improve access to cash across the North-West coast;
 - Provision of the above mentioned ATMs will also help improve cash access across the Parish District of Michael;
 - The addition of an ATM in St Johns would help improve access to cash for residents of German and Patrick; and
 - Port St Mary would help improve the access to cash in the South of the Island.
- Provision of local cash access points would also encourage residents to spend money in their local towns and villages, in turn supporting local SMEs.

ATMs coverage per 10,000 population for UK Regions

East Midlands	Wales	London	Scotland
5.8	8.1	8.4	9.4

Chart Four: Isle of Man ATM Network



A blurred background image of a business meeting. In the foreground, a person's hand is pointing at a document with various charts and graphs, including a pie chart and bar charts. A laptop is visible on the right side of the desk. The background shows other people in business attire, slightly out of focus. The entire image has a purple and blue color overlay.

Strategic Analysis Isle of Man

Strategic analysis

Overview

Following a strategic review of the internal and external analysis conducted in respect of the Isle of Man's access to cash, five key themes have been derived: Behavioural and Social Attitudes; Regulation; Cash Supply Strategy; Digital Payments; and Security. This section explores these themes in detail, highlighting key findings from workshops conducted with key Isle of Man stakeholders. The findings from the workshops were aligned to the external research trends, while simultaneously garnering information on how the Island's cash network and community banking services could be preserved.

Behavioural and Social Attitude

By understanding the behavioural and social attitudes of the Island's residents the DfE can better understand their expectations regarding access to cash and community banking services.

It is clear that the Covid-19 Pandemic has changed the public's perception of payment methods, as well as people's attitudes towards cash.

While cash usage was in decline before the Covid-19 Pandemic the shift toward digital channels has been dramatically expedited. As detailed within the *Current State Assessment* of this report research indicates that this trend is not temporary, with more countries trending towards cashless societies.

(See Page 48)

Regulation

While the digital banking evolution has many benefits, challenges also exist which need to be considered.

One clear challenge from external research is the fear that certain demographics in society may be left behind if the Island moved towards a fully cashless society. Such financial exclusion may require government intervention, by way of regulation in the future to protect residents and small businesses.

A key finding from the research conducted to develop this report highlighted that there is a fundamental difference between access to cash and cash convenience. Access to cash refers to the general availability of cash on the Island in comparison to cash convenience which refers to cash being available on residents' doorstep.

(See Page 49)

Distribution Strategy

The supply and distribution of cash networks differs internationally due to varied regulatory and legislative standards.

External research highlighted multiple innovative distribution channels for cash, such as pooled ATM networks and community and mobile banking services. These innovations coupled with increased focus on cost efficiency and reduced branch network footfall have together resulted in a macro trend of global branch network contraction (i.e. closures).

Workshops and other research has highlighted that the Island requires a more robust cash supply strategy. This can be achieved through an improved cash infrastructure and distribution strategy. A more evenly distributed ATM network; exploiting the Post Office network; enhancing community banking services and analysing alternative sources of cashback which are tailored to meet the needs of residents.

(See Page 50)

Digital Payments

Digital payments have transformed the payments landscape for consumers and businesses alike on the Isle of Man.

The use of digital payments methods has significantly increased since the beginning of the Covid-19 Pandemic. Industries such as agriculture which have been predominantly cash based industries are beginning to adopt digital payments, this can be seen through the use of some contactless payments at farmers' markets on the Island.

Due to the natural topography of the Island some residents can face network and connectivity issues. Such issues pose a potential impact to the adoption of digital payment services and may determine that cash in some form will continue to be essential to the Island's functioning.

It is worth noting the importance of the Charity Sector to the Island. Many of the Island charities have adopted contactless methods for donations.

(See Page 51)

Security

The switch from traditional to online banking has resulted in a need for enhanced security measures for customers, SMEs and banks.

Increased cyber attacks on consumers, SMEs and bank networks has led to many having security concerns as cyber crime becomes more sophisticated and prevalent.

Stakeholder engagement indicated that levels of distrust in retail banks exist amongst the elderly and vulnerable demographics. The responsibility to instill confidence within these demographics regarding the security of their finances remains with financial institutions, with the support of national Government.

(See Page 51)

Strategic analysis

Behavioural and Social Attitude

By understanding the behavioural and social attitudes of the Island's residents DfE can better understand their expectations regarding access to cash and community banking services. It may be the case that resident expectations need to be considered, whereby residents are seeking greater local cash and community banking convenience rather than the root cause being an accessibility issue. The Covid-19 Pandemic has resulted in an irreversible shift toward digital payments across the Island. This shift has occurred across multiple demographics and consumer types, in line with that seen in other nations, the Pandemic may have reduced the concern surrounding access to physical cash and community banking services.

Consumers (i.e. Residents)

- The Covid-19 Pandemic resulted in a definitive shift towards cashless and digital transactions. Online banking has dramatically increased since the Pandemic and its use has continued.
- The Island's older demographic maintain a preference for physical cash and it is the Government's responsibility to ensure that this particular demographic is protected and their access to cash maintained.
- Banks operating on the Island have a duty of care to ensure their customers are positioned to avail of personal finance services and advice. Noting that digital channels may not always be suitable for such customers, an alternative means could be provided for and incorporated into a future state operating model.
- Despite younger generations utilising self-serve digital channels, branch banking encompasses a social element which many older residents continue to prefer. Such interaction and customer engagement does not wholly align to the forward looking digital channel model.
- Research indicated that consumers from lower socioeconomic households receive benefits and prefer to pay rent in cash to assist with household budgeting. This rent is paid to various town halls on the Island and it represents a significant sum annually (approximately £1.2 million annually in Peel).
- Some industries prefer using cash, such as the agriculture, hospitality and tourism sectors. For instance many of the Island's farmers prefer cash payments and often pay their day labourers with cash. It is understood that this sector has struggled with the shift toward self-serve and digital banking.
- There has been significant resistance to recent bank closures on the Island; some disruption in the form of petitions and protests.
- The long queues for Penny, the mobile community bank, confirms that there is a demand for this service on the Island. Stakeholder engagement suggested a potential requirement for an expansion of these services.

SMEs

- Similar to most consumers, cash usage has declined for SMEs since the Covid-19 Pandemic struck in March 2020. Since then many SMEs have made strategic decisions to operate on a card only or digital payment basis.
- Many SMEs have realised that it is more cost effective and efficient to utilise digital and card payment systems in comparison to the traditional management of cash and cost associated with lodgement facilities.
- Many merchants are keen to offer cashback services to residents in an effort to reduce their lodgement charges incurred at banks.
- The market for digital payment providers has become increasingly competitive in recent years as the digital payments space has evolved. This competitive environment has reduced implementation and ongoing servicing costs for SMEs. SMEs on the Island can choose from a number of payment providers including; SumUp; PaySafe; and Revolut. This coupled with the availability of "adaption grants" across the Island should help encourage uptake in digital payment platforms e.g. SumUp etc.
- Stakeholder engagement highlighted the Chamber of Commerce's ongoing engagement with SMEs for the purpose of viable payment services education has seen material uptake.
- Whilst digital adoption is growing on the Island, SMEs face a daily challenge of poor network connectivity. Poor or limited connectivity can limit or cause disruption to card payment services.
- Not all businesses are positioned to use Penny, the mobile community bank, and are required to travel to their nearest bank branch to deposit cash.
- While there has been a material shift toward digital banking, stakeholder engagement suggests that a minority of SMEs trade solely in cash and plan to continue to do so. As such when making decisions regarding future cash requirements, the impact to the respective stakeholder groups on the Island should be considered. This may result in the continuing need to safeguard cash for certain groups.

Strategic analysis

Regulation

Regulation to improve access to cash has to be considered carefully and balance the question of access versus convenience, following the global financial crash of 2008 banks have been faced with increasing regulatory obligations to ensure stability and instill consumer confidence in the system. This increased regulatory burden has resulted in pressure for banks to withhold more capital which in turn has further emphasized the need to be more cost efficient. As previously mentioned, banks are closing branches following a lengthy period of digital enhancement within the self-serve channel and to reduce operating costs. However, additional regulation to preserve cash and community banking access may not serve in the best interests of everyday consumers as it may drive banks to withdraw services from the Island entirely.

Bank branches

- The Government could consider the landscape of banking on the Island. Currently there are ten deposit taking licences and one restricted deposit taking banking licences authorised, with most institutions being subsidiaries of UK parent banks. These banks are already faced with navigating regulations in both the Isle of Man and UK in order to serve the market.
- If there were to be additional or amendments to current regulation to support the maintenance of branches there would be wider reaching implications for the Island's banking landscape such as a withdrawal from the Island completely. This could have a detrimental impact on to access to cash and community banking services.
- Banks closing branches undoubtedly impacts consumers access to cash and services, however assessments of branch networks have indicated that they are no longer commercially viable.
- Any future regulation will require a balance between commercial viability and consumer access to banking and cash services, again noting the key difference between access and convenience.

Access to ATMs

- Considering the Island currently has approximately 1 ATM per 2,000 residents it would seem no issue exists regarding access to cash via ATM services.
- The coverage of ATMs is not even across the Island. Douglas has a high concentration of ATMs but the south, west and north-west of the Island have a more limited access to ATMs.
- LINK operate the UK's largest ATM network and are responsible for operating the ATM network on the Island. The LINK ATM scheme aims to ensure consumers have adequate access to cash.
- One way in which the scheme aims to do this is by ensuring free-to-use ATMs remain available where alternative free-to-use cash sources are more than one kilometre away. Whilst the LINK scheme does not intend to add to the ATM network, it aims to maintain the existing network where appropriate.
- This scheme protects six ATMs on the Island. This policy actively protects ATM coverage on the Island and ensures access to cash remains adequate particularly in rural localities.
- Although ATM coverage is sufficient, it was evident that operational issues exist in respect of servicing and maintaining ATMs across the Island. Such issues often mean ATMs are left empty or out of service. Residents' ability to withdraw cash in shops without a purchase may also alleviate cash access challenges that appear as a result of these operational issues.

The cost of cash

- When undertaking an assessment of the operational aspect cash and its viability into the future, the associated costs with same could be carefully considered by all stakeholders.
- Currently there is a high volume of Manx currency in circulation and the minting of new notes and coins has not ceased. The storage of notes and coins add to the already heightened operational costs associated with cash. It was also noted that the secure storage space for this cash was limited and nearing capacity.
- Cash presents itself as an additional cost by way of the 'Grey Economy' it creates. Cash usage removes market transparency, leading to potential tax evasion, ultimately costing the Government in tax income.
- The Government may have to consider sponsoring the cost of cash distribution channels to ensure that cash remains available to those who need it most, to ensure the rising cost of cash does not result in declining access to cash.

Strategic analysis

Distribution strategy

The supply or distribution of cash and community banking through the various channels can be both improved and then supplemented through new distribution channels. The cash and banking network of the Island is comprised of traditional branches, post offices and ATMs. There is supermarket and retail infrastructure in place which could be further developed to enhance the Island's cash and banking services network.

Current distribution

- The Island is currently serviced by 11 bank branches.
- As mentioned previously, there are approximately 50 ATMs on the Island which equates to roughly one ATM per 2,000 people.
- The majority of ATMs do not come with a charge for locals, however the cost of using foreign cards at ATMs on the Island poses a negative impact for foreign visitors.
- Six Post Offices offer banking services by arrangement with Barclays and Lloyds.
- Cashback services provide residents with an alternative source of cash on the Island however, the extent to which cashback is offered by businesses on the Island is undetermined.
- *MiCards* issued by Treasury's Social Security Division allows resident card holders to collect benefits in cash at the Post Office. Residents must be registered to a specific Post Office branch to ensure the cash is distributed and allocated accordingly, however all benefits can be collected from the Regent Street branch in Douglas. The license for *MiCards* will expire in December 2022, therefore an extension or replacement will be required to ensure continued access to cash for benefit claimants.

Distribution improvements

There are two ways the distribution strategy could potentially be improved:

1. Improve the current cash and banking infrastructure

The Post Office network could be utilised to a greater effect if a more commercially sensitive arrangement was negotiated for the provision of banking services. It is understood from market knowledge in Ireland (An Post) and Isle of Man stakeholder engagement, that there are often fixed fee contracts making the service less commercially viable when customer footfalls and transaction volumes remain low. Of the 22 Post Offices on the Island, six are utilised by Barclays and Lloyds for the local provision of their banking services.

The ATM network has the potential to be improved with the addition of more outlets in rural areas of the Island. Areas facing a sparse ATM network are in the south, west and north-west. These areas are currently underserved by providers which results in residents having to travel toward larger towns to use a better stocked ATM. SMEs in the same areas of the Island would also benefit from better stocked ATMs. Additionally, the introduction of automated lodgement facilities within ATM outlets would reduce the need to travel to a branch to deposit any takings they might have.

The cash network infrastructure could be greatly increased if all shops could offer cashback services. A pilot has been commissioned by the UK government, in association with LINK and PayPoint, following a Government accepted amendment to the Financial Services Bill which allows individuals to request cashback from retailers without having to make a purchase. Under the EU's Second Payment Services Directive (PSD2), retailers were required to be authorised by or registered with the FCA to do this. The amendment removed that requirement.

2. Supplement alternative infrastructures with cash facilities and other banking services

Banking services offered in the Post Office could be moved to "community hubs", such as supermarkets, in response to bank branch closures. A move of this nature could potentially provide residents with more cash and banking service points, whilst improving general accessibility in tandem. This would assist with the elderly demographic whilst enhancing the social aspect banking provides to them. Moreover, more retail shops and fuel stations could be fitted with ATMs and offer cash back services for POS transactions.

Cashback services in the UK formed the second most popular source of cash for consumers in 2019. Should the provision of cashback services increase, this could act as an enabler to quickly enhance the cash distribution network across the Island. An assessment could be conducted to quantify how many businesses and local authorities currently offer cashback services and new businesses could then be identified as potential new cashback servicers. Alternative networks such as the Post Office could also be exploited to offer cashback services.

Strategic analysis

Digital Payments and Security

Digital payment platforms have proven to be a benefit to SMEs in particular and the wide range of digital payment providers available is testament to their popularity. Security features surrounding digital payments are legitimate concerns amongst all consumers however, customer education has increased digital adoption and user confidence in these methods.

Digital Payments

Benefits to digital payments:

- There are many benefits to using digital payments for both consumers and SMEs. Modern day card machines, facilitating digital payments, make transactions for consumers extremely convenient and almost instantaneous through the use of features such as 'contactless'. In the UK, contactless payments accounted for 51% of all payments in 2021¹ and increased by 42% from the previous year. The popularity of such payments is increasing rapidly amongst consumers.
- Against the context of consumers' appetite for contactless payments, SMEs will naturally benefit from facilitating digital payment platforms such as SumUp and Paysafe, particularly as the contactless limit has recently increased to £100.
- During the Covid-19 Pandemic and the subsequent lockdowns many SMEs established or developed e-commerce platforms to support their businesses. In essence the Pandemic expedited the adoption of digital payments within the SME sector.
- Digital payment platforms can offer lower cost rates due to increased competition and the greater economies of scale available to them. In some cases the rates incurred for businesses using these platforms are less than that of accounting for, storing and transporting cash.
- The charity sector remains an important one for the Isle of Man. Some charities have embraced digital payment trends by employing contactless payment techniques to facilitate donations.

Challenges:

- Jurisdictional issues can present a myriad of issues for some digital payment providers which in turn can pose negative effects for consumers or SMEs trying to create accounts or use the service. Revolut business accounts were also noted as proving difficult for some local businesses on the Island. Were these platforms to be negotiated with directly and their compatibility agreed with the Isle of Man many more businesses could be better positioned to utilise such payment platforms.

Security

Security Concerns:

- The elderly demographic are seen to be slower adopters of digital payments and automated banking services with research citing fear of fraud as being a contributory factor in this hesitance.
- Financial services providers have invested heavily in mitigants for cyber fraud and there are a number of laws, regulations and conduct standards in place to protect everyday consumers in the event of fraud.
- Education on how to use digital banking securely and effectively is available any time a customer enters a bank branch, as it is in the bank's interest to transition customers online to reduce costs. In the main consumer confidence in digital payment security is high. It is hoped that through the provision of effective customer communications and education this confidence could be replicated within older and vulnerable demographics.
- Stakeholder engagement indicated that some residents and SMEs have concerns that digital systems might fail and impact cash accessibility. However prolonged outages have not occurred on the Island for over ten years and rarely feature in today's digital world.
- Digital payments are potentially more secure for the elderly or vulnerable as contactless payments are conducted in a 'tap and go' manner rather than having to carry physical cash. Digital payments also leave a trace or 'paper trail' were any payment errors or fraud to occur. The record of transactions can allow consumers to recover what they may have lost or had fraudulently stolen.
- Security concerns also exist over the potential replacement of *MiCards* with a pre-paid alternative.

¹ UK Finance: *Card Spending Update* - June 2021

Current State Assessment Overview



Current state assessment overview

A thing of the past or protecting for the future?

For many people, using cash is not a matter of choice but rather a necessity. The way people view and access cash is evolving constantly as digital payments continue to rise and new innovative payment methods are unveiled. Traditional banks are continuing to decrease their branch networks, however the role of cash remains prominent in many people's lives. With that, the ability to access and use physical cash needs to be safeguarded to ensure those who use cash are not excluded from society.

The role of cash

Today, cash still plays an important role in developed and developing economies. Cash can be easily accessed without the need for a third party, therefore it provides autonomy and freedom for consumers. Cash also encourages economic inclusion amongst vulnerable demographics.

Unlike other alternative payment methods, cash acts as a store of value without any risk of defaulting. Recently, demand for cash has been growing largely due to its ability to act as a store of value during uncertain economic times.

Who uses cash?

Although the use of cash as a method of payment is in decline it remains popular among some groups in society, therefore it is essential to protect the cash infrastructure to ensure financial inclusion. Often, those who use cash most frequently tend to be those deemed most vulnerable in our society, such as the elderly, homeless and lower socio-economic classes. It is estimated that 17% of the UK population would struggle in a cashless society.

Cash remains attractive for many people due to its reliability, availability and anonymity. The lack of data or technical infrastructure needed for cash transactions is a very attractive prospect to people in a data conscious world. Market traders and small local business are among those who still heavily rely on cash and therefore stand to be adversely affected by a decline in cash usage.

Traditional cash based businesses, such as independent tradespeople, are slowly beginning to adopt digital payment methods. Many tradespeople now feel it is easier to deal with electronic payments, that are more secure than cash, due to their inherent paper trail which can help prevent future disputes. Research from Plentific found that it can be customers who are driving cash payments in the trades sector, in the hope of a receiving a discount. Adults over the age of 55 are more likely to pay tradespeople in cash (56%) than 18 to 34 year olds (33%), thus with demographic changes cash payments in this sector will likely decline in the future.

Safeguarding cash for the future

As the idea of cashless societies draws closer to being a reality, research indicates that the world, and its economies, are not ready to fully abandon physical currency and switch to a completely cashless society.

Access to cash services needs to be properly supported in the future. Already we can see that the cost of cash is rising, handling and dealing in cash is becoming less commercially viable as a result. Government intervention may be required to limit the impact of rising cash costs. The UK Government is taking legislative action to protect access to cash in the short to medium term through in-store cashback without a purchase and supporting initiatives such as the LINK ATM scheme. LINK announced that it would guarantee access to cash for every high street that had five or more cash-dependent retailers. LINK also allow communities to request a free ATM if current cash access is poor, with LINK covering instillation costs.

As bank branch networks continue to decline, retailers and merchants will play an increasingly important role in safeguarding access to cash. Equally it is as important that cash remains legal tender and that retailers and merchants accept cash at the Point of Sale (POS).

Trends driving the reduction of the use of cash



Closure of bank
branch networks
and ATMs



Increased
acceptance of
cards



Increased
broadband & mobile
connectivity



New innovative
payment
solutions

Current state assessment overview

International trends

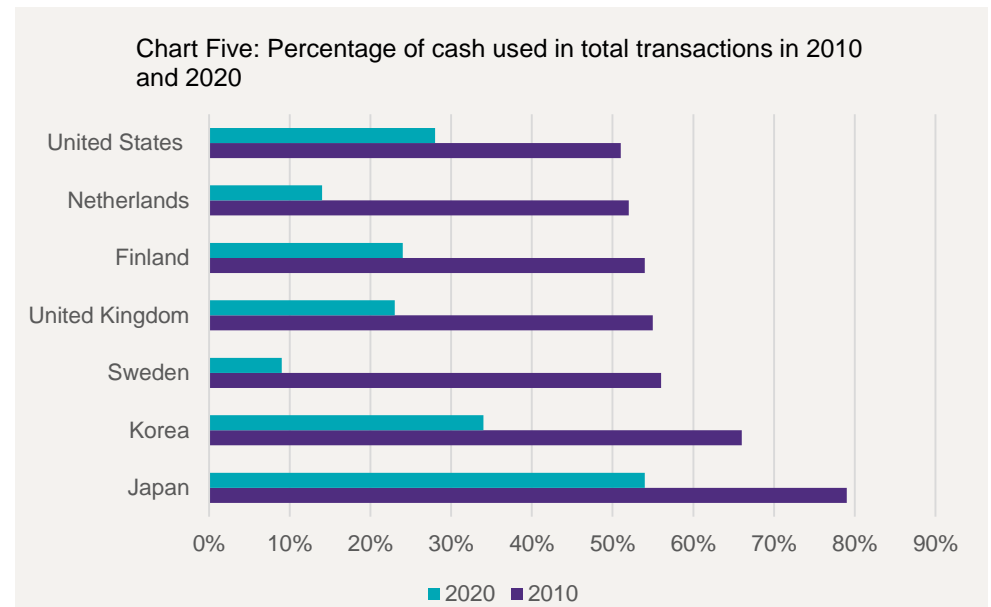
The European Central Bank (ECB) reported record growth in the demand for cash during the Covid-19 Pandemic. This trend can be seen elsewhere around the globe as cash stores its value more safely for the everyday consumer. The 'Cash Paradox' is the name given to the phenomenon of falling cash use and rising cash in circulation. The below provides insight into global trends regarding cash usage.

Global trends

- The total value of euro banknotes in circulation rose during the Covid-19 Pandemic from €1.3tn at year end 2019 to €1.4tn at year end 2020. This year-on-year increase of 11% is noticeably higher than the 5% annual growth rate over the last ten years.
- According to the ECB the key driver for this cash demand is for its store of value. In uncertain times people utilise cash as a means of retaining value. During the Pandemic data shows that people withdrew large volumes of cash as a precautionary measure. Previously the only time the growth rate for cash demand was higher was the months following the collapse of Lehman Brothers' in 2008.
- Outside of the euro area the trend remains largely the same, cash in circulation is growing despite its share in volume and value of total transactions falling.
- In the United States (the US) the demand for cash increased alongside a surge in e-commerce during 2020. The US saw a 16% year-on-year growth in cash demand in 2020, following decades of single-digit growth.
- Chart Five (adjacent) indicates the international declining trend for cash used as a method of payment. In each of the countries highlighted on the chart, cash use in total transactions has declined, although at varying rates.
- Although payments are evolving at a rapid pace cash remains a popular payment method around the world largely due to the privacy it offers and also it is a habitual commodity for many people.
- Chart Five indicates that Sweden has seen the biggest change (47%) and Japan has the smallest change (25%) in percentage of cash used in total transactions. This is indicative of cash trends in both countries, Sweden is at the forefront of decommissioning cash whereas in Japan cash use remains high, largely due to its ageing population demographic.
- A study of 129 countries found that only two countries have seen their currency in circulation decline from 2007 to 2018, Sweden (-43%) and Norway (-23%). Countries with the smallest increase in cash in circulation, which is an indicator of a decreasing demand for cash were; Denmark (16%); Japan (38%); UK (47%); Australia (63%); New Zealand (66%); and Canada (68%).

The 'Cash Paradox'

- In recent years, the demand for cash has constantly increased while the use of cash as a payment method has decreased, this phenomenon has been referred to as the "Cash Paradox".
- Given the nature of cash and its anonymity it is difficult to determine with certainty what cash is being used for. Cash circulation can be tracked and its percentage share of overall transactions but this does not explain how cash is currently being used.
- One estimate from the ECB suggests that 21.5% of banknotes in circulation in 2019 were used for transactional purposes in the euro area such as POS and person-to-person (P2P) transactions.



Current state assessment overview

United Kingdom

Cash is no longer the most popular method of payment in the United Kingdom (the UK) and its popularity is in rapid decline. The cost of cash is starting to take its toll on its popularity as a payment method, with younger demographics embracing the move toward digital payment methods. Automated Teller Machine (ATM) withdrawal rates are falling which also indicate that cash demand is in decline.

Cash in circulation

According to the International Monetary Fund (IMF) cash in circulation in the UK from 2006 to 2016 increased slightly, however over the same period of time cash use was declining (see Chart Six), evidencing the 'Cash Paradox'. The IMF examined eleven countries and found cash in circulation in the UK to be below the average of those studied. The IMF forecast that both cash in circulation and cash use will fall and the fixed cost to maintain a cash currency will rise. The IMF expect cash in circulation to fall from 24% in 2016 to 14% of GDP in the UK by 2026 from 24% in 2016.

Cash usage as a method of payment is in decline

Cash usage is in decline largely due to demographic changes in the population. The contactless limit has also been raised to £100 to encourage further use of digital payments. Evidence shows that younger adults use alternative payment methods to cash more often than older adults and as such less cash is being used. UK Finance found that 16-24 year olds are registered for mobile payments at more than five times the rate for those over 65 year old.

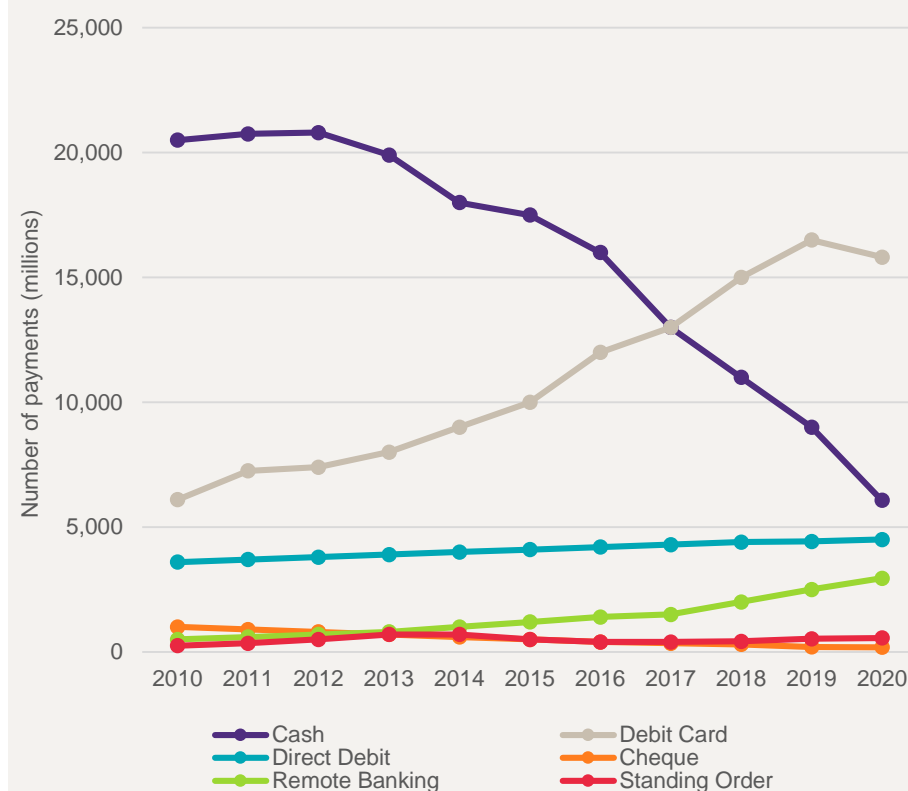
As more young adults enter and older adults leave the population the average composition of the population changes by 2% a year. Assuming this remains constant, the cumulative change in a ten year period would be equal to 20%. With such large demographic shifts in population the demand for cash is therefore in rapid decline. This decline is clearly shown on Chart Six (adjacent). Cash was once the most popular method of payment in the UK but its popularity has declined quickly since 2012.

ATM usage

In the period 2012-2017 ATM cash withdrawals declined by 10%. As a result of the declining demand for ATMs British banks have increased the interchange fees paid to independent ATM operators from 10 pence in 2017 to up to £2.75 in 2021. The increase in interchange fees aims to protect ATMs which are far from an alternative cash access point.

In 2017 there were 70,308 ATMs in the UK, of those ATMs 78% were free to use and 22% incurred a charge. 98% of cash withdrawals are carried out at free to use ATMs. One could speculate that as more ATM networks are sold to Independent ATM Deployers (IADs) and free to use ATMs become pay to use, it may result in a further decline in the usage of ATMs.

Chart Six: UK Payments (volumes in millions 2010 – 2020)



Source: UK Finance, 2021

Current state assessment overview

Republic of Ireland

Ireland had traditionally been a country with high cash usage, however the Covid-19 Pandemic has radically changed the payment landscape as consumers are increasingly migrating to digital payments. Card payments remain the most popular method of payment in Ireland and have witnessed significant growth in recent years.

Cash is being left behind

Ireland has been a nation which was traditionally very fond of cash, marked by high cash use, however the Covid-19 Pandemic has drastically altered cash usage in Ireland. Irish consumers have been encouraged to use alternative payment methods to cash where possible and many retailers have ceased accepting cash. As a result ATM cash withdrawals fell by 44% in the first quarter of 2021, thus indicating a decline in the demand for cash.

The cost associated with accepting and handling cash for retailers has contributed to retailers changing their business models to digital payments only. In 2017 Visa found that cash costs 50% more than card payments for small merchants in Ireland. The cost of handling cash was found to be 2.5 cents per euro versus 1.6 cents for card. Not only can merchants save costs by encouraging card payments but they can also reduce fraud risks and security concerns that arise from handling cash. Visa estimated that small merchants could save up to €6,000 per year by switching to card payments.

Unlike the UK, Ireland does not have a faster payments network meaning inter-bank transfers are not instantaneous. However AIB, Bank of Ireland, KBC and Permanent tsb are currently awaiting a ruling from the competition commission regarding the creation of a new banking payments app which could compete with competitors such as Revolut and provide instant peer to peer transfers. It is expected that cash use in Ireland will continue to decline as innovation continues and new financial products and services are rolled out offering consumers more alternatives to cash.

Cost and time savings for merchants derived from card payments



Rising digital payments

The Covid-19 Pandemic has accelerated the growth of digital payments in Ireland. Not only are people increasingly utilising the Contactless functionality of their debit and credit cards, mobile phones, smart watches and e-wallets they are also being used at POS more frequently. During the Covid-19 Pandemic the Contactless payment limit was increased from €30 to €50, to help encourage the use of digital payments and minimise the risk of the Covid-19 virus being transmitted by cash exchanges.

Even as Covid-19 Pandemic related restrictions began to ease digital payments have continued to grow. Contactless payments in Ireland reached a new record high in July 2021 with over 2.5 million payments made per day worth an approximate €40.5 million. Although cards remain the most popular payment method in Ireland, the volume of payments made online and by mobile phones grew 15.3% year-on-year from July 2020 to July 2021.

Debit and credit cards

Debit and credit cards are the most popular payment methods in Ireland. In 2020 card payments accounted for 64% of the total number of payments. The number of card payments has grown by 79% over the last five years.

Credit cards tend to be used for more substantial purchases than debit cards, the latter being typically used for day-to-day payments. The value of card payments fell slightly (3%) in 2020 despite an increase in volume. This is largely because card usage increased for smaller value transactions. The average number of card payments per person per week has increased from 3.1 in 2016 to 5.3 in 2020.

Despite the increase in card usage ATM withdrawals are decreasing. ATM withdrawals in 2020 decreased by 31% in comparison to 2019 levels. This reflects the trend of declining cash use as a method of payment. Debit and credit cards can be used at both POS and online giving the consumer greater choice and flexibility.

Current state assessment overview

How the Covid-19 Pandemic has affected access to cash and services

As a result of the Covid-19 Pandemic many bank branches were forced to close their doors for significant periods, thus impacting consumer and SMEs access to cash and community banking services. Across Europe, the ECB noted that cash usage was declining, as expected, due to growing concerns that cash could transmit the Covid-19 virus. It seems that this overarching trend has encouraged consumers and SMEs across the UK and EU to embrace digital payments and recognise their benefits and convenience.

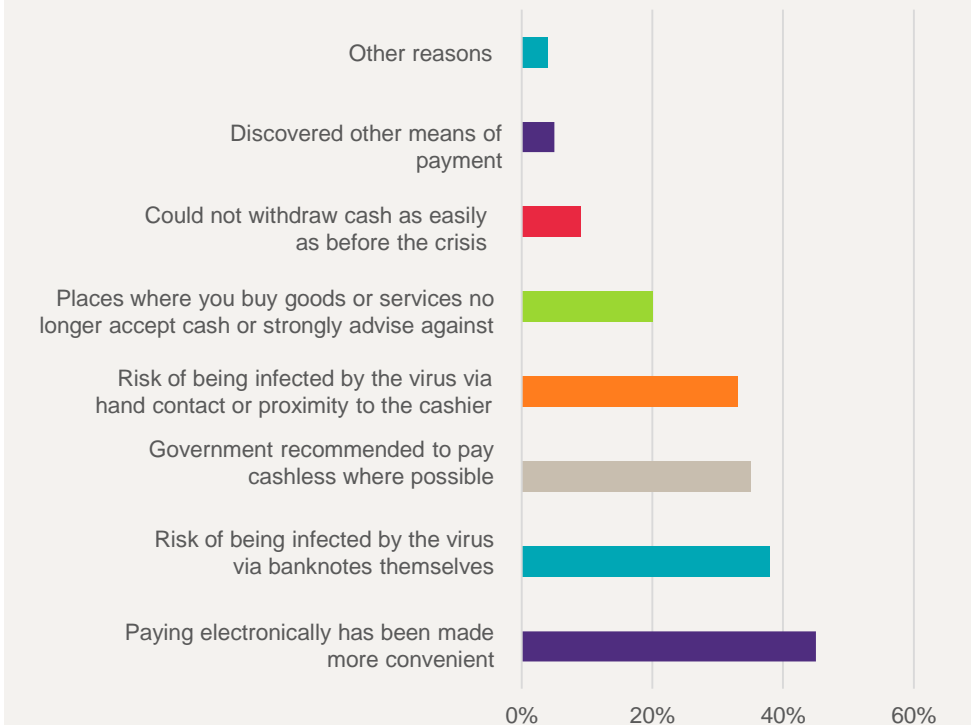
UK impact

- Access to cash was closely monitored by the Payments System Regulator (PSR) and the Financial Conduct Authority (FCA). Their joint analysis showed that over the period of April 2019 to June 2020 99% of the population maintained their pre-COVID-19 access to cash within a 3 or 5 mile radius.
- During the Covid-19 Pandemic 11% of “bricks-and-mortar” banks and Post Offices closed, whilst 12% of ATMs became unavailable.
- Rural areas were most affected in terms of their access to cash with 12% of the closures of cash sources in rural areas leading to residents losing access to cash within a three mile radius. This was only 0.21% for urban areas.
- Many community banks and credit unions in the UK do not have the necessary scale to facilitate consumer demand for online financial solutions and as a result may come under threat from alternative providers with superior digital offerings.

European impact

- Cash demand in the wake of the Covid-19 Pandemic has highlighted “the cash paradox”. Whilst the use of cash as a method of payment has declined significantly, there has been a significant increase in the number of banknotes in circulation within the Eurozone.
- A 2020 survey by the ECB found 40% of respondents were using cash less frequently but despite this the number of banknotes issued increased by €190 billion from March 2020 to May 2021.
- Cash continues to play a vital role in the Euro System. The Covid-19 Pandemic has accelerated digitalisation of the systems’ economies by an estimated seven years and as a result discussions about the long term need and demand for cash have arisen.
- The Euro System is fully committed to safeguarding cash and is taking steps to guarantee that it remains available and widely accepted well into the future.
- Banks across Europe have been proactively involved in economic support measures for SMEs and the Covid-19 Pandemic has given banks an opportunity to rethink their values and become more socially conscious. As a result banks are increasing their focus towards community banking.

Chart Seven: Leading reasons for changing payment method during the Covid-19 Pandemic



Source: European Central Bank, 2020

Current state assessment overview

Cash lifecycle

Banknotes need to satisfy a number of regulatory requirements before they are issued and circulated into a country's economy. Once they no longer meet such requirements and are deemed unfit for purpose, they are destroyed to allow for new banknotes to be printed and distributed. The Island's Manx pound is a statement of independence and pride for residents, however in line with international trends, cash usage has declined across the Island. This has led to increased digital payments and issues surrounding transport and storage of the Manx pound.

The lifecycle of banknotes

Every banknote circulated in the economy needs to satisfy a number of high security standards and satisfy aesthetic criteria. These requirements lay the foundations and act as a driver for new banknotes being developed. Once the development phase is complete, the lifecycle of a new banknote begins: from production and quality control; to public issuance; to circulation; and, to the final stage of destruction.

The Bank of England's (BoE) banknotes are printed in Essex, by De La Rue Currency and are then transferred to cash centres in Debden or Leeds to be distributed. The BoE does not distribute banknotes, their direct involvement in wholesale cash distribution is limited to issuing new banknotes, withdrawing banknotes when a new series is launched, and destroying banknotes that are no longer fit for circulation.

There are over 4.5 billion notes in circulation, worth a total of c.£80 billion. The BoE spends c.£40 million replacing banknotes annually. In addition to this approximately 830 million banknotes are destroyed in the UK every year due to being unfit for purpose. Since 2011 the BoE have adopted sustainable approaches and recycle their old paper and polymer banknotes.

Travelex, a foreign exchange company, also provide a service which allows customers to order cash online and have it delivered to their home or choose to collect it at one of its three collection points.

Covid-19 Pandemic and access to cash

During the height of the Covid-19 Pandemic, the Post Office developed a strategy that should lockdown have continued for a significant period, postmen could deliver benefits paid in cash to residents unable to attend Post Office branches, or those in isolation. This strategy was never implemented. This initiative was also carried out across the UK whereby 30,000 "vulnerable customers" received benefits paid in cash, such as pensions, directly to their home. Barclays and Tesco Bank also offered home deliveries of up to £500 during the Covid-19 Pandemic to vulnerable customers. NatWest also delivered cash to customers and Lloyds allowed a trusted person to collect £100 on a customer's behalf from local branches.

Manx Pound

The Isle of Man has world's oldest parliament that enables it to elect its own Government, enforce its own laws, levy its own taxes and control expenditure. Consequently, the Island issues its own currency, the Manx pound, which is equivalent in value to the UK's pound, however the Manx pound cannot be spent outside the Island. The Manx pound is a statement of independence to the Island, and also a crucial source of investment income. Residents have access to cash from bank branches, ATMs, in-store cashback, Post Offices, mobile bank Penny, and a Credit Union.

Stakeholder engagement revealed that the majority of the Island's consumers and SMEs prefer to use cashless payment methods for ease and efficiency. G4S are the leading provider of secure cash transportation from England to the Island's cashpoints, however it can take G4S up to three days to transport cash to the Island, making it a costly service.

Challenges with over-printing and storage have arisen on the Island in recent years. Stakeholder engagement suggests that cash usage on the Island has been steadily declining prior to the Covid-19 Pandemic, resulting in less cash payments and increased levels of the Manx Pound being held in storage.

The tourism and hospitality industries continue to have a high level of trade in cash across the Island and are estimated to be worth millions to its economy. Pre the Covid-19 Pandemic, over 300,000 tourists visited the Island in 2018. The 'Visit Isle of Man Strategy Plan 2023' hopes that the Island will welcome 340,000 visitors in 2023, with spending estimated to be worth approximately £159 million to the economy.

The Isle of Man Post Office is one of the leading providers of foreign exchange to residents and visitors to the Isle of Man. Orders can be placed through local branches or online for branch or home delivery. As international cash usage continues to decline, it is highly likely that tourists to the Island prefer digital payment methods. This in turn may reduce the demand and role of the Manx pound within the tourism and hospitality sector.

Current state assessment overview

Central Bank Digital Currencies

Central Bank Digital Currencies (CBDCs) are a virtual form of a government-issued currency which is not backed by a physical commodity. The BoE are considering the introduction of CBDCs which would enable households and businesses across the UK to make electronic payments using digital money. CBDCs establish direct connections between central banks, financial institutions and consumers, streamlining and automating many processes for central banks.

What are CBDCs?

A CBDC is an electronic record of a country's official currency, issued and regulated by the country's central bank, for use by both individuals and financial institutions. CBDCs are currently at various development stages and degrees of maturity around the world and have not yet been fully implemented in any country.

A "Bank of International Settlements" survey in 2021 concluded that 86% of central banks around the world are actively researching and assessing CBDCs implementation and that 60% are experimenting with CBDC technology.

A CBDC would function as an innovative and safe means of digital money in an economy. It is important to note that CBDCs are not intended to replace physical currencies but co-exist alongside them. Central banks understand that public confidence in money is the foundation of stability in the financial system. The nations most advanced in CBDC implementation are still testing and piloting their viability and assessing underlying risks that may exist.

Benefits of CBDCs

- ✓ Significantly enhances the development and implementation of monetary and fiscal policies in a country by providing greater oversight and real-time monitoring of an economy, allowing governments to efficiently plan for their economies.
- ✓ Less costly transactions and enhanced security for consumers. Greater scope for financial inclusion with CBDCs, including the "unbanked" within society, because there is no requirement for consumers to have a bank account to hold such currencies.
- ✓ Minimises the tax effort calculation for both consumer and public sector employees through the digital tracing of every CBDC transaction.
- ✓ Removes any potential risk from third parties which could upset any aspect of a financial system at a local or national level, for example, a bank running out of cash deposits.
- ✓ Diminishes illegal activity which stems from the anonymity of cash and cash transactions. CBDCs produce digital trails and serial numbers which make any illegal activity easy to track and suppress.

Negatives of CBDCs

- ✗ Geographic restrictions, if CBDCs were to be issued they can only be used in countries that issue them.
- ✗ Privacy concerns for consumers using CBDCs regarding the possibility of hacking and the misuse of their personal data. As well as that, central banks would have increased control of issuing CBDCs and greater insight into how people spend their money.
- ✗ Regulation which would be required for the use of CBDCs is currently ambiguous and undetermined, regulation would be necessary for CBDCs to be implemented.
- ✗ Central banks could turn into direct competitors of commercial banks and payment service providers.

Countries exploring CBDCs

The UK

In March 2020 BoE published a Discussion Paper on CBDC outlining the possible implementation of CBDCs and sought feedback from stakeholders including technology and Fintech firms, consultancy firms and financial institutions. The BoE has stated that the introduction of CBDCs would not replace cash and bank deposits. BoE and the HM Treasury created a CBDC taskforce to co-ordinate the exploration of a potential UK CBDC¹. A summary of responses to the March 2020 paper was published in June 2021 and a public forum with key stakeholders has been created to continue the dialogue and assessment of the potential introduction of CBDC payments.

Sweden

Sweden is proudly striving to become the first cashless society in the world. Unsurprisingly Sweden is at an advanced stage of its pilot of CBDC payments. In March 2017, Swedish "Riksbank" launched a CBDC project, "e-krona". This pilot ran successfully from 2020 until February 2021 and involved the launch of a new digital currency which had the capability to facilitate commercial and retail payments across the country. Sweden has chosen to progress and build upon this pilot and plans to continue to involve more banks to begin further testing of the adoption of their digital currency.

¹Bank of England – Research on Digital Currencies

The image features a person in a blue suit holding a tablet, positioned on the right side. The background is a blurred city skyline. Overlaid on the image are various financial data elements, including a candlestick chart on the left and several numerical values in different colors (yellow, white, and purple) scattered across the scene. The text 'Current State Assessment' and 'Consumer Profiles' is centered in white.

Current State Assessment Consumer Profiles

Current state assessment

Consumer profiles | Personal

Whilst often similar, cash needs are not identical for both personal consumers and SMEs. For consumers, usage of cash centres around ease of access to cash, withdrawal facilities and proximity to depository services. Certain consumer groups in society will often depend on cash more than others. Domestic and international trends indicate that those from lower socio-economic backgrounds, the elderly and the “unbankables” often prefer handling physical cash in comparison to using digital payment methods.

What access to cash looks like for personal consumers?

Consumer access to cash typically considers ease of access and proximity to:

1) Withdrawal facilities

Withdrawal facilities can take many forms. Consumers often have a choice of withdrawing cash from ATMs, in banks or credit union branches, and through cash back channels in stores. Many consumers view close proximity to cash withdrawal services as a basic human need. In the UK “adequate access” to cash has been geographically quantified as being within 1km of a cash access point and there is prospective legislation in the pipeline to safeguard this.

2) Deposit facilities

Consumers require access to depository facilities to safely and securely lodge funds in their accounts. These facilities can be conducted via many channels, typically over the counter depository functions (in branch or through an alternative banking hub i.e. Post Office) or those provided at ATMs.

Why consumers prefer to use cash?

Many consumers choose, and often prefer, to use cash to service their day-to-day transactions. Cash is considered universal and resilient, and many consumers feel more comfortable using cash to manage their budgeting affairs.

Following the 2008 Banking Crisis, some UK consumers lost significant cash deposits and life savings when financial institutions collapsed, and so there is often consumer belief that physical cash is safer than “money in the bank”.

Cash often protects consumers’ freedom of choice in respect of payments. Some consumers are reluctant to adopt online banking and digital payments and so remain wedded to the tangibility of cash. Whilst some consumer groups view cash as more than a payment method. The older generation often use cash as a tool to socially engage and interact within their local community.

In summary some consumers rely on physical cash more than others, therefore for the moment access to this must be safeguarded to ensure these groups are not excluded from society.

Cash dependent groups of society

Some societal groups prefer to use cash more than others. When questioning why this is the case, it is evident that access to alternative forms of money and/or digital payment channels are often restricted. Governments have a duty of care to ensure that groups are not financially excluded from society. The below highlights a number of cash dependent groups:

Consumers from lower socio-economic backgrounds

- Over half of all consumers who relied predominantly on cash during 2016 had total household incomes of less than £15,000 per year.
- Social welfare can be collected using MiCard identification to access cash.

The Elderly

- Whilst reliance on cash is most likely to be determined by level of household income rather than other demographic statistics, cash usage varies by age. The HM Treasury found that only 11% of those aged 25-34 “rarely used cash”.¹
- In contrast, findings from the Financial Lives 2020 Survey found around 2.4 million people aged 65 and over in the UK relied on cash to a great extent in their day-to-day life – representing around one in five (21%) of all older people.² This research highlighted that this demographic relied nearly entirely on cash.

The ‘Unbankables’

- Difficulty in setting up a bank account is often a common problem for migrants, homeless and ex-convict consumers. These groups are often referred to as “unbanked” or “unbankables”. The lack of banking facilities drives a dependency on cash as both a payment method and channel for financial inclusion. As implemented in the UK, the Island’s Financial Services Authority (FSA) could consider a mandate for its Banks and Credit Unions to ensure this cohort remains serviced through the provision of a basic current account.

¹ HM Treasury 2019: *Cash and digital payments in the new economy*

² The FCA’s *Financial Lives 2020 Survey*

³ UK Parliament Publication 2016: *Tackling financial exclusion: A country that works for everyone?*

Current state assessment

Consumer profiles | SME

SMEs demand access to withdrawal and depository facilities to support their day-to-day business activity. A distinguishing cash need for SMEs is being poised to offer and facilitate as many payment types as possible in attempt to maximise their consumer market. With this in mind and as digital trends evolve, access to cash for SMEs includes having access to digital payment platforms. There are several operational challenges which may restrict SME's digital access, such as internet coverage and payment servicers operating within their jurisdiction.

SMEs access to cash

Access to cash for SMEs encompasses:

Access to withdrawal services

- SME withdrawal facilities can take many forms. SMEs often have a choice of withdrawing cash from ATMs, in bank or credit union branches, and through cash back channels in stores.

Access to depository services

- SMEs require access to depository facilities to safely and securely lodge funds to their accounts. These services may also include the exchange of cash for coin or vice versa. Deposit services can be conducted via many channels, typically via depository functions with ATMs or through an over the counter service (in-branch or through an alternative banking hubs i.e. Post Office). Some banks also offer an out of hours "post box" service for SMEs to deposit monies.

Access to digital online platforms

- In line with the global trend SMEs are largely in favour of digital online platforms.
- According to the UK Payment Market Summary, over half of the total payments for 2020 were made by card. SMEs can exploit this trend by offering suitable digital payment platforms.

SMEs moving away from cash and towards digital platforms

Whilst there are some disadvantages to cash use (as detailed adjacent), some sectors and businesses are more cash intensive than others by nature. Such industries include SMEs operating within hospitality, tourism and agriculture sectors. Since the Covid-19 Pandemic, there has been an undeniable shift toward digital payments amongst SMEs, even within these sectors. Businesses had to move online to remain competitive whilst physical trade was prohibited during lockdowns. Last year, it was forecast that UK consumers could spend £141.33 billion online by the end of 2021, which represents a 34.7% increase on the same figure in 2019¹.

The global e-commerce market is forecast to grow at a compound annual growth rate (CAGR) of 14.7% from 2020 to 2027¹. With barriers to the e-commerce market smaller than ever for SMEs, many SMEs are employing digital channels to market and sell their products and services and so with this offer an online, cashless payment method.

There are some operational challenges in respect of adoption of digital platforms:

- **Network connectivity:** Card payments require phone/internet access and so areas with connectivity issues cannot adequately offer a card payment service.
- **Jurisdiction:** SMEs can face digital payments service challenges in certain geographic locations where card servicer providers don't serve the market due to jurisdictional and/or regulatory challenges.
- **Security:** Fraudsters will often try to hack online accounts for payment details. This does present a risk in respect of data hacking and breaches, however security technology and controls are well developed so these risks may be minimal. Both SMEs and consumers place trust in payment systems currently available across the market.

Disadvantages of SME cash use

The need for cash and the need to facilitate cash payments comes with some challenges for businesses:

- ✗ Cash is costly to store for businesses and comes with the security risk of theft.
- ✗ Cash is costly to manage, transport and deposit, from a time perspective and over the counter fees, in comparison to increasingly competitive card machine fees.
- ✗ Cash payments offer little to no customer data and Management Information (MI), in comparison to card payments. The anonymity of the purchaser means businesses cannot streamline their marketing or use any data analytics to improve competitiveness and efficiency of their business.

The background of the slide is a composite image with a blue and purple color scheme. It features several financial-themed elements: a bar chart with white bars of varying heights, a line graph with a white line, and a stack of silver coins on the right side. Some of the coins have text like 'SIA' and 'BANK' visible. There are also various numerical values scattered throughout, such as '+8.76', '65.32', '-12.14', '47.18', '85.12', '55.01', '11.08', '15.44', '75.25', and '23'.

Current State Assessment Networks and Distribution

Current state assessment: networks and distribution

Cash distribution channels | Retail banks

Retail banks and their extensive branch networks have long provided customers with convenient access to cash and banking services. Customer preferences are changing, increasingly opting to engage with digital channels more than ever before. In light of this change, banks are reducing their bricks and mortar branches which poses negative impacts for access to cash and banking services.

Traditional banking services

Traditional branch banking allowed for convenient access to cash and banking services for customers. Branches generally provide deposit and withdrawal facilities, foreign exchange conversions and coin exchange. Banks also play an integral role in adding and removing cash from circulation. Old and damaged notes are returned to central banks to be destroyed and the central bank supplies bank branches with new banknotes and coins to be introduced into circulation. The role banks currently play in the cash network infrastructure requires a significant branch network.

How banks are interacting with their customers

Existing bank branches are changing the way they interact with their customers. Bank branches are taking the opportunity to educate their in-branch customers on ways to bank digitally or use self-service kiosks that may be available. Fees for over the counter (OTC) and cash services have also seen steady increases in recent years. As retail banks continue to face cost cutting agendas they have increased fees to drive customers towards self-serve and digital channels thereby reducing operational costs. As footfall continues to decline in bank branches fees will increase for over the counter services to ensure they are sustainable.

Some traditional banks are innovating and redefining the role their branches play. Virgin Money recorded a 200% rise in sales at branches that were located near one of its lounges. The Virgin Money Lounge in Sheffield is spread over three storeys and includes a games area that includes two bowling lanes. It serves complimentary refreshments and provides free Wi-Fi for customers, the lounge acts as a place for customers to relax rather than shop. By focusing on customer experience Virgin Money has been able to transform their branch network into a source of competitive advantage. Footfall at Virgin Money lounges is approximately 68,000 per month.

In light of recent announcements by one of Ireland's largest retail banks, Bank of Ireland, the Financial Services Union in Ireland have claimed that three quarters of the branches the Bank intends to close have at least 500 visitors per week and one quarter have between 1,500 and 3,000 weekly visitors. Bank branches may not need to be abandoned completely, branches could be transformed and help to differentiate traditional banks from their competitors.

Declining physical bank branch networks

Customers are migrating to digital channels and banks are responding. Globally bank branch networks are also decreasing. Traditionally branch networks acted as a source of competitive advantage, however they have evolved into a cost burden for many traditional banks.

Lloyds Bank accelerated their digitisation and automation strategy in response to the Covid-19 Pandemic. The proportion of products originated via digital channels increased significantly in 2020, up ten percentage points to 85%, the highest level to date. Lloyds Bank is continuing to digitise their customer experience journeys and has invested more than £4 billion in technology as part of its GSR3 strategic plan.

By quarter three 2020, 80% of Santander UK's total sales were completed through digital channels. Customer engagement through digital channels increased by 18% between 2019 and 2020, meanwhile branch counter transactions reduced by 18% during 2020. In 2020 Santander's digital customer base grew by 0.5 million to 6.3 million. This phenomenal growth highlights the shift in consumer behaviours and their growing preference for banking through digital channels.

NatWest Bank went from receiving 100 video banking calls per week in January 2020 to 9,000 video calls weekly in September 2020, most likely due to the impact of the Covid-19 Pandemic. Maintaining a large branch network without high footfall is economically unsustainable, as such it is expected that there will be further branch closures in the future.

In Ireland, AIB's customers engage with their digital app 1.54 million times a day, compared to just 35,000 daily branch visits. As a result of their customers' choice to engage more with digital offerings AIB have decided to close 15 branches, bringing its branch network to 170 branches, although this is still the largest branch network in the country. Although AIB are closing branches they are currently in talks with An Post to extend their partnership which would give their customers access to cash services in over 900 An Post offices across the country, six days a week. Despite branch closures AIB are still focused on community banking with continued investment in local and regional bank branches.

Current state assessment: networks and distribution

Cash distribution channels | ATM networks

ATMs play a critical role in today's cash infrastructure. As the number of bank branch networks continues to reduce, the role of ATMs and the supply of direct access to cash has become more prominent. Banks and independent ATM providers are beginning to adapt and refine operating models to cater for evolving consumer and SME access to cash demands. The increasingly popular and growing concept of "ATM Pooling" caters for significant operational efficiencies and synergies which bring with them material cost savings to financial institutions.

ATM operating models

ATM networks can be divided into three main business operating models; bank branch ATMs, remote ATMs and independent ATMs. Bank branches have been the traditional location of ATMs, however as branch networks continue to reduce, an increased number of ATMs have been distributed remotely and/or been sold to independent ATM providers.

- **Bank branch ATMs** are housed within a retail bank's branch.
- **Independent ATMs** are owned and operated by independent entities that may have a banking licence, however do not offer traditional banking services.
- **Remote ATMs** are owned by traditional banks but are deployed beyond the branch network.

Characteristics of European ATM networks

- In Portugal there have been widespread bank branch closures which have led to the majority of ATMs being deployed remotely.
- Independent ATM providers are also on the rise in Ireland where branch closures have led to large ATM network sales. In December 2020 Bank of Ireland completed its sale of 700 non-branch ATMs in the Republic of Ireland to Euronet for an estimated €20 million. In 2018, Euronet acquired 400 ATMs from Ulster Bank and in early 2020 AIB sold its network of 500 non-branch ATMs to Brink's.
- For ATMs to be viable in the future they must process a certain number of transactions as variable revenues are greater than the relevant variable costs. Remote ATMs require a greater number of minimum transactions in order to break even.
- Currently most ATMs remain profitable, although there are differences in the profitability. ATMs which rely on interchange fees are less profitable than ATMs which rely on dynamic currency conversion² (DCC) fees.

ATM pooling

- As cash demands evolve banks are considering different options regarding their ATM networks. Whilst some banks have sold large portions of their ATM networks to independent ATM operators, other financial institutions are considering "ATM pooling". *ATM pooling is where two or more banks hand over the ownership of their ATM network to a single entity, which will operate the combined ATM network.*
- Through ATM pooling models, banks can consider which services they wish to provide from their new ATM network and whether they want to go beyond the status quo cash withdrawal service.
- Through pooled ATMs customers can use the closest ATM to them without incurring any fees. ATM pooling also eliminates interchange fees¹ for banks, making operating ATMs more cost effective and efficient. Banks are afforded an opportunity to review and assess their current ATM model, and evaluate whether geographic areas are being under or over served and whether they are currently meeting the needs of their customers.
- Countries which are less cash dependent will find it significantly easier to implement ATM pooling as banks are less attached to ATM ownership and more interested in efficiency and serving customer needs elsewhere.
- Batopin, a single integrated ATM network, jointly managed by the four major banks in Belgium, is a prime example of ATM pooling in practice.
- In Portugal the majority of ATMs are deployed remotely and as a result convenience to cash access is very high. The Multibanco network in Portugal, is the largest financial services network in the country and has been operating for over 30 years, it is a prime example of ATM pooling which offers additional services to its consumers. At a Multibanco ATM consumers can purchase transportation tickets, pay utility bills and much more.

¹ *Interchange fees ATM:* The card issuing bank pays an interchange fee to the operator of the ATM when a customer makes a transaction at an ATM that does not belong to the card-issuing bank

² *Dynamic currency conversion (DCC)* is a process whereby the amount of a credit/debit card transaction is converted at the point of sale, ATM or internet to the card's country of issue currency.

Current state assessment: networks and distribution

Cash distribution channels | Post Offices



Post Offices act as the heart of the community to many rural locations and provide essential services for many residents. In recent years Post Office networks have had to transform their service offering in order to stay relevant and be sustainable. In many communities they offer essential in-person banking services and access to cash. The Isle of Man, UK and Irish Post Office networks successfully expanded their service offerings to counter bank branch closures. Simultaneously, post office networks across Ireland, Portugal and France successfully offer a range of financial services to consumers.

Post office networks are well positioned to provide banking services

In many countries the number of post office branches far exceeds the number of retail bank branches. In the UK, for example, almost two thirds of bank branches have closed in the past 30 years leaving just 6,965 bank branches compared to the 11,638 Post Office branches. Post Office networks have vast distribution networks which can be leveraged to help safeguard access to cash amidst widespread bank branch closures. Although online shopping and e-commerce is at an all time high postal carriers have seen their market share diminish as new entrants such as Amazon and DHL have entered the market. Modes of communication have been transformed by new technologies and consequently people are sending significantly less "snail mail".

Globally post offices have been transforming into regional bank branches to ensure long term viability. Many postal service providers have already entered the financial services market and now offer customers a range of banking services by utilising functional branch networks, high footfalls and close community ties. Diversifying into new revenue streams protects the future business for post offices and allows for continued growth and success.

Partnerships with established retail banks have proven to be a successful avenue for both postal service providers and retail banks. This partnership is mutually beneficial as banks wish to decrease their branch network and postal service providers enter new revenue streams.

Retail banks and Post Office successful partnerships

- The UK Post Office currently offer a range of banking services for 27 retail banks across the UK in any of their branches. Consumer banking at Post Office counters has doubled in the past three years, and approximately 25% of consumers and 20% of SMEs utilise these services.
- In response to branch closures across Ireland, An Post (Ireland's postal service provider) offers banking services to Bank of Ireland and Allied Irish Bank (AIB) customers in 923 of its branches nationwide.
- Isle of Man Post Offices currently have arrangements with Barclays and Lloyds. These services, coupled with partnerships with other banks could further enhance the access to cash and financial services on the Island.

Do postal service providers want to enter into financial services?

Undoubtedly there is an appetite from post office networks to enter financial services, with a clear focus on community banking. Postal carriers have identified gaps in local banking markets, such as underserved communities, to create a sustainable and viable service offering in the financial and banking sector.

An analysis of 54 markets found that over half of all postal carriers are well positioned to enter the financial services market. In many countries, post offices rely on too few revenue streams making the financial services market an attractive opportunity.

Post Office networks who have entered financial services

- The CTT in Portugal operate the national postal service. In 2014 the CTT entered into the financial services industry through strategic partnerships and also gained its own banking license. Due to its large network in both rural and urban areas, and its trusted brand image the launch of its financial services products proved to be very successful despite the poor performance of the Portuguese banking sector. Financial services now account for a quarter of CTT's total earnings.
- La Poste France (French postal service provider) have interestingly targeted younger demographics for its financial services proposition. La Banque Postale (the financial services subsidiary of La Poste France) launched a mobile bank named Ma French Bank in 2019. It is a digital platform, however La Poste's branch network provides physical support to the mobile bank. In just 15 months Ma French Bank had 250,000 users, 75% of which had not previously had an account with La Banque Postale.
- Among postal service providers who have entered financial services the segment accounts for around 20% of revenues and this share is growing. In New Zealand and Italy revenue from financial services accounts for 40-50% of total revenues for their national postal service providers.
- In Ireland in 2019, An Post established 'An Post Money' to expand its range of financial products to Irish consumers and it now has over 250,000 customers. In August 2021 it launched a new digital banking app that facilitates Apple and Google Pay.

Current state assessment: networks and distribution

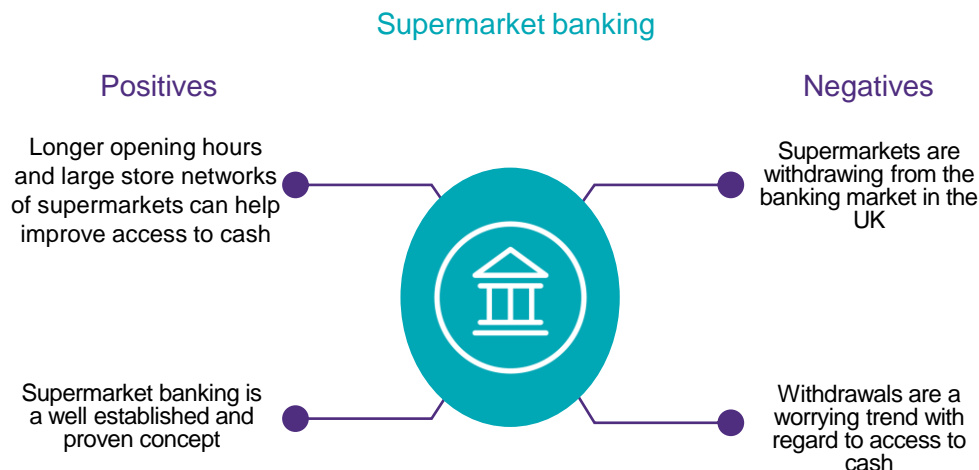
Cash distribution channels | Supermarket banking

In the UK from the late 1990s onwards, supermarket banking became a new prospect for banking services, providing a different product offering to consumers than traditional retail bank branches. Since then the surge of digital banking popularity has affected the usage of supermarket hubs in the same way it affected bank branches, with many closing as they become commercially unviable due to the current low interest rate environment.

Supermarket banking

In 2003 IBM published that supermarket banking platforms operating within the UK had approximately 5.8 million customers. Consumer interest in supermarket banking and its early success was due to three key factors:

1. **Strength of brand:** Consumers have high trust levels in retail brands given their familiarity. Supermarket banks sustain and enhance a community ethos.
2. **Lower operational costs:** The operational costs of supermarket banks are approximately 25% less than an average financial services company.
3. Supermarkets come with a **greater footfall** over traditional banks, increasing their exposure in the market.



Tesco Bank

Tesco Bank was formed in July 1997 and has been wholly owned by Tesco plc since 2008, the bank was originally formed as part of a joint venture between The Royal Bank of Scotland and Tesco. Tesco has since acquired Royal Bank of Scotland's shareholding and operates under its own banking license.

Tesco Bank offers a range of services that include; credit cards, loans, saving accounts and insurance policies. In April 2020, Tesco Bank reported a loss of £175m, compared to a £193m profit in the previous twelve months. As a result Tesco Bank announced that it will be closing all of its current accounts. Other banking services will still be provided by Tesco Bank to its 5 million customers.

Sainsbury's Bank

Sainsbury's Bank began trading in 1997 as part of a joint venture with Bank of Scotland. Sainsbury's took full ownership of Sainsbury's Bank in January 2014 and currently has around two million customers. In 2019 Sainsbury's Bank pulled out of the mortgage market, reflecting the high degree of competition in this market in the UK. Currently their service offering includes; loans, savings, insurance, travel money and credit cards. Sainsbury's is currently in advanced talks to sell its banking arm to a US-based private equity firm. It is estimated that the deal could be worth £200 million.

M&S Bank

M&S Bank was founded in 1985 as M&S Money and in 2012 it relaunched as M&S Bank. M&S Bank was operated as a joint venture with HSBC and has been a wholly owned subsidiary of HSBC since November 2004.

In 2012 M&S launched banking branches in its department stores, however it was recently announced that they will be closing all 29 branches and current accounts due to limited customer activity. The branch closures are in line with the current trend of closures in the banking industry, as more consumers transition to digital banking services. M&S Bank will continue to offer its services online and over the phone.

Current state assessment: networks and distribution

Cash distribution channels | Shared banking hubs

Branch banking closure trends have resulted in many consumers losing access to cash and face-to-face banking services. However the bigger issue and concern for many is the loss of social engagement and interaction that comes from transacting in local bank branches. Shared banking hubs provide an alternative solution to maintain cash infrastructures, in a commercially viable manner, whilst being mindful to not exclude or leave consumers behind who prefer to bank in-person.

Shared banking hubs

The rise of digital banking and the decline of cash payments has provided justification for bank branch closures across the globe. Shared banking hubs were developed to enable banking consumers to continue to conduct their banking in-person. This initiative involves a bank teller servicing a community on certain days of the week in areas where many bank branches have ceased operations. Customers can go to the hub irrespective of their bank provider. These hubs can be in local supermarkets or post offices and they offer walk-in appointments and customer support.

Benefits

- ✓ Customers can access a community space which offers a range of in-person banking services, particularly in rural areas where branch closures are prevalent.
- ✓ The social aspect of banking is sustained within the community, hubs are met with gratitude from the communities they operate in.
- ✓ The banks who shut their branches save large amounts of money while also maintaining a strong customer base and protecting communities access to cash.

Negatives

- ✗ Finding an existing infrastructure or retailer which will house a shared banking hub can be difficult.
- ✗ Kiosks providing the services which are manned with bank staff will only serve customers for a few hours per day.
- ✗ Banks will need to agree contract terms with retailers who will host their services at kiosks. This fee could be high per customer interaction and make less commercial sense to the banks.

Shared banking in the UK

Shared banking hubs are currently ongoing in the UK (in Cambuslang, South Lancashire, Rochford and Essex). The initial response from pilot tests has been very positive and as a result the current pilot schemes have been extended into 2023. These banking hubs are managed by the Post Office and they provide: over the counter services; ATMs; and cash deposits. Generally once weekly a staff member from each of the banks involved in the scheme comes to the Post Office to help customers. During the week counter services and ATMs allow individuals and small businesses to access accounts, withdraw and deposit cash. This pilot test was a huge success in the communities which was met with positive responses from residents. The banks involved to date have decided to maintain the hubs and hope to continue innovating and refining the business model.

OneBanks

OneBanks are a rapidly growing company in the UK who understand people still value and require personal contact when it comes to dealing with their cash. They offer an alternative solution that works for customers, communities and for the banks. OneBanks' mission is to create a sense of community by having opportunities for everyday interactions for their customers. No matter which bank a customer may be with, consumers can deposit and withdraw cash, pay utility bills, and if required they can get assistance with online or other banking queries from staff members. OneBanks announced plans in July 2021 to expand its successful in-store community banking trial with plans to roll-out its innovative kiosks to three Co-op stores in Scotland.



Current state assessment: networks and distribution

Cash distribution channels | Mobile banking

Mobile banking has proved another useful response to widespread retail bank branch closures. Mobile banks provide customers with basic banking services and support at various locations, as well as digital banking workshops. They serve vulnerable customers in rural areas who require in-person banking services and support the move towards digital adoption.

Mobile banking

Mobile banks were introduced by banks in a response to retail bank branch closures. This initiative involves a branch on wheels servicing rural areas and communities to provide residents with basic banking services. Often rural areas are home to elderly and vulnerable demographics who require in-person banking and who have not successfully transitioned to digital banking. Services provided by mobile banks include; cash withdrawal, cash and cheque lodgements, payment of bills and provision to support to customers in the digital transition.

Many mobile banks hold workshops on digital banking to further assist and encourage customers to utilise digital banking services which are on offer, also advising customers on how they can better manage their money through budgeting and financial advice workshops. Since the rise in digital banking, banks need to ensure they are acting in the best interests of customers, to ensure their needs are being met and that consumers are not neglected as more branch closures occur, and the digital shift accelerates further.

Benefits

- ✓ Provides support and assistance to vulnerable customers in rural areas.
- ✓ Maintains social aspect of banking, allowing customers to do their banking in-person.
- ✓ Banks reduce costs and become more efficient, while expanding their business model with the addition of services.
- ✓ Mobile banking vehicles provide an additional distribution channel for banks offering the service. Research suggests that alternate routes to market increase customer experience scores.

Negatives

- ✗ Frequency of mobile banks is limited, often only servicing an area once per week which may fail to meet consumers' needs and restrict their access to cash and other banking services.
- ✗ Banking services offered from mobile banks are more limited than traditional retail branches.

Isle of Man

The Isle of Man Bank introduced their mobile branch, Penny, in 2012 to provide customers with banking services in areas where branches were closed. Penny travels around the Island providing customers with the following banking services:

- Guidance and support on how to register for and use digital banking options;
- Offer customer support towards a reduced branch footprint;
- Help vulnerable customers with banking needs; and
- Support personal customers with day to day banking especially for customers who do not have access to digital banking channels.



UK

Barclays began trialling the Barclays van in 2020, with the aim of bringing the bank's financial expertise on the road. The Barclays van does not offer cash or counter services to customers but it does provide:

- Face-to-face assistance to customers with their banking;
- Offer solutions to more complex banking issues; and
- Hold digital banking and budgeting workshops

Barclays are seeking to further expand these locations into more towns and villages as more branches are shut.



Ireland

AIB has four mobile banks which cover over 30 rural locations nationwide. Their mobile banks offer the following banking services to their customers:

- Cash and cheque lodgements;
- Cash withdrawals;
- Bill payments;
- Drafts under €1000; and
- Foreign exchange order and collection service.





Current State Assessment Cash Trends

Cash trends

Top cashless societies | Leader board of cashless nations

International trends towards cashless societies are becoming more and more prevalent. The degree of cashless-ness often varies dramatically across regions. The table and commentary below highlights a number of key cash statistics across leading cashless nations, noting the maturity of the cashless state of each economy.

The leader board was compiled utilising available data on cash usage and ageing population statistics, countries were then ranked accordingly. The countries detailed below are all at varying positions across the leader board. The accompanying insights also highlight the similarities and differences between countries despite the maturity of their cashless economy.

Norway is the world leader in digital adoption, however despite this, cash is not going anywhere just yet. The Norwegian Government is in the process of developing a plan to ensure banks continue to provide access to cash to residents and SMEs. Many Norwegian banks no longer believe they are responsible for offering cash services, as many of their customers have little or no demand for cash services. It is therefore essential that the Norwegian Government creates a clear and articulated plan to safeguard access to physical cash for those who wish to continue to use it.

New Zealand is currently undertaking a multi-year programme to establish the future of cash in New Zealand. Cash use has been in steady decline across New Zealand, so much so that New Zealand now finds itself as one of the countries leading the way in abandoning physical currency. The Reserve Bank of New Zealand is in the process of undertaking a review to estimate the cost of the cash infrastructure for the country. Like many regions, the older demographic are most reluctant to let go of cash, residents over the age of 60 account for 41% of cash holding for transactional purposes in New Zealand.

Germany has surprisingly high cash usage for a highly advanced economy. The popularity of cash in Germany is not a new phenomenon and by international standards cash use in Germany has tended to be greater than many similar economies. During the midst of the Pandemic the German Central Bank continued to issue “normal” amounts of cash. This has consequently meant there has been little affect on cash popularity. Historians and economists often argue over the root cause of Germans “obsession” with cash. Although the driving factor is unknown, it is clear that cash remains popular amongst German citizens.

Japan has the oldest society in the world therefore, as to be expected, this has inhibited the country’s ability to progress towards a cashless society. In 2020, 72% of financial assets were held by those 55 and older and is forecasted to rise to 79% by 2040. This makes Japan’s elderly and vulnerable population the “mainstream financial market” and so cash remains set to stay based on current trends.

Rank	Country	Cash payments (%)	Cash in circulation as % of GDP	Population aged 65 and above (%)
1	Norway	5%	1.2%	18%
2	Sweden	9%	1.2%	20%
3	Canada	5%	4%	18%
4	Australia	8%	4.5%	16%
5	Iceland	8.4%	2.5%	16%
6	New Zealand	12%	2%	16%
7	Denmark	12%	3%	20%
8	UK	13%	3.5%	19%
9	USA	12%	7.5%	17%
10	South Korea	12%	-	16%
11	China	13%	-	12%
12	Netherlands	12%	8.6%	20%
13	Finland	15%	9.3%	23%
14	Ireland	24%	5.8%	15%
15	Luxembourg	*30%	6.6%	14%
16	Belgium	23%	9.4%	19%
17	Portugal	37%	13.5%	23%
18	Germany	44%	9.4%	22%
19	Austria	*67%	9.2%	19%
20	Japan	59%	20%	28%

* 2017 latest available data

Cash trends

UK



Since 2017, cash usage in the UK has been declining by almost 15% each year as the country trends towards a digital and cashless society. During the height of the Covid-19 Pandemic, cash machine withdrawals decreased by 38% resulting in significantly less cash in circulation. Despite digital payments continuing to grow in popularity, many UK residents, such as the elderly and vulnerable, are not ready to live a “cashless” life. The UK Government remains mindful of this and in 2019 published an Access to Cash Review, to influence prospective legislation to ensure cash remains accessible for those who chose to use it.

Key Statistics



Cash in circulation as a percentage of UK GDP **3.5%** in 2020



UK ATM **cash withdrawals** fell by **38%** last year



98% of the UK population holds a **debit card**



27% of all payments were made via contactless in 2020



54% of adults in the UK now use **mobile banking**



18.5% of the population is over **65** years old

Cash network infrastructure

- According to LINK, who operate the vast majority of cash machines across the UK, the total number of ATMs peaked in 2015 at a total of 70,558 and has fallen every year since. As of February 2020 the total number of ATMs across the UK has decreased to 53,813.
- The UK's cash infrastructure costs approximately £5 billion annually to run, this is paid for predominantly by the retail banks, and the majority of this cost is fixed, whether dealing with physical cash or with ATMs.
- The vast majority of the UK population would be considered to have reasonable access to free cash points, these include ATMs, bank branches and Post Offices, 88% of the population are within one mile and 97% are within three miles of free access to cash.
- Despite many residents and businesses believing that the UK is heading towards a cashless society, there are segments of society that prefer to use cash and so the responsibility to protect access to cash and community banking channels should lie with the Government.
- Pilot tests for shared banking hubs are currently ongoing across the UK. The initial response from the pilot schemes has been very positive and as a result the pilots have been extended to 2023. These banking hubs are managed by the Post Office - once a week a staff member from a selected bank comes to the Post Office to help customers with their day-to-day banking needs and enquiries.
- Barclays Bank introduced a banking van in 2020, which travels to small towns and villages across the UK bringing the bank's financial expertise on the road and assisting customers with issues, as well as running digital banking workshops to encourage digital adoption amongst their customers.

Government and regulatory influence

- As part of the 2020 Budget, UK Government announced that they planned to bring forward legislation to protect access to cash.
- In July 2021 the UK Government published the summary of responses following their 'Call for Evidence on Access to Cash' in October 2020 to inform the development of legislation by seeking views of the key considerations associated with cash access. The July 2021 publication included responses from 85 respondents, including individuals, businesses and charities. In summary the UK Government responses include:
 - A proposal for legislation to allow requirements be placed on certain firms to maintain access to cash on a geographic basis relative to the population;
 - Removal of barriers to cashback without a purchase. The UK Government believes this intervention will support withdrawal facilities in the UK but noted the importance of collaboration between the financial services and retail industries to ensure the success of this initiative.
 - The UK Government maintains its position that individuals and businesses should remain free to determine which form of payment they wish to offer. However the UK Government also recognises the importance cash acceptance serves within a sustainable cash system and will continue to be attentive to this consideration in its approach to protecting cash.

Consumer perceptions

- The Covid-19 Pandemic has accelerated the use of digital payments. With closures due to lockdowns across the market, many consumers were using less cash as many transactions moved online.
- While the younger demographic have adopted digital payments at a greater rate, the older population still tend to prefer cash for many reasons including security concerns with digital banking services.
- The freedom to use and access cash must be protected to ensure those who prefer to use cash remain socially and financially included within society.

Cash trends

Ireland



Ireland is trending towards a preference for digital payments in place of cash. Cash payments are falling at POS, P2P, online purchases and card payments are rapidly increasing across Ireland. Despite a material number of branch closures in recent years, coupled with more expected closures, Ireland's cash network is not shrinking. Ireland's cash network remains more than adequate; led by retail banks and further supported by a strong community banking ethos through the Post Offices and Credit Unions network.

Key Statistics



Cash in circulation as a percentage of Irish GDP **5.8%** in 2020



Irish resident ATM **cash withdrawals fell by 40%** last year



More than **66%** of Irish residents **prefer using cash or other cashless** payment methods



73.41 ATMs per 100,000 inhabitants in 2019



42% of the total value of card payments were **initiated remotely**



13.4% of the population is over 65 years old

Cash network infrastructure

- The Irish Banking landscape and physical branch network has and will continue to change at a rapid pace:
 - Bank of Ireland* announced 103 branch closures in 2021.
 - AIB* announced 15 branch closures in 2021.
 - PTSB* are committed to maintaining their network of 76 branches but are automating 16 branches, removing any over the counter services or face-to-face banking.
 - Ulster Bank* and *KBC* have announced they are exiting the Irish market.
- Despite many branch closures the cash network is decreasing. Bank of Ireland and AIB have partnered with An Post to provide a vast supplementary network for banking services through An Post's network of over 900 branches across the country. Irish residents also benefit from an extensive Credit Union network (254 branches).

Government and regulatory influence

- International Economic Consultants, Indecon, were commissioned in 2019 to produce an independent report for the Irish Department of Finance on whether there were suitable banking provisions in Ireland in the face of many bank branches closing and the increase in digital banking. The report found SMEs and microenterprises were sufficiently supported with schemes from the Irish Exchequer, such as the Brexit Loan Scheme, the Future Growth Loan Scheme and Enterprise Ireland.
- Indecon's report concluded that the Irish cash network was strong and underpinned by the provision of banking services and supplementary banking services through An Post and Credit Union structures.

Consumer perceptions

- Irish residents are embracing the digital banking trend and like the UK this has been expedited since the Covid-19 Pandemic.
- From March 2020 to October 2021, Ireland has seen an increase of 26.6% in the volume of contactless payments.

Cash trends

Sweden



Sweden's central bank takes a laissez-faire approach to cash in circulation, allowing consumer demand to decide how much currency is in circulation at any given time. Mobile payments app Swish dominates the Swedish payment market, as cash is quickly falling out of favour with Swedes. Declining cash use in Sweden urged the five largest Swedish banks to operate their ATM fleets under one jointly owned entity, to increase efficiencies and reduce costs.

Key Statistics



Cash in circulation as a percentage of Swedish GDP **1.2%** in 2020



9% of all payments are made in **cash in 2020**



7,928,540 people in Sweden are using mobile payments app 'Swish'



29.62 ATMs per 100,000 inhabitants 2019



87% online banking penetration rate



20% of the population is over 65 years old

Cash network infrastructure

- Sweden employs a decentralised and market driven approach for the production of money in its economy.
- It is not the Swedish Central Bank that dictates how much money is in circulation at any given time, rather it is decided by the demand for cash within the economy. This demand comes from consumers, merchants, banks and companies. The Central Bank then supplies the volume of cash which is demanded.
- There is no particular target for how much money there should be, however Sweden has an inflation target of 2%. The central bank carries out market operations (monetary policy instruments) to affect the demand for money in the economy.
- Cash is disappearing faster in Sweden than anywhere else in the world. From 2009 to 2019 cash in circulation has declined by a significant 43%, with only 9% of all payments being made using physical cash.
- The payment market in Sweden is being digitalised. Swish is now a more popular payment method than cash, and more and more payment solutions are emerging. The Swedish Fintech sector is well developed and has become well established in the Swedish payments market.
- Swedish banks were early adopters and innovators in ATM pooling. Bankomat AB operates the largest fleet of ATMs in Sweden, it is jointly owned by the five largest Swedish banks.

Government and regulatory influence

- In 2007 and 2008 the Swedish government introduced legislation which stimulated the transparency of payments in the construction and trades sectors.
- Although cash is still considered legal tender, Swedish merchants have the right to refuse cash as a payment method. This is a unique legality and has played a large part in the decline of cash and will continue to do so going forward.
- The Swedish central bank is also investigating if it would be possible to issue an "e-krona" to the general public, replacing a tangible currency with an electronic one.

Consumer perception

- Consumers in Sweden are abandoning cash and using alternative payment methods.
- In 2019 mobile payments app Swish became the most popular payment method in Sweden for 18-40 year olds. Swish was first established in 2012. Cash is quickly becoming outdated in the eyes of Swedish consumers.

Cash trends

Belgium



Whilst Belgium has been steadily moving away from cash payments in recent years, cash still remains a popular means of payment. Belgium's ATM network has been deemed insufficient with an oversupply in some areas and an undersupply in more rural areas. To resolve this problem, Belgium's largest banks have developed a shared ATM network, operating under the neutral brand name, 'Batopin'. This has enabled them to offer improved access to cash at a more efficient and commercially viable cost.

Key Statistics



Cash in circulation as a percentage of Belgian GDP **9.4%** in 2020



58% of all payments are made in **cash** in 2019



15% of Belgian residents deem **access to cash to be fairly difficult**



16% of all card payments were **contactless** in 2019



50% of bills and reoccurring payments were paid for using **direct debit**



19% of the population is over 65 years old

Cash network infrastructure

- The use of cash in Belgium has been steadily declining in recent years, likely due to the insufficient nature of its current ATM network.
- There is an over-supply of ATMs in certain areas across the country, whilst across other rural areas the spread of ATMs has failed to evolve with new forms of living, working and shopping and so underserving residents and businesses alike.
- Belgium's largest banks are following Sweden and Finland with ATM pooling in response to the mass closure of bank branches. The four banks; Belfius, BNP Paribas Fortis, ING and KBC will operate under a single network with the neutral brand name 'Batopin'.
- Cost pressures associated with keep up and security measures of ATMs have driven banks to share ATM networks. A study has also found that ATMs cost the Belgian banks €161 million in 2016, which equates to 54c per transaction.
- Batopin are working towards a smarter cash network, with a goal of having fewer but more effective ATM coverage (i.e. at more accessible locations across the country).
- The number of ATMs in Belgium declined from 8,754 in 2015 to 7,869 in 2020.
- 95% of Belgium's ATMs are based in bank branches (note this 95% also includes 8% of ATMs being housed in Post Offices).
- The majority of the ATMs located in bank branches are accessible 24 hours a day. Batopin's commitment is that 95% of Belgians will have access to secure cash points within 5km of where they live or work, this initiative first began rolling out in 2021, with the aim to be completely rolled out by 2024.

Government and regulatory influence

- There has been no government or regulatory intervention as yet.
- The Belgian Government believes that there will be no need for legislation if the Batopin shared ATM network initiative successfully corrects the oversupply of cash machines in city centres and rebalances the undersupply across remote and rural locations.

Consumer perception

- Whilst the volume of cash transactions is in decline across Belgium, the scale of cash payments remains high.
- In 2019 58% of all payments were made using cash and accounted for 33% of the value of overall transactions.
- The ECB conducted a survey in 2020 to assess whether the Covid-19 Pandemic has had a negative impact on the use of cash. This survey interestingly revealed that more than half of Belgian respondents confirmed they had used cash less since the Covid-19 Pandemic.

Cash trends

Portugal



Portugal is deemed to have high cash usage, fed by a sophisticated integrated ATM network called Multibanco. Portuguese consumers have a common and justified belief that cash is highly accessible. The Portuguese banking sector's performance in recent times has been weak and widespread branch closures have increased reliance on the ATM network to provide access to cash.

Key Statistics



Cash in circulation as a percentage of Portuguese GDP **13.5%** in 2020



37% of all payments are made in **cash**



97% of Portuguese consumers felt that it was either **easy** or fairly easy **to access cash** when required



165.21 ATMs per 100,000 inhabitants in 2020



27% of bank branches closed between 2010 - 2017



23% of the population is over 65 years old

Cash network infrastructure

- Declining bank branches is an international trend that is not unique to Portugal. As a result the number of remote ATMs increased to ensure there was sufficient access to cash despite widespread branch closures.
- Portugal's single integrated ATM network has over 12,000 ATMs which are free to use for Portuguese cardholders. These ATMs allow consumers to do more than just withdraw or deposit cash and because of their functionality the Portuguese consumer frequently uses ATMs and the number of ATMs in their network remains strong.
- The single integrated ATM network in place differs from the ATM pooling model, as the banks in Portugal do not own or operate the Multibanco network they are just members. Multibanco is wholly owned by SIBS.
- The majority of ATMs in Portugal are remote with all of the largest Portuguese banks deploying more ATMs remotely than they do in branches. Retail stores are the most popular location for ATMs in Portugal.
- The high demand for cash in Portugal is supported largely by its extensive and sophisticated ATM network.
- The Multibanco ATM network is the biggest financial services network in Portugal and processes over 80 million operations every month.
- Multibanco has evolved into one of the most popular payment methods in Portugal through its brand MB Way. MB Way is a digital wallet which was created through partnerships with paysafecard and PayPal. Currently more than three million people use MB Way in Portugal.

Government and regulatory influence

- In August 2017 legislation came into force in Portugal which put limits on cash as a method of payment. Under the legislation it is forbidden to receive or pay any payment in cash equal or greater than €3,000. It also stopped taxes being paid in cash for amounts higher than €500. Given the nature of cash this legislation may be difficult to enforce.

Consumer perception

- The use of cash remains significantly higher in Portugal than the EU average. The Portuguese withdraw cash at almost twice the EU average.
- 97% of Portuguese consumers felt that it was either very easy or fairly easy to access cash when they needed.

Cash trends

Japan



Cash remains king in Japan. With the world's oldest society, the over 55 demographic dominates the Japanese transactions market. Typically older generations have greater reluctance to use alternative and/or digital payment methods and as such cash usage remains significantly high across Japan. Japanese regulators are thinking ahead and are determined to reduce the nation's reliance on cash. They have established plans to radically change Japan's reliance on cash through incentivising digital payments for consumers and reducing digital processing fees for retailers.

Key Statistics



Cash in circulation as a percentage of Japanese GDP **20%** in 2020



59% of all payments are made in **cash**



Estimated **\$15bn cost** to handle the cash used in Japan



121.74 ATMs per 100,000 inhabitants in 2020



94% internet penetration rate



28% of the population is over 65 years old

Cash network infrastructure

- Cash remains king in Japan and this is largely due to the older population's reluctance to use alternative digital payment methods.
- In 2020, 72% of financial assets were held by those 55 and older and it is believed that this will rise to 79% by 2040.
- Tokyo has set itself a target to double the number of cashless transactions by 2025, however the ageing population remains the biggest hurdle to overcome on the cashless journey.
- Japanese banks try to educate residents by hosting classes for the elderly which combine educational lectures with musical therapy or knitting. This is to try to encourage and educate this demographic on the ease of digital banking.
- Japanese technologies have accelerated digital payments around the world. The Sony FeliCa chip, launched the move to e-ticketing in public transport and remains the technology used in many global transit cards today. The FeliCa chip was adopted in places such as Hong Kong before it was adopted in its home country, Japan. Japan has historically been a global high-tech leader, but it must start adopting its own technologies in order to start moving away from a cash dominated society.

Government and regulatory influence

- The Japanese government have laid out plans to transform Japan into one of the world's least cash dependent societies by June 2027.
- One technique used by the Japanese government to encourage digital payment adoption is through a consumer rewards program for the use of cashless payment methods. This programme caps fees for merchants, and so it encourages both SMEs and consumers to engage as ultimately it is cheaper and more efficient for all parties to use non-cash methods of payments.
- Fintech has been identified as one of five strategic sectors for the Japanese government to boost in the coming years. The goal is for over eighty banks to open their applied program interfaces (APIs) within a three year timeframe. This is expected to boost innovation and uptake for digital payments.

Consumer perception

- Traditionally Japan has been a cash based economy.
- Consumers are aware of the large transaction fees shopkeepers must pay for accepting contactless payments and as a result they decide to use cash to support local business.
- As the Government begins to limit fees on contactless payments, more consumers will feel comfortable using contactless methods.

Cash trends

Finland



Finland has been moving towards a cashless society for a number of years, with cash usage one of the lowest in the Eurozone. Finland's Central Bank has predicted that it will be cashless by 2029, as it moves towards a fully digital economy. Cash has become increasingly irrelevant in both rural and urban areas across the country, however many Finns still rely on cash as a payment method, therefore it must be accepted and available for as long as it is required.

Key Statistics



Cash in circulation as a percentage of Finland's GDP **9%**



Finland's proportion of all point-of-sale cash payments accounted for **35%** in 2017



More than **66%** of Finnish residents **prefer using cards** or other cashless payment methods



60% of all card payments made were **contactless** in 2019



88% of bills and recurring payments were paid for using **direct debit**



22% of the population is over 65 years old

Cash network infrastructure

- There are no bank-specific ATMs in Finland, rather 1,200 ATMs which operate under the 'Otto' name brand, which connects the ATMs of nearly every bank in the country in a pooled network.
- Otto is Finland's pooled ATM network which has been in operation for over 25 years. This network consists of Finland's three largest banks; Nordea, Danske Bank and OP Financial Group. This pooled network allows consumers to access their range of services in convenient locations and at a time that suits them, whilst remaining operationally cost effective from the participating banks perspective.
- There are 37.33 ATMs per 100,000 people across Finland in accessible locations. The value of cash withdrawn from ATMs decreased from €14.4bn in 2014 to €7.7bn in 2020.
- Private consumers and SMEs account for the greatest volume of deposits. Automatia (operators of Otto ATMs) estimates that up to 90% of cash transactions have been through their shared ATM network over the last few years.
- The Bank of Finland develops and maintains the common European financial market infrastructure and is a centre of expertise in systems for Finnish and Nordic banks.

Government and regulatory influence

- There has been no government or regulatory intervention as yet.
- Access to cash is believed to be adequate in Finland. The Central Bank of Finland frequently evaluates its own operations and how it contributes to maintaining adequate cash supply to the nation.
- It is possible if access to cash was deemed insufficient for residents and SMEs that the government would need to intervene and introduce legislation to ensure reasonable access to cash facilities.

Consumer perception

- In Finland, over the past twenty years the use of cash as a method of payment has declined whilst card payments have increased.
- The Covid-19 Pandemic has further reduced the use of cash however cash remains an important payment method for many Finns. Government must ensure that cash will always be accepted and available for as long as its residents demand it.
- According to the ECB, in Finland, 35% of transactions were made using cash in 2019 and is one of the lowest in the Eurozone. The same ECB report examined the impact of Covid-19 on cash payments which concluded that a large proportion of consumers said they would continue to pay in cash less frequently with the pandemic being over.

Cash usage trends

Overview of distribution channel utilisation

The table below compares distribution channels highlighted across the seven country profiles in this chapter with the Isle of Man. The supply of cash through various existing channels can be improved and potentially further supplemented by new distribution channels such as those detailed in the earlier international case studies. The Island's cash network is comprised of traditional branches, Post Offices and bank owned ATMs. There is a supermarket and retail infrastructure in place which could be exploited, if deemed appropriate, to further enhance and support the Island's access to cash.

Distribution channels

The table adjacent provides an overview of the different cash distribution channels which exist in the country profiles detailed in this section.

- **Retail bank branches** are traditionally the backbone for consumers' access to cash. Nonetheless, universally they are declining as they become less commercially viable due to diminishing branch footfall and increasing competition with digital channels.
- **Post offices** are a distribution channel which the UK and Ireland exploit heavily. They have proved to have extensive networks which sustain the social aspect of banking services which is typically lost with digital payments. The support model between Post Offices and Banks is outdated and becoming less commercially viable to run. A fixed fee contract means that banks have to pay more per customer interaction with less consumers banking in person.
- **Shared banking hubs** are a more modern and innovative distribution channel, adopted in Belgium, Japan and Finland. They are in a trial phase in the UK, with some Post Offices and supermarkets providing kiosks offering multi-bank services. They seem to provide a logical solution to consolidate infrastructure and services for banks.
- **Mobile banking hubs** are a distribution channel found in the UK and Ireland, servicing customers in more rural areas. They have a small impact on customers, offering limited hours for limited services.
- **Supermarket banking** was established approximately 30 years ago however more recently has been a channel that is being withdrawn. Supermarket banking can offer convenient access to cash by leveraging supermarkets' large store networks and long opening hours.
- **ATM Pooling** has become increasingly popular. As a result of falling demand for cash ATMs are costing more to service and becoming less profitable. ATM pooling allows banks to consolidate their ATM networks under a new single entity and as a result create new efficiencies and economies of scale. ATM pooling provides a positive alternative to retrenching ATM networks and helps safeguard access to cash.

Cash Distribution Channels	Isle of Man	Ireland	UK	Sweden	Portugal	Belgium	Japan	Finland
Retail Bank Branches	✓	✓	✓	✓	✓	✓	✓	✓
Post Offices	✓	✓	✓	✗	✗	✗	✗	✗
Shared Banking Hubs	✗	✗	✓	✗	✗	✓	✓	✓
Mobile Banking Hubs	✓	✓	✓	✗	✗	✗	✗	✗
Supermarket Banking	✗	✗	✓	✓	✗	✗	✓	✓
ATM Pooling	✗	✗	✗	✓	✓	✓	✗	✓

A person in a blue suit is holding a tablet, looking at the screen. The background is a blurred city skyline with various financial data points overlaid, including numbers like 100, 17.80, 14.70, 24.5, 348.00, 193.50, 27.00, 7.10, 22.10, and 100. The text "Recommendations and Next Steps" is prominently displayed in the center.

Recommendations and Next Steps

Recommendations

ATM network assessment

Why Pursue?

ATM networks already play an important role in the cash infrastructure, however with the current trend of retail bank closures and the negative impact this can have on access to cash the role of the ATM may become even more important into the future. Therefore, investment in the Island's ATM network could be deemed essential to ensure the network is capable of servicing the cash demand on the Island. A poor or inadequate network could lead to cash access issues in the future. To create a viable and sustainable ATM network an extensive assessment of the current network could be carried out to identify which geographic areas are currently being over or under served with a view to ensuring ATMs are strategically placed throughout the Island, in turn further supporting the commercial viability of individual ATMs. The major retail banks on the Island may wish to consider an ATM pooling arrangement and the DfE might consider opening negotiations with such stakeholders.

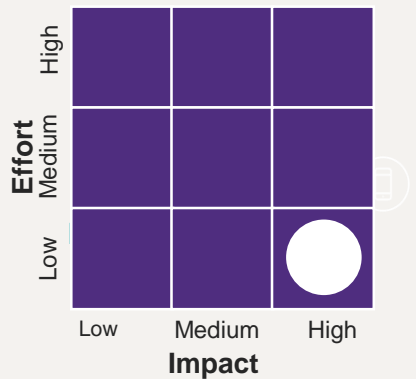
Benefits

- ✓ An assessment of the current ATM network on the Island could potentially identify areas which are currently being under or over served by ATMs.
- ✓ Unprofitable or underused ATMs could be identified and as such could potentially be redeployed to a new location of increased demand.
- ✓ A reliable ATM network can support consumer demand for cash amidst widespread bank branch closures.
- ✓ Provides banks with the opportunity to innovate and improve their ATM network. Banks may wish to add additional functionality or services, such as deposit facilities, to certain ATMs as they reduce their branch network.

Estimated Cost & Initiative Evaluation

Range		Cost (£)
N/A		-
Low (<£200K)		-
Medium (£200K – £1M)		✓
High (£1M +)		-
FTE requirement (L/M/H)		L

Risk Impact		
Low	Medium	High
✓	-	-



Limitations / Inhibitors

- ✗ Buy-in from the major retail banks on the Island would be required to support the successful completion of such an assessment. As such, a mutually beneficial or tandem approach between DfE and the banks would have to be agreed.
- ✗ Responsibility for implementation of any recommendations following completion of this assessment would reside with the banks and would be dependent on commercial viability.
- ✗ Banks may prefer to sell their ATM networks to independent ATM operators, who may wish to convert previously free-to-use ATMs into pay-to-use.

Implementation options

Stage	Description	Indicative Timeline
Initiation & Kick-off	Identification of key stakeholders across the Island, seeking buy-in from those who co-ordinate, assist and manage the existing ATM network.	1 month
Assess	This detailed assessment should include the identification and validation of data in respect of the Island's ATM network e.g. number and geographic spread of existing ATMs, volume of transactions, servicing schedule and costs, fees and ATM services i.e. withdrawal / depository functions etc.	2 -3 months
Design	Design an appropriate ATM Network Programme. This programme will be directed and led based on the key findings from the data analysed.	1 month
Implement	Execution of ATM Network Programme.	Minimum 6 months

Recommendations

Survey

Why Pursue?

Extensive stakeholder engagement was conducted to gain a clearer understanding of access to cash and to obtain opinions of key stakeholders from the Island. In turn, a survey could efficiently capture the same understanding from the Island's residents. A survey could encapsulate the different attitudes, behaviours, needs and views of the Island's population, which could result in a holistic view of the Island's residents with regards to access to cash. Moreover, a survey may reveal whether access to cash is an issue of convenience rather than accessibility. Results could also determine areas of the Island which residents believe to be underserved by cash and banking service points. Once such areas were identified, the Government could be positioned to consider how to address these challenged areas with cash and community banking services.

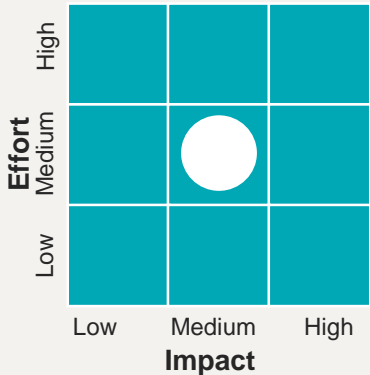
Benefits

- ✓ The results will represent the indicative attitudes and opinions of a large proportion of the Island's population from different demographics.
- ✓ A combination of digital and postal surveys would ensure a high response rate and would capture an integrated view of the Island's residents quickly.
- ✓ Surveys are straightforward to administer and are a cost effective method of gathering large amounts of data.
- ✓ A range of questions can be asked, allowing for both qualitative and quantitative feedback to gain deeper insights into why respondents possess certain views and what alternative banking methods they would be satisfied with.

Estimated Cost & Initiative Evaluation

Range		Cost (£)
N/A		-
Low (<£200K)		✓
Medium (£200K – £1M)		-
High (£1M +)		-
FTE requirement (L/M/H)		M

Risk Impact		
Low	Medium	High
✓	-	-



Limitations / Inhibitors

- ✗ Participation is not guaranteed and those who do participate may not do so in an honest or accurate manner, creating a potential bias scenario.
- ✗ Residents who do not feel affected by access to cash may not complete the survey, consequently the sample would not be a true representative of the total population.
- ✗ Unclear questions can result in subjective responses, questions with multiple choice answers may have different meanings to each individual.
- ✗ Data errors may affect the outcome of the results.

Implementation options

Stage	Description	Indicative Timeline
Initiation & Kick-off	<ul style="list-style-type: none">• Identification of key stakeholders across the Island, as highlighted by DfE.• Agree purpose and objectives of Cash Access Survey.	1 month
Design	<ul style="list-style-type: none">• Design an appropriate survey for residents (consumers and SMEs), outlining a range of qualitative and quantitative questions to improve understanding of the Island's Access to Cash position.• This phase will also include planning and confirmation on how the survey will be marketed and deployed (i.e. telephone, postal, online etc.) and the implementation timeframe.	3 months
Implement	Deploy Survey and gather responses.	2-3 months
Analyse	Analyse survey responses, highlighting key trends and opinions.	1 month
Recommendations & Next Steps	Develop clear next steps and recommendations as a result of key findings.	1 month

Recommendations

Digital education

Why Pursue?

The implementation of digital banking workshops held across the Island could further assist bridging the digital divide, ensuring those reluctant to switch to digital banking are not left behind. These workshops could be held by a representative from a bank or the government with the aim of assisting elderly and vulnerable customers with online banking, thereby enhancing participation and penetration of digital banking amongst such demographics. Holding educational workshops will encourage digital banking which may result in a decreased demand for in-person banking services, but should act as a future proofing mechanism as banks continue to close their physical branches on the Island. In the UK, Barclays utilise mobile banking units to travel to rural areas to assist residents with online banking. A similar initiative could be implemented across the Island be it through Penny Bank or other mobile banks, or workshops held in community halls. This would provide supports for consumers as the demand for cash falls and the digital shift grows further.

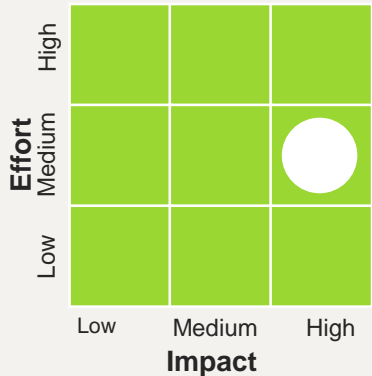
Benefits

- ✓ Digital banking workshops will reduce individuals' reliance on physical banking and cash services whilst improving their ability to bank remotely.
- ✓ These workshops would enhance the digital education exercise that the Island's Banks and charities have been promoting.
- ✓ These workshops will create a more financially inclusive society, one where everyone has access to online banking resources.
- ✓ Successfully run workshops may increase the participation and adoption of digital banking from many different demographics on the Island.
- ✓ Instils trust in vulnerable customers that digital banking is safe and enabling vulnerable consumers to become more independent and carry out their personal banking via a digital platform.

Estimated Cost & Initiative Evaluation

Range	Cost (£)
N/A	-
Low (<£200K)	-
Medium (£200K – £1M)	-
High (£1M +)	✓
FTE requirement (L/M/H)	M

Risk Impact		
Low	Medium	High
✓	-	-



Limitations / Inhibitors

- ✗ Similar workshops have previously been held on the Island and stakeholder engagement indicated they were poorly attended due to a lack of awareness of such classes.
- ✗ Stakeholder engagement suggested the Island's elderly demographic lack the motivation to improve their digital literacy skills, moreover many distrust online banking and do not want to engage with it.
- ✗ Banks may fail to properly address the digital divide and leave customers behind in the digital shift.

Implementation options

Stage	Description	Indicative Timeline
Initiation & Kick-off	Identification of key stakeholders across the Island (incl. DfE, Banks, Post Offices, Credit Union, Chamber of Commerce etc.) to agree the strategic objectives of an island wide digital education programme.	1 month
Design	<ul style="list-style-type: none">• Design a Digital Adoption Education Programme. Design sessions will include agreement on target audience, tailored content and delivery approach (i.e. roadshows, marketing materials, consideration of government digital adoption incentives e.g. VAT free tablet / iPads for programme attendees).• Alternative facilitation options should also be considered i.e. younger residents to facilitate modules of the programme, fostering a greater community spirit on the Island.• This end-to-end design will ensure stakeholder expectations remain aligned.	6 months
Implement	Deployment of Digital Adoption Education Programme.	6 months
Feedback & Monitoring	Collate and analyse feedback from the Programme and monitor digital adoption rates.	1 month

Recommendations

Banking hubs

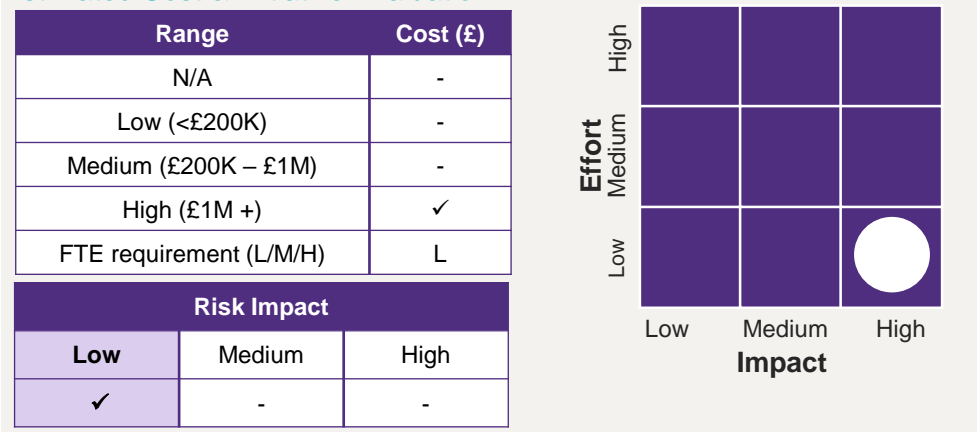
Why Pursue?

Shared banking hubs are an effective solution for maintaining and protecting the Island’s cash infrastructure, they provide customers and business owners with face-to-face banking services. Such banking hubs could ensure that the Island’s residents who need and want to bank in person could continue to do so into the future. This initiative would involve the Island’s leading banks, post offices, supermarkets and/or retail/community hubs collaborating to create a shared banking hub, providing banking services and access to cash. It would involve a bank teller from each retail bank operating from a banking hub weekly. Moreover, ATMs with withdrawal and lodgement functionality would still be accessible to customers within the hubs on days that their bank branch is not servicing the hub.

Benefits

- ✓ Shared banking hubs provide enhanced accessibility for customers to banking services on the Island, often at more convenient locations and opening hours.
- ✓ They provide an effective countermeasure to bank branch closures, allowing residents to access banking services in person, while simultaneously reducing banks operating costs.
- ✓ The social element of banking remains in place with these hubs, they create opportunities for human interaction for residents’ everyday banking needs, an aspect of banking which is very important to many, particularly elderly and vulnerable demographics.
- ✓ Banking hubs can be designed with accessibility in mind, with wheelchair friendly kiosks and sign language available for the hard of hearing. Ensuring that even the most vulnerable have access to banking services.

Estimated Cost & Initiative Evaluation



Limitations / Inhibitors

- ✗ Achieving buy-in from banks may be challenging to overcome as they have significantly invested in their digital channels rather than branch banking services. Underpinning commercial agreements may also be difficult to attain.
- ✗ Upgrading post offices, supermarkets or community hubs to provide banking facilities will require investment with regards to fitting the hubs with the appropriate facilities, as well as training costs.
- ✗ It may be too late to reverse the cashless trend in society with shared banking hubs acting as a short-term solution.
- ✗ Consumers may feel uncomfortable banking in shared banking hubs, preferring to conduct their banking activities within their own bank branch or solely online.

Implementation options

Stage	Description	Indicative Timeline
Initiation & Kick-off	Identification of key stakeholders across the Island, seeking buy-in from those who would contribute to the establishment, co-ordination and ongoing management of new banking hubs across the Island.	1 month
Assess	<ul style="list-style-type: none">Review survey and ATM network assessment findings.Identify appropriate strategic locations (e.g. Post Offices and local supermarkets) to deploy banking hubs in areas of the Island that are underserved with banking and cash services.Consider utilising “OneBank Hub” services to provide consumers and SMEs with in person banking services.	3 months
Implement	Trial pilot test of banking hubs at agreed strategic location as identified during the Assess stage (above).	2 months
Monitor & Next Steps	Monitor pilot scheme for key metrics such as customer interaction, cash withdrawal and deposit data. Analyse data to determine viability of banking hubs in other locations on the Island going forward. Plan next steps and wider rollout of banking hubs as appropriate.	Minimum 6 months

Recommendations

Network connectivity

Why Pursue?

Access to a strong and stable internet connection is critical for digital banking and electronic payments. The majority of businesses rely heavily upon their network connection in order to carry out their daily operations. One key takeaway from the extensive stakeholder engagement conducted during the formulation of this report was the poor connectivity and stability of the internet across parts of the Island, resulting in electronic payments difficulties. The lack of a stable network makes accepting digital payments difficult for SMEs and it also becomes problematic for individuals if they cannot pay digitally and do not have cash. Therefore, a stable and robust internet connection across the Island is critical to everyday life. The Isle of Man's Government recognises that access to reliable broadband is necessary for businesses and residents alike and has committed to accelerate the roll out of ultrafast broadband to the Island's population.

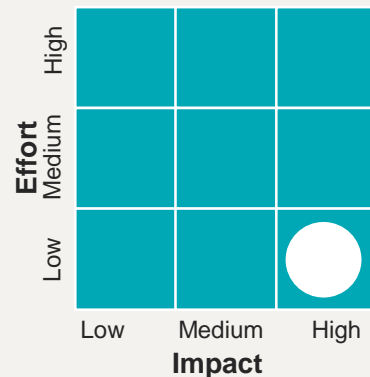
Benefits

- ✓ A strong and stable network eliminates any 'blackspots' of poor connectivity and enables access to digital banking and payment methods in an efficient manner to all residents.
- ✓ Reliable connectivity networks allow SMEs and residents to operate in a cashless manner, for many business owners and residents this is much more convenient.
- ✓ Allows SMEs and sellers at the farmers markets to operate their stalls in a cashless manner without fear or worry of their 'SumUp' machine or similar malfunctioning.
- ✓ Will keep the Isle of Man connected, providing the Island with many digital opportunities. It allows for remote working and enables local business to develop and grow further.

Estimated Cost & Initiative Evaluation

Range	Cost (£)
N/A	-
Low (<£200K)	-
Medium (£200K – £1M)	-
High (£1M +)	✓
FTE requirement (L/M/H)	L

Risk Impact		
Low	Medium	High
✓	-	-



Limitations / Inhibitors

- ✗ Implementing a dependable internet connection across the Island is a very costly initiative and requires significant investment from the Government.
- ✗ There may be further disruptions to businesses and residents throughout implementation phases in towns and villages which residents may find inconvenient.

Implementation options

Stage	Description	Indicative Timeline
Assess and analyse	<ul style="list-style-type: none"> Undertake an assessment of the current network connectivity across the Island, identifying any areas of poor connectivity which may affect consumers and SMEs. Measure the progress of the "National Broadband Plan" against its target of ultrafast fibre broadband access to 99% of the Island's premises by 2022, ensuring the plan is not outdated and services the Island appropriately. 	2-3 months
Prioritise	Prioritise areas of poor connectivity which affect the greatest number of residents and SMEs, focusing improvements in these areas.	4 months

Recommendations

Enhanced cashback services

Why Pursue?

Cashback was the second most popular means of withdrawing cash in the UK in 2019 ¹. This simply highlights some consumer's appreciation and value for cashback services. The provision of additional cashback services across the Island would increase the number of cash access points for use by those consumers who prefer to use cash. By way of implementing this solution, there is an opportunity to exploit an extensive retail infrastructure which already exists across the Island. Should local businesses and government offices offer cashback services, it would improve the cash access network but also reduce their time and effort spent managing and banking cash for their business. The level of adaption required to existing systems would likely be low and these businesses should be in a position to provide cashback services relatively quickly. The UK is in process of legislating new regulation to permit cashback facilities without a purchase in shops. This is a further consideration the IOM Government may wish to introduce to encourage cashback services across the Island.

Benefits

- ✓ The provision of cashback services through existing retailers and local authority offices could provide a significant, timely uplift in sources for cash across the Island.
- ✓ Offering cashback services may increase footfall in stores, which in turn could lead to an increased customer base and additional business for these stores.
- ✓ Cashback services provide a cost-effective and efficient cash management solution for SMEs (reducing their need to bank physical cash).
- ✓ Cashback allows consumers to withdraw cash without incurring extra charges, which are often associated with ATMs.

Limitations / Inhibitors

- ✗ Businesses may be in the process of embracing the digital payment trend and as a result intend to actively try to reduce and/or eliminate the overall cash usage within their business. If this was the case, the entity may not have sufficient cash to offer a cashback service.
- ✗ Cash use brings with it a number of associated costs for businesses, including management, storage, transportation and banking.
- ✗ Local merchants may feel pressure to keep sufficient cash in their tills in order to be able to provide cashback services, which may in turn cause security concerns for stores.

Implementation options

Estimated Cost & Initiative Evaluation

Range	Cost (£)
N/A	-
Low (<£200K)	✓
Medium (£200K – £1M)	-
High (£1M +)	-
FTE requirement (L/M/H)	L

Risk Impact		
Low	Medium	High
✓	-	-

Effort	High			
	Medium			
	Low			
		Low	Medium	High

Impact

Stage	Description	Indicative Timeline
Initiation & Kick-off	Identification of key stakeholders across the Island to understand what capabilities are required to support enhanced cashback services.	1 month
Assess	<ul style="list-style-type: none"> Undertake assessment of supermarkets, Post Offices and other retailers currently offering cashback services to customers. Identify areas of the Island where cashback services are sparsely offered to residents. Identify commonalities in businesses who do not offer cashback services. A further assessment to consider the implications of revising legislation to permit cashback could be conducted. 	2 months
Design	<ul style="list-style-type: none"> Target areas and businesses who offer limited cashback services and educate on the benefits available to them in offering cashback. The Government could consider regulation and / or innovative incentives to encourage businesses to offer cashback services. Redrafting of legislation as appropriate. 	3-4 months
Implement	<ul style="list-style-type: none"> Devise a marketing campaign to promote businesses which encourages offering cashback as a service. Progress amended legislation through Tynwald. 	3-4 months
Feedback & Monitoring	Monitor adoption rates of cashback services by retailers and utilisation by consumers.	Minimum 6 months

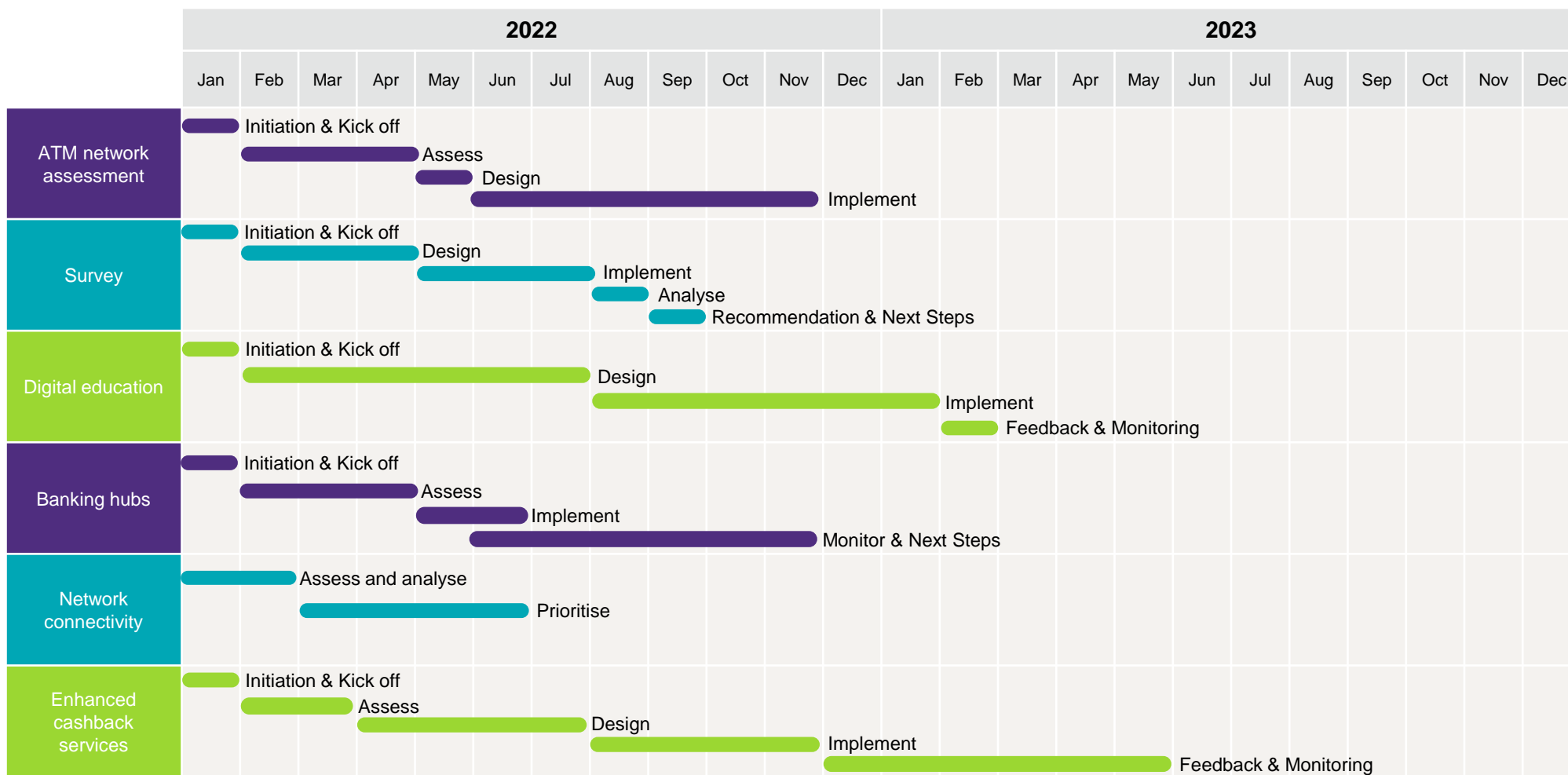
¹ HM Treasury Access to Cash: Call for Evidence 2020.

² Five Post Offices offer Barclays banking services and two offer Lloyds, however Peel Post Office offer both.

Next steps

Roadmap

The roadmap below outlines, on an indicative basis, the timelines for implementation of the six key recommendations over a two year period and beyond. These recommendations will provide benefits across a number of key areas whilst aiming to overcome the challenges or drawbacks highlighted by key stakeholders during the Current State Assessment phase.



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The background of the slide is a composite image with a blue and purple color scheme. It features several semi-transparent bar charts with white bars and numerical labels. On the right side, there is a stack of silver coins, with the word 'SIA' visible on one of them. The overall aesthetic is professional and financial.

Appendix 1 Workshop Findings

Appendix 1

Workshop findings | Isle of Man Bankers Association

Cash Network

- As a whole, there is a belief that the current cash network is sufficient; if anything, it is being used and demanded less.
- Any Isle of Man branch closures followed the same approach of the wider UK Bank Programmes and considered key branch usage statistics versus cost before closures were confirmed.
- Despite bank branch closures on the Island, the Bankers Association believe the current branch & ATM network is sufficient to meet the needs of the population.
- It was noted that ATM usage was in decline pre-pandemic and it did not seem to exceed what the population previously required.
- Suggestions that there are potentially too many ATMs.
- Highlighted that all businesses, banks included, are highly cost conscious now.
- Physical cash usage is declining across the Island and the UK, therefore, servicing costs are increasing. Cost cutting agendas, coupled with political and societal factors mean it isn't commercially viable for banks to expand their branch network on the Island.
- There are no known plans for existing bank licence holders to expand their network on the Island.
- Noted that a difference may exist between access to cash and convenience to cash for residents.
- Opinion that the conversation should not be about cash provision, but rather about educating consumers and SMEs about self-serve and digital payment channels.
- Little appetite to offer a shared banking hub as the banks felt that the branch closures were due to declining demand and the demand for a shared banking hub may not exist.

Behavioural & Social Attitude

- When considering the high street landscape, few businesses trade predominantly in cash. However, those which do include: local pound shops, charity shops and cafes.
- Acknowledgement of the social responsibility on the Island's Government and banks to ensure access to cash, particularly to those deemed vulnerable and elderly.
- Digital payments education occurs each time a customer enters a branch. Customers are informed of how they can conduct their banking more efficiently through digital channels.
- Digital payments could be considered as beneficial to the elderly and vulnerable in some ways.
- Query raised as to how many people still get paid in cash on the Island.
- Branch banking footfall data does not accurately reflect the amount of customers being educated in branches. Many customers that deal with bank staff are told or shown how to do something then leave.
- Consideration to be given to the "unbankables". Isle of Man Bank sponsors a community service for people who cannot gain access to a bank account.
- A reduction in physical cash results in environmental and sustainability benefits – reduced carbon footprint with less branches / less travel etc.
- Believed there is an element of "pride" for the Island's residents that Isle of Man has its own currency. This may bring resistance to eliminate the use of cash in its entirety.
- Belief amongst stakeholders that the Island could be cashless within the next 25 years. Given global trends it is considered cash could be redundant by then.

Government & Regulation

- Government may be aware of evolving cash trends (i.e. increasing digital payments / cashless societies). This could be considered as an opportunity to lead the way by providing innovative community focused solutions.
- DfE could potentially do more to encourage people to bank digitally. It is felt that the responsibility to educate the population starts with the Government and would not fall solely on the banks alone.
- Cash payments enable the "grey" economy, which creates opportunities to evade tax. Digital payments create full transparency and accountability.

SMEs & Residents

- The older and vulnerable population continue to use physical cash and access branch networks.
- Cash usage by SMEs and residents is in decline. Cash turnover is reducing across branches. The cost of cash is increasing whilst the usage is declining.
- SMEs can now avail of many card payment systems at more competitive rates. In many instances the card payment systems can be cheaper than cash banking fees.

Security

- Security and fraud concerns for older demographics using technology to make digital payments over cash payments.
- There is a belief that the greatest resistance from those not wanting to adopt digital practices is due to fears of fraud.

Appendix 1

Workshop findings | Isle of Man Chamber of Commerce



Cash Network

- Many industries no longer trade in cash, for example the financial and professional services sectors.
- Some tourism and hospitality sectors continue to trade in cash, for example cycling trips, motorcycles, boat and coach holidays.
- Fast moving digital age may affect these sectors in a minor capacity, however enhanced education on ways to bank and utilise digital payments may help overcome this.
- A potential trigger event may act as an enabler to reduce the cash network. Such trigger events might include bank branch leases expiring.
- Banking contracts held with the Post Office are expensive. The cost per transaction is often high because of the contractual fixed fee arrangement and the volume of transactions is relatively low. These contracts typically operate on three year terms.
- If footfall and Post Office transaction trends continue downwards this could lead to another trigger event that may require Post Office closures which could further reduce the network.
- There are many other business models that can facilitate cash access via cashback services e.g. from retailers or local authorities.
- The cost of some branches in cost per customer terms are hugely unsustainable, one branch quoted 50 customers per week.

Behavioural & Social Attitude

- Retail sector has experienced a wholesale shift toward cashless payments since the start of the Covid-19 Pandemic / over the last 18 months.
- Drug crime benefits from cash usage and so a move away from cash is likely to reduce the antisocial problems associated with this black market.
- Cash is also beginning to be perceived as less socially acceptable in some scenarios.
- Typical cash organisations, such as hospices and churches, now offer digital payment / donation services.
- The Island's leading pub chain, which owns bars spanning more than half the Island, no longer accepts cash for tips, rather all tips must be provided by card or digitally. This enhances the transparency of earnings and ultimately improves tax collections across the Island.
- Consideration could be given to the positives for the Isle of Man in terms of a cashless perception. If cash payments were considered as less socially acceptable then it could create an inadvertent shift towards digital and other alternative payment methods.

Government & Regulation

- Raised that investment, grants and education could be provided to small businesses to support investment in digital payment technology.
- Some payment providers do not currently operate on the Island e.g. Stripe, this is creating a barrier for SMEs. Government may consider intervention regarding this issue.
- UK Parent Banks often believe the different regulation between UK and Isle of Man makes it unsustainable (high cost to serve) to operate and offer a reliable cash network on the Island.

SMEs & Residents

- Chamber of Commerce currently offers workshops for SMEs to support development opportunities (i.e. offering digital payment services).
- New, innovative digital payment systems, such as SumUp, are cheaper to run and incur less costs than banking charges.
- On a whole whilst the majority are moving towards digital payments, there is a small vocal minority who will always prefer to trade in cash.
- That said, the Chamber of Commerce are not aware of a specific sector who "need" it.

Security

- Generally all systems are deemed to be secure. The main concern would be hackers seeking business data rather than concerns surrounding payments or cash access services.

Appendix 1

Workshop findings | Isle of Man Post Office

Cash Network

- The Isle of Man Post Office network consists of 21 Post Offices, two of which are operated by the Isle of Man Post Office (Douglas and Ramsey), and the remaining 19 are operated under sub-contracts (sub-post master).
- Five Post Offices provide banking services for Barclays Bank on an agency basis and two Post Offices provide banking services for Lloyds Bank on an agency basis.
- Sub-Post Offices can choose whether or not they would like to offer agency banking services.
- Barclays and Lloyds have partnered with Post Offices in areas where they have closed branches or have identified gaps in the provision of banking services.
- Barclays and Lloyds do not offer agency banking services in locations where they have existing branches as this may have a negative impact on branch footfall.
- Previously Sub-Post Offices have provided agency banking services for HSBC and Santander, however these are services which have been withdrawn over time.
- The IOM Post Office holds around £1-2m cash float across the network.
- It appears as though the majority of Post Office counters operate at a loss for the host business, often Sub-Post Offices close due to retirement or the space is used to provide other services which can bring in a higher return for the owner.
- The number of Sub-Post Offices across the Island is declining and it is anticipated that this number is set to decrease further. Belief that postal volumes are in decline and many other services are moving online.
- IOM Post Office is of the opinion that the closure of Sub-Post Offices makes the remaining network more sustainable.

Behavioural & Social Attitude

- The Isle of Man Post Office has previously considered offering a wider variety of banking services (i.e. savings accounts or insurance), however some Post Office customers have reservations in regards to banking in a public setting such as the Post Office.
- Isle of Man Post Office believes that cubicles or separate rooms would be required in Post Offices to help mitigate these reservations.
- MiCard usage is expected to reduce when weekly payments are introduced. Benefits collected by MiCard users reduced from 18% to 12% during the Covid-19 Pandemic.
- Treasury's Social Security Division have agreed to share the results of the MiCard Customer Survey with the Post Office Network.
- Discussions with Treasury's Social Security Division took place regarding the potential need during the Covid-19 Pandemic to deliver benefits to recipients who could not attend the Post Office, however the system was not implemented.

Government & Regulation

- Current Manx legislation dictates that the Isle of Man Post Office is required to make a profit.
- The Isle of Man Post Office is a completely separate network to the UK Post Office.
- The Post Office uses cash received from banking deposits to pay out as benefits, and work closely with Treasury's Social Security Division with regards to MiCard, (Post Office is aware that MiCard agreement expires on the 31st December 2022 and is unlikely to be renewed).
- Treasury's Social Security Division preferred benefit payment method is via BACS and this is supported by the Post Office.

SMEs & Residents

- All "new pensioners" (payments beginning from 2021) receive their payments directly by BACS, unless there is a particular need to receive them in cash.
- Suggestion that the local population perceives Sub-Post Offices as community hubs, rather than separating them from the businesses that operate them.

Security

- The provision of banking hubs within Post Offices would require significant investment and consideration in security.
- Large costs are associated with the storing and transportation of money.
- Limits imposed by insurance affect the amount of cash that can be held in Post Offices.

Appendix 1

Workshop findings | Isle of Man Sub-Post Masters

Cash Network

- The single convenience shop in Jurby, “Jurby Stores” contains a Sub-Post Office which has two contracts with the Isle of Man Post Office, one with Treasury’s Social Security Division for benefits and one with the Department of Infrastructure (DOI) for licensing. Staff wages and supplier payments are frequently paid in cash.
- Jurby Stores has concerns over the long term future of both Post Office contracts, as it appears both the Treasury’s Social Security Division and DOI are following a pattern of encouraging consumers directly to bank payments and towards online access to licences queries.
- Mannin Retail operate five Sub-Post Offices within their 19 shops, along with a separate Post Office on Regent Street in Douglas. Approximately 40% of Mannin Retail purchases are made using card and 60% are made using cash.
- The majority of Mannin Retail stores offer £100 cashback, larger cash till floats are maintained in locations which have suffered ATM outages in recent months. Several staff’s and external cleaner’s wages are paid for in cash from the shops tills.
- Post Offices in Laxey and Peel have an ATM contract directly with Barclays UK which is due to expire in October 2022. Lloyds and Barclays operate rolling 12 month contracts in Peel Post Office. Previously Santander and HSBC held contracts but these have since been terminated.
- Isle of Man Bank do not hold banking contracts with the Sub-Post Office network. It was suggested that IOM Banking through the Post Office could improve the cash network across the Island.
- Positive sentiment exists for the valuable services Post Offices in Laxey and Peel offered to their communities, ensuring residents had access to cash and goods throughout the Covid-19 Pandemic.

Behavioural & Social Attitude

- Jurby Stores and the Sub-Post Office have been running for approximately ten years and formed a central social hub for the village. The lease is due to expire in the coming months. Upon expiration, if not renewed, residents would lose a valuable community service and valued interaction opportunities.
- Jurby has a high percentage of social housing and benefit claimants who rely on the store to collect their benefits from. They supply hot food and there is no other outlet in the village, attesting to the central role this plays in the community.
- The Douglas Post Office on Regent Street attempted to test a card only policy recently but has since reverted to cash due to demand from customers, suggesting that residents still have an appetite for cash in one of the most densely populated areas of the Island.
- There is a belief that Post Offices which offer banking services in Jurby, Peel, and Ballasalla are required in the communities due to a typically older demographic in Jurby, bank branch closures in Peel, and a new housing development in Ballasalla.
- Otherwise there is a belief that Post Offices could be spread more evenly between towns such as Port Erin, Castletown, Douglas, Laxey and Ramsey.
- Laxey and Peel saw a higher footfall during lockdowns, as Government counters were closed for cash services whilst Post Offices remained open.
- Residents attended the Post Offices several times a week as they opted to avail of Post Office services to collect benefits and pay utility bills.

Government & Regulation

- There is a belief that December 2022 is too soon for elimination of the MiCard and perhaps a longer transition and ‘handover’ period would benefit residents.
- There are concerns that the expected timeline in place for MiCards to be replaced with a prepaid voucher-like card is insufficient.

SMEs & Residents

- Independent Sub-Post Masters cannot deal directly with the government; their contracts have to go through the Isle of Man Post Office whose objectives may appear misaligned with those of the network of Sub-Post Offices.
- Furthermore it has been suggested that many Sub-Post Masters and independent Post Offices would happily utilise their space for community banking hubs.

Security

- Minor concerns were noted regarding the fear of fraud amongst the older demographic on the Island. This feedback is aligned to that of other stakeholders in respect of the ageing population.

Appendix 1

Workshop findings | Manx Credit Union



Cash Network

- Only two Isle of Man Post Offices are managed by IOM Post, the others are operated by local businesses or shops such as Spar.
- “Penny”, the mobile banking bus provided by Isle of Man Bank, is possibly not comprehensive enough and perhaps does not currently meet the demand of local communities.
- All Manx Credit Union staff are volunteers, which creates a potential risk in respect of future staff shortages. Potential staffing issues would negatively impact the Island’s Cash Network as it could cause operational challenges to the existing Credit Union customer service process.
- The Manx Credit Union holds accounts for a small number in the tertiary sector. The accounts are restricted to a £250 monthly deposit, as the dividends which are paid by the Credit Union are intended to incentivise saving rather than being used on an investment basis by businesses.
- Contis PLC, a UK based firm, provide a visa debit style card for use on Credit Union accounts as part of a CSR programme. The card can be managed via an app on a mobile phone.
- The Manx Credit Union has an agreement in place to provide lower charges on banking services.
- Barclays paid for Credit Union staff to attend training courses in London.
- Pre-Pandemic the Credit Union used the foyer in the Barclays Ramsey branch every week to provide Credit Union services from.

Behavioural & Social Attitude

- The vast majority of transactions on the Island are carried out via bank transfer, with approximately 90-95% of business being carried out via digital channels.
- Very few cash payments are made at the Manx Credit Union. A busy day may involve service of a maximum of eight cash payments.
- Currently the Manx Credit Union has 914 members; footfall is low at approximately 30-40 people per week.
- As a result of the low footfall the Manx Credit Union only opens for three half-days a week.
- The Credit Union has an on-going relationship with the probation service with the aim of providing banking services to the “unbankable”.
- The Corrin Hall in Peel is being redeveloped as part of the Peel Cathedral Redevelopment Project with the aim of becoming a “community hub” in central Peel. Belief that this could potentially replace the Peel Wellness Centre due to its strategic location.

Government & Regulation

- The targets set by Government for the Post Offices have been unattainable for many Post Office branches.
- Operational cost pressures have contributed to the closure of many Post Offices around the Island.

SMEs & Residents

- Manx Credit Union accounts can be used by residents to receive benefits or pension payments.
- Manx Credit Union accounts provide £500 family loans which can be paid off directly from benefits or through the purchase of household goods.
- Cited a report from the House of Lords that referenced 11% of the UK population did not have a bank account.

Security

- There is a view that there is minimal security risk in respect of transactions from/to a Manx Credit Union account due to the majority of transactions being carried out via digital channels.

Appendix 1

Workshop findings | Isle of Man Cabinet Office

Cash Network

- The Cabinet Office do not believe that residents on the North of the Island expect to have banking facilities on their doorstep. These Island residents have never previously enjoyed the same convenience in respect of access to cash as those residents located in the East close to Douglas.
- Community banking could potentially be moved away from the Post Offices and to “community hubs” to help minimise the risk of the elderly and vulnerable from becoming isolated.
- Cost of using foreign cards at ATMs on the Island is unfair to visitors. The Government may wish to consider making these ATMs free-to-use for foreign card holders.
- ‘LoveIOM Gift Card’ set to be issued, which will act as a voucher-styled card that can be pre-paid and used in local participating businesses. This is not felt to be a suitable replacement for Mi-Card, it has a different purpose, to enhance trade in relevant local business sectors.
- There is a belief that the Post Office could be a prime candidate to offer a service such as “Bank of the Isle of Man” similar to the “Gibraltar International Bank”, established in 2015 and wholly owned by the Government. Discussions could be undertaken with the Post Office to determine whether approach is of interest to them.

Behavioural & Social Attitude

- There is concern regarding the expiration of the MiCard licence in December 2022, as it could potentially leave a vulnerable cohort within society exposed with no access to cash benefits.
- The Cabinet Office are of the opinion that for the most part it is the elderly demographic, benefit claimants and those in abusive relationships that depend on cash.
- The Cabinet Office also believes it is important to continue to pay benefits to sole names and accounts as it is understood that benefits can now be paid to joint bank accounts in the UK and thus creates opportunity for individual's cash to be used by others with access to their account.

Government & Regulation

- Should there be a requirement for additional cash points across the Island, the Government does not expect banks to fund these additions entirely themselves.
- There is a possibility that Government would assist in the formation of ‘community banks’ in strategic locations. A full assessment and implementation plan would be required to support the delivery of the same. Such planning could consider the option to include a “usage charge” to partially cover the operational costs of running the “Community Bank”.
- There were discussions on the opening/operation of a Government backed “Bank of the Isle of Man” similar to that operated in Gibraltar.
- Seeking consideration from the Isle of Man Financial Services Authority to mandate major banks to provide “basic bank accounts”. Accounts are not available to all Island residents at present.

SMEs & Residents

- Residents who refuse banking facilities will not be catered for by the provision of “basic bank accounts”, a digital inclusion initiative would likely be needed.

Security

- Security concerns surrounding the replacement of MiCard with LoveIOM cards, as this is a prepaid, voucher-like alternative.

Appendix 1

Workshop findings | Isle of Man Treasury - Social Security Division



Cash Network

- 'MiCard' is a card issued by Treasury's Social Security Division which allows users to collect social benefits in cash from the Post Office. The card cannot be used in-store to purchase goods or services, rather it acts as a method of identification.
- There are currently around 4,000 – 5,000 MiCard users.
- MiCard users must register to a specific Post Office branch to ensure cash can be allocated and distributed accordingly. That said, all benefits can be collected from the main Post Office branch in Douglas.
- The MiCard licence is due to expire 31st December 2022, other alternatives or replacement options are currently being explored. It is likely MiCards will require a licence extension.
- During lockdown a strategy was drafted whereby postmen could be used to deliver cash to residents who were self-isolating for extended periods of time.
- Benefits can only be applied for in hard copy form, however assistance can be provided to claimants by the telephone or via Zoom.

Behavioural & Social Attitude

- MiCard user survey released on the 4th of October 2021 which asks respondents "why do you still want cash?". The survey is being released in respect to the move of benefit payments to BACS.
- Results from the MiCard survey will help capture the sentiment of residents towards cash usage and their preference for cash.
- There is a belief that many of those who take their benefits in cash do so for personal reasons e.g. household budgeting.

Government & Regulation

- Benefits can be paid directly into the recipient's bank account, 95% of 'new' pensioners are being paid by BACS.
- Cheque payments for benefits were phased out in 2016.
- Child benefits are currently paid every four weeks, however this is likely to change to weekly before Christmas 2021.
- Jobseeker's Allowance can only be applied for by an in-person visit to Douglas.

SMEs & Residents

- 'Basic Bank Accounts' are offered by retail banks in the UK, however they are not currently offered on the Island. If these accounts were to be offered on the Isle of Man they may have significant benefits for the unbanked population.
- Many residents have migrated away from cash collection and moved to BACS payments during the pandemic. Very few residents and SMEs have returned to cash collection.

Security

- MiCards can be attached to other MiCard users for vulnerable customers. To do this users must contact Treasury's Social Security Division either by phone or in-person and answer a series of security questions.
- There are security concerns over replacing the MiCard with a prepaid card alternative. Alternatives are currently being considered as the license with MiCard is approaching expiration.

Appendix 1

Workshop findings | Isle of Man Local Authorities



Cash Network

- Whilst the number of ATMs on the Island is sufficient the geographic spread is not currently optimised. It was highlighted that ATM accessibility is particularly poor for those living in the South and South-West of the Island.
- Stakeholders voiced that the West of the Island is no longer well serviced, there has been a gradual decrease in banking services offered over the past few years.
- Cash access can often be an issue in the west. ATMs are often empty or out of service and shops sometimes don't hold enough cash to satisfy the cashback demand.
- Penny (mobile bank) services a number of rural towns and villages, one being Peel twice a week for two hours. This is met with a lot of demand from the public (generally older demographics) with long queues. It is worth noting that Penny does not generally serve businesses or SME customers.
- Conversely in Onchan there are lots of cash points. Access to cash is not deemed to be an issue. However there are very limited and insufficient depository services.
- Many residents need access to GBP notes which entails going into branches and shops to exchange banknotes.
- Potential for the provision of alternative cash access facilities i.e. cashback through the Commissioners, or encourage more businesses across the Island to offer cash back. Ultimately this will improve access to cash whilst driving down banking costs for cooperating businesses.
- G4S transports cash and services ATMs on the Island.
- There appears to be beliefs that demand exists for a shared banking hub, particularly to satisfy the elderly and local businesses banking needs.

Behavioural & Social Attitude

- Older demographic (typically 70-80+ year olds) still use cash and require access to cash.
- Many social housing residents make cash payments towards rent in town halls (Peel quoted £10-12,000 a week, £1.2 million per year).
- MiCards offer access to cash in Post Offices for residents.
- Older generations enjoy the social engagement associated with dealing in cash.
- Credit card usage can drive people into debt or arrears – local authorities believe in some cases it will take 5/6 years to pay these off.
- There are often petitions and protests by residents in respect of bank branches closures. It is felt that these protesters are residents who are generally resistant to change.
- It was highlighted that many farmers carry cash and it typically remains their preferred method of payment.
- Some stakeholders believe that there is little appetite for an Island wide education plan or programme to improve awareness and adoption of digital banking.
- Internet banking adoption across the Island is estimated to be 50% adopters versus 50% non adopters.
- Online banking and digital payments have dramatically increased since the Covid-19 Pandemic and levels continue to remain high.
- Belief that the Island will potentially be a cashless society in the next 25 years.

Government & Regulation

- Isle of Man Government fund and run the Post Office service. This is an unprofitable organisation and as such costs have to be monitored and managed carefully.
- Pressure coming from Peel Local Authorities on the Minister to ensure that the Post Office remains open despite the challenging and costly operating environment.

SMEs & Residents

- There is a new housing rent system in Douglas which does not allow for the processing of cash transactions. However rather than enforce this change to encourage further digital payments, Local Authorities have developed a manual "work around" to enable them manage cash payments.
- Typically many social housing tenants pay their rent in cash. It is felt that those from lower socio-economic income households prefer to operate with cash as they feel it believe it improves their budgeting abilities.
- Many SMEs cannot deposit their cash with Penny, as the service only caters for personal accounts, unless negotiated otherwise.

Security

- Many elderly have concerns in respect of automated payments and are reluctant to trust direct debits or online payments.
- The digital threat perception remains quite high amongst the elderly population as they typically remain reluctant to go online.

Appendix 1

Workshop findings | Isle of Man Farmers Market



Cash Network

- Farmers market locations and access to cash:
 - Ramsey, Douglas and Onchan: No known cash access issues with several ATMs in the vicinity;
 - Colby: Cash available in local shop (Spar);
 - Castletown: Cash access points available in ATMs and shops (incl. Spar, Co-Op & Shoprite); and
 - St Johns: Some access to cash issues, however most people travel from Peel or Douglas and are thought to typically bring cash with them.
- Residents would like more pop up banks offering a similar service to 'Penny' the mobile bank.
- Penny currently only offers its services for roughly two hours in each location.
- Residents would prefer these pop-up banking facilities to have longer hours and potentially be located nearby or at the Farmers markets.
- Suggestion made that Post Offices could consider offering more banking services and longer, more flexible opening hours.

Behavioural & Social Attitude

- Farmers markets on the Island are still very much cash based.
- SumUp machines have had limited impact on the stalls. Believe this is down to connectivity issues in more rural areas outside the towns.
- A few traders are willing to disclose their bank details to 'trusted customers' for online payments.
- Since the Covid-19 Pandemic, customers have started asking stall owners if they take card, but will often carry cash in any event.
- Farmers often pay their casual labourers in cash, strong belief that there will always be a need for cash.
- Farmers have voiced that they typically find phone banking difficult and believe that 'old technology' is best.
- Typically smartphones are not robust enough to cope with daily farm life so are not used as frequently in rural areas compared to in towns / offices.

Government & Regulation

- Issues with internet and network connectivity in rural areas, potentially require Government investment to solve this connectivity issue.
- The Government could consider offering shop stall owners grants / other incentives to encourage owners to "go cashless". It may be worth suggesting and promoting these businesses to offer digital payments through the likes of SumUp.

SMEs & Residents

- Queues for Penny are long and those running independent stalls cannot get their banking done without abandoning their stall.
- This in turn disrupts business service and so presents operational challenges for business owners.

Security

- Locals are reluctant to give out their bank details for fear of cyber attacks.
- Doesn't appear to be any security issues with SumUp payment methods but there are issues with network connectivity / stability.

The image features a person in a blue suit holding a tablet, positioned on the right side. The background is a blurred city skyline. Overlaid on the image are various financial data elements, including a candlestick chart on the left and several numerical values in different colors and sizes. The text 'Appendix 2 Sweden Case Study' is centered in white.

Appendix 2 Sweden Case Study

Appendix 2

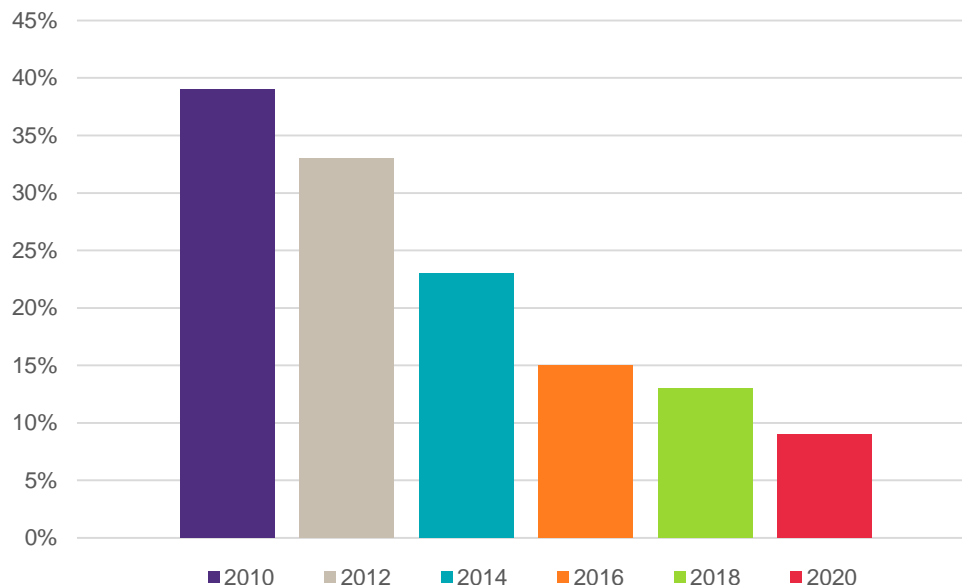
Case study: Sweden

Declining cash use in Sweden is supported by an established and sophisticated digital payments market. Due to the rate at which cash use is declining in Sweden, the Swedish central bank have started to investigate the possibility of a new digital currency which would replace the current physical krona.

Declining cash usage in Sweden

Cash is disappearing faster in Sweden than in other countries. More and more people are abandoning cash and the volume of cash in circulation has fallen dramatically over the last ten years. From 2007 to 2018 currency in circulation in Sweden has fallen by -43%, this is the biggest decrease in the world. Part of the reason for Sweden's deviation from cash is a combination of measures against tax evasion and the introduction of Swish. Currently the cash in circulation in Sweden as a percentage of GDP is 1%, compared to 4% for the UK and 11% for the Euro area average.

Chart Eight: Percentage of people using cash for their last purchase



Swedish payment market

The payment market is being digitalised rapidly, Sweden's payment market is leading the way in digitisation. Electronic commerce and mobile payments are becoming increasingly common. As a result of the pandemic Sweden's older population have begun to increasingly use alternative payment methods to cash. Swedish payments are secure and efficient and digitalisation has led to increased efficiencies in the market. There have been very few disruptions in systems that would negatively affect payments. In recent years no disruptions have affected the ability of companies or households to make payments.

Fintech is bringing new solutions to the Swedish payment market. New innovation in the Fintech sector can create new and convenient ways to make payments (e.g. Swish) as well as making them more secure. It is important that regulators create market conditions which encourage innovation by Fintechs.

The route to a cashless society

Sweden employs a decentralised and market driven approach for the production of money in its economy. This means it is not the central bank that decides how much money is in circulation at any given time but rather it is decided by the demand for cash. This demand comes from consumers, merchants, banks and companies. The central bank then supplies the volume of cash which is demanded.

Although cash is still considered legal tender, Swedish merchants have the right to refuse cash as a payment method. This is a unique legal position and has played a large part in the decline of cash and will continue to do so going forward. In 2018 one in four merchants had said they will stop accepting cash by 2020 and another one in four by 2025, this trend is likely to have accelerated as a result of the pandemic.

The change to a cashless society is without a doubt highly complex and therefore it will require the transformation of laws and the various interest groups working in tandem. The Swedish central bank is also investigating if it would be possible to issue an "e-krona" to the general public, replacing a tangible currency with an electronic one.

Appendix 2

Case study: Sweden

Sweden has a long history of innovation in financial services. Since the 1960s Sweden has been an early adopter of new technologies and operating models. The Swedish government has discouraged cash use through regulation which sought to increase transparency in payments. Sweden recognises the challenges of transforming to a cashless society and know that transformation must happen at a rate that doesn't leave anyone behind.

History of Swedish cash

Sweden has long been at the forefront of innovation in both fiscal and social policy and their bold aim of becoming the world's first cashless society is no different. In the 1960s banks in Sweden began taking steps to create more efficient operating models by launching automated systems. The value of cash in circulation in Sweden began declining in the 1950s and continued to decline in the coming decades.

In the late 1980s and 1990s banks began to intensify their efforts to transform cash payments to electronic card payments. The use of cards began to rise quickly in the late 1990s due to the efforts of Swedish banks. The central bank had also begun investing in an electronic system for clearing and settling payments.

Further innovation in the 2000s such as digitisation, a network economy and broadband helped completely transform the Swedish economy. An increase in cash robberies also motivated Sweden to try and actively reduce the use of cash to help prevent employees being exposed to robberies. As a result of the large increase in robberies, groups began to lobby the Swedish government to stop the use of cash in a work environment.

In 2007 and 2008 the Swedish government introduced legislation which stimulated transparency of payments in the construction and trades sector. Private persons were able to get tax reductions if they paid construction or household services for private houses. Previously these payments were largely made in cash and were part of the untaxed grey sector. More regulations were designed and introduced which made it very difficult for cash intensive industries to avoid paying tax.

The cost of cash

Payment methods are efficient when there is only a small societal cost incurred in order to implement them. The most recent investigation into the cost of cash in Sweden was in 2012. It estimated that the social cost of a cash payment was 8.3 SEK and the social cost of a debit card payment was estimated to be 5.5 SEK. This result suggested that Swedish society would benefit from replacing cash payments with debit card payments.

The economic cost savings of switching to debit card payments would be even greater. It was estimated that the economic cost of debit card payments were half that of cash.

Although this research is almost 10 years old it is likely that the societal gain from replacing cash with debit card payments would be much greater now than at the time of the report.

Access to cash in Sweden


Despite the rapidly declining cash use and the trajectory Sweden is on to become the world's first cashless society, protecting access to cash is still a top priority. January 2021 saw an amendment to the Swedish Act on Payment Services requiring banks to provide access to cash.

Cash remains legal tender and therefore reasonable access to cash throughout the country must be maintained. Sweden's central bank has said that the transformation of the payments system to a cashless one is essentially positive however, it cannot happen at a rate that creates problems for vulnerable customers or result in financial exclusion from the payment market for anyone.



Swish

Swish started in 2012 as a cooperation between six of the largest banks in Sweden. Swish launched as a payment services for private users (person-to-person payments) and in 2014 Swish launched for companies and organisations. In 2019 Swish became the most popular payment method in Sweden for 18-40 year olds. The absence of fees and the ease of transactions being completed in only a couple of seconds made Swish a natural and efficient substitute for cash. Adoption of Swish was initially slow, but currently Swish has 7,928,540 users. In Sweden the population of people above the age of 15 is 8.4 million meaning that 94% of potential users are already using Swish. The growth has been primarily in private users however now Swish is witnessing large growth in both Swish for merchants and Swish for companies.

A person in a business suit is pointing at a document on a desk. The document features various charts, including a pie chart and several bar charts. A laptop is open to the right of the document. The background is a blurred office environment. The entire image has a purple and blue color overlay.

Appendix 3: Glossary

Appendix 3

Glossary

Acronym	Explanation
AIB	Allied Irish Bank
ATM	Automated Teller Machine
BoE	Bank of England
CAGR	Compound Annual Growth Rate
CBDC	Central Bank Digital Currency
DCC	Dynamic Currency Conversion
DfE	Department for Enterprise
ECB	European Central Bank
EU	European Union
FCA	Financial Conduct Authority
FSA	Financial Services Authority
IMF	International Monetary Fund
Ireland	Republic of Ireland
MI	Management Information
P2P	Person-to-person
POS	Point-of-sale
PSR	Payments System Regulator
SME	Small and Medium Enterprises
UK	United Kingdom
US	United States

