The Centre for Economic Justice

NOT CASHLESS, BUT LESS CASH

ECONOMIC JUSTICE AND THE FUTURE OF UK PAYMENTS

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SUMMARY

The future will have less cash. By 2028, forecasts suggest that fewer than one in 10 UK consumer payments will be made using cash. The digital revolution in finance will transform our economy and shift the balance of economic power. The prospect of a fully cashless society remains beyond the horizon, but the actions of government, regulators and financial service providers in the immediate future will determine the course of this transition and crucially who stands to benefit from it. Change is needed to design a future economy that is both more digital, and more just.

The proliferation of digital payments presents opportunities to boost productivity, spur innovation, and create greater competition between financial service providers. As more and more of our financial lives are captured as data, financial institutions have an opportunity to better identify and respond to the needs of those who are under-served by current provision and vulnerable to exclusion from financial services. The decline of cash also stands to drive more firms and workers into the formal economy, with opportunities to improve employment protections for workers and recoup tax revenues. But without action, current trends could see the gains of digital transition flow towards Big Tech, major financial institutions, and consumers who already enjoy the benefits of digital financial services.

To prepare for a just transition to a more digital economy, this report sets out three key areas for action:

1. **excellent financial services for all**
2. **bringing workers and businesses into the formal economy**
3. **democratising data and shaping an inclusive digital finance market.**

1. EXCELLENT FINANCIAL SERVICES FOR ALL

For many, the benefits of cash payments – in terms of control, trust and privacy – have not yet been replicated by digital alternatives. As the recent Access to Cash review made clear, urgent action is needed to protect access to cash for the 8 million UK adults who rely on it. One in five UK adults still lack essential digital skills, with digital exclusion most concentrated among groups who are already economically marginalised. This digital access gap locks people out from sharing in the benefits of a digital future. How far new realms of innovation, such as open banking, offer tools for a more equitable future will depend on how services meet the needs of people on low- and middle-incomes, and how far they are taken up beyond those who are already digitally savvy. Ensuring everyone can make payments in the future will mean both protecting access to cash and supporting people to access digital services that work for them.

Recognising that financial service providers stand to make the biggest economic gains from the transition to digital, the **banking levy** should be extended to the full range of major payment and financial service providers and **reformed into a digital transition levy**. The levy should fund delivery against our proposed digital transition framework, detailed below.

Together with the Financial Conduct Authority, devolved administrations and the UK government, banks and other key financial service providers should develop **a digital transition framework** that sets out clear local, regional and national-level targets and outcomes in three key areas.

1. **Boosting connectivity** as access to a reliable internet connection and digital devices, such as a smart phone or computer, become gateways to the digital economy.
2. **Strengthening digital capability** through programmes that promote trust in and take up of digital services among people who are currently under-served by digital.
3. **Fostering inclusive innovation** through a **£10 million Fintech for Financial Inclusion Challenge Fund**, established by Innovate UK and the Payment Systems Regulator, to fund financial technology (fintech) ventures that seek to tackle barriers to digital financial inclusion.

It would also introduce a 'not until' principle for closures of bank branches and ATMs, meaning cash infrastructure cannot be eroded until key targets and outcomes around digital financial inclusion are met. Taken together, the framework and new levy would ensure the potential gains from the digital transition are invested into communities in advance of the transition, to prepare for a future with less cash.

Protect access to cash and local banking services

The UK government should legislate for a **universal service obligation** on cash access, and incentives for providers, including introducing **business rate rebates for free-to-use ATM operators** and the roll-out of **free cashback services**. Under the Fairer Scotland duty and the proposed socio-economic duty for Wales, public service provision should consider detriment to service users who rely on cash in designing payment services. Similar duties should be considered in England and Northern Ireland.

Access to core digital financial services is now a prerequisite to full participation in the UK economy. A sustainable local banking infrastructure will be key to a just transition. Local economies across the UK are experiencing the transition to digital differently, and there will be no one-size-fits-all solution. We therefore propose a mixed approach that can be developed to meet local need.

The new commercial agreement between the Post Office and high street banks is welcome progress than can be expected to improve access to cash across the UK. Delivering long-term, sustainable access to cash and core banking services for communities across the UK, however, is likely to require stronger action. We recommend the creation of a government-owned **Post Bank**, building on existing Post Office banking services, which should operate with a public service mandate to provide affordable basic banking services to all citizens. In doing so, the Post Bank could provide a bridge from the cash to the digital world. Private retail banks should play their part in sustaining the UK's face-to-face banking infrastructure by expanding **shared banking hubs** for both personal and business banking, paid for by the UK's largest banks through a pooled fund. Personal banking hubs should be obliged to house independent, not-for-profit financial advice services.

2. BRINGING WORKERS AND BUSINESSES INTO THE FORMAL ECONOMY

As the shift towards digital payments accelerates, there are growing incentives for businesses to move into the formal economy, or to formalise previously undeclared streams of income. Digitalisation makes it harder for firms to hide economic activity from tax authorities, offering opportunities to reduce criminality and recoup tax revenue lost to the shadow economy. By supporting businesses and workers into the formal economy, the most precarious workers can enjoy stronger employment protections through minimum wage enforcement, paid leave, and sick pay, while cutting down on labour exploitation.

Support workers into the formal economy

To support workers and firms into the formal economy, the Department for Work and Pensions (DWP) together with devolved administrations in Scotland, Wales and Northern Ireland should develop national **income security strategies** reviewing tax liabilities and social security provision for self-employed workers with low (below the real living wage) or volatile incomes. This should support the development of specialist customer support services, including online and face-to-face provision, for workers and businesses whose whole or partial income comes from informal work.

To support the most marginalised workers, government should provide **secure reporting systems** where informal workers in precarious and/or exploitative working conditions can report their employer without fear of immigration consequences.

Champion digital self-employment

Building on recommendations from the Taylor review, government should **develop a digital platform for self-employed workers**, through which workers can manage payments, streamline tax accounting, and apply to access social security provisions. This platform should be developed with the joint strategic aims of maximising tax revenues by capturing previously undeclared income, and strengthening employment protections for self-employed workers to bring them into the economy.

3. DEMOCRATISING DATA AND PROMOTING COMPETITION IN PAYMENT MARKETS

Data is transforming the world of finance, supporting more personalised services, flagging problem spending earlier, and reducing criminality. But, as platform giants move into payments and personal banking markets and the card payments market continues to be dominated by two major schemes, there is a clear risk that economic power in a digital economy will be increasingly concentrated within a small number of dominant firms. As new realms of finance are digitalised, action is needed to protect against the monopolistic tendency of data-driven business models in which huge economic value is extracted from ownership of data. Protecting against excessive market concentration can strengthen competition, diversify innovation and ensure competitive prices for consumers.

Democratise data

To boost innovation and open up the economic and social value generated from digital payments data beyond dominant financial service providers, we should create **a data commons,** with aggregated, anonymised financial data managed and accessed through **public data trusts**.

Promote competition in payment markets

Major platforms like Facebook and Amazon should be required to open up their data when they enter personal finance markets. New powers should enable the Competition and Markets Authority to impose conditions on market entry for major platforms, including a requirement to comply with open banking principles and open-source technology. These should include an option to block market entry, including for major technology platforms, where it could lead to consumer detriment, slowing in innovation rates, or excessive market power.

Together with the Competition and Markets Authority (CMA), the Payment Systems Regulator should hold a watching brief on competition in payments markets, developing an adaptable regulatory framework that can protect against excessive market concentration. This should include measures to ensure new entrants into payment markets are bound by the same standards of financial regulation as established payment providers, relating for instance to payment protection.

The Payment Systems Regulator should conduct a market review into digital payments, with a dual focus on the that role regulatory tools can play in promoting competition in the card payment market, and how open banking technologies can promote direct, secure and accessible payments to UK consumers and businesses.

Protect against automated bias

Digitalisation risks entrenching existing inequalities where automated financial decision-making replicates human biases on an unprecedented scale. We should take action to **protect against data-driven discrimination** in financial services where discriminatory outcomes are identified. This should include regulatory powers for the Centre for Data Ethics and Innovation to inspect audit trails in order to assess how anti-discrimination measures have been built in from design stage.

There is a path through to a digital economy that delivers not just greater prosperity, but also greater economic justice: where more people can access better payments and banking services, where the power of payments data is harnessed for public good, and where tax revenues are increased and employment protections strengthened for the most precarious workers. How we reimagine the world of personal finance, and for whose benefit, will shape the digital economy of the future. Action is needed now to ensure that future is hardwired for economic justice.

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