The growing dependence on cashless transactions in the modern day is striking. The UK economy reached a critical point in 2017 when the number of transactions via cash and debit cards intersected, officially announcing the dominance of cashless payment methods. This is according to data from the association for the banking and finance industry, UK Finance. Further evidence for the declining use of cash is provided by consumer interactions with ATMs. According to the UK Payments Systems Regulator, the growth rate of Free-to-Use (FtU) cash withdrawals in the UK has been slowing over the past decade, reaching a turning point in 2013 at approximately 2.8 billion cash withdrawals during the year. Additionally, the number of FtU ATMs, which can be used as a lagged indicator, also peaked shortly afterwards in 2016. This suggests falling FtU withdrawal numbers have been due to alternative payment methods rather than larger withdrawal sizes.

Over the 10 years through 2018-19, the number of card transactions in the UK has increased at a compound annual rate of 10.9% to reach approximately £20.3 billion.

**Effect on consumers**
The advantages of a cashless economy include increased payment efficiency and more transparency and data on spending. This is in addition to the expected benefits in tackling crime such as physical robberies and money laundering. However, many people still rely on cash in their day to day life. This is especially true of those in rural areas, the elderly and of tradesmen and women. According to data from the Financial Conduct Authority, in 2018 approximately 1.3 million UK adults had no bank account, and therefore have no payment options other than cash. Furthermore, the FCA suggested that 4.1 million UK adults are in some form of financial difficulty. This places limits on those individuals to access forms of credit and therefore to make digital payments.

The 2018 UK Payments Markets Summary from UK Finance suggests that of the 34.6 billion consumer payments made in 2017, 29.5 billion were spontaneous purchases. This equates to approximately 85% of total payments and shows the importance of impulse spending in the UK. Evidence from the New York University Stern School of Business suggests that lower denomination bank notes increase consumer willingness to spend. This is known as the denomination effect. Cashless forms of payment can also encourage increased consumption which, although it may be good for economic activity, can exacerbate consumer debt levels.

**Effect on businesses**
Businesses in the UK have had to react to changing payment methods. Businesses are generally charged for card payment terminal rentals, Payment Card Industry data security standard compliance and fees per transaction for debit and credit card purchases. Initially passing these costs on to consumers, changes to legislation that came into force in January 2018 made it illegal to levy extra charges on consumers who pay with cards. This is derived from the European Directive 2015/2366 on payment services.

Certain businesses in the UK are more exposed to changes in payment methods and the shift to a cashless economy, with this shift particularly affecting small and medium-size enterprises (SMEs). A 2019 report by the Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA) Action and Research Centre...
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suggests that 2.2 million people in the UK rely almost wholly on cash. Moreover, the report additionally suggests that SMEs rely on physical bank branches for credit, as well as cash. The RSA has linked bank branch closure with reduced SME lending. Should this hold to be true, the move to a cashless economy and closure of bank branches may damage economic growth. Despite this, the growth in business numbers has remained robust over the past five years. This may be because the advent of peer-to-peer lending and crowdfunding, as innovative financing techniques have filled any gaps that arose in the market.

Another industry associated with the trend towards a cashless economy is E-Commerce and Online Auctions in the UK (IBISWorld report G47.910). E-commerce is growing at a rapid pace, partly due to the cost efficiency of selling this way, as well as through consumer preferences of younger people who are more technologically literate. This has made the industry a key driver towards a cashless economy. Over the three years through 2016-17, e-commerce transactions grew at a compound annual rate of 19.8%, while all transactions in the UK economy grew at a compound annual rate of 11.3% over the same period.

Bank and Building Society response and strategy

Building Societies in the UK (IBISWorld report K64.192), which cater to those who rely on cash, have had standard operations effected by the move to a cashless economy. The switch away from coins and paper has, ironically, increased the use of paper by banks. According to the Financial Times, the average HSBC customer bank statement has grown from 2.55 pages to 2.64 pages, as contactless leads to more numerous small payments, rather than steady withdrawals. This also prompted the bank to introduce double-sided bank statements.
Cashing out: The rise of e-payments

The increased transparency and data generation from electronic payments has increased competition between Banks in the UK (IBISWorld report K64.191). Specifically, this spurred the rise of new challenger commercial banks that operate mainly through mobile and online platforms. These banks offer low fees and real-time payment notifications in exchange for customer transaction information. According to an independent study undertaken by Censuswide on behalf of Crealogix in 2018, approximately one-quarter of people under the age of 27 make use of some form of digital challenger bank. The most notable examples of these include Monzo, N26, Starling and Revolut.

Nationwide Building Society has made public assurances that it would retain branches in every town and city that currently has a branch for at least the two years running through May 2021. This is against the trend of major banks, including RBS, Barclays, HSBC, Lloyds and Santander closing high street branches in the past few years. According to independent consumer body Which?, more than 3,300 banks and building society branches closed between 2015 and 2019. Nationwide, being a building society, gets approximately 65% of its funding from customer deposits rather than money markets and is the largest building society in the UK by a large margin. Nationwide therefore has a vested interest in preserving branches to maintain market share and maximising funding through deposits.

Conclusion

In countries where the move to a cashless economy is already in more advanced stages, such as Sweden where only 15% of transactions are made using cash, evidence suggests that cash infrastructure can be difficult to

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**Monthly value of e-commerce**

![Graph showing monthly value of e-commerce from Jan 2014 to Apr 2017](source: The UK Cards Association)
Cashing out: The rise of e-payments

rebuild once gone. It would therefore be prudent to plan ahead. This has already been partially done through the introduction of the Payments System Regulator in 2015, which plays a key role in monitoring payments across the economy.

However, provision for some alternative payment system that is more easily accessible or guarantees of the continued existence of physical cash would go a long way in ensuring the preparedness of the UK. Initiatives to further boost social wellbeing through faster and cheaper internet access, especially in rural areas, as well as training or support for those that are more vulnerable, such as the elderly, would be similarly beneficial.

IBISWorld Industry reports used in this special report:
G47.910 E-Commerce and Online Auctions in the UK
K64.191 Banks in the UK
K64.192 Building Societies in the UK
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