



HM Treasury

Protecting UK wholesale cash infrastructure: Policy statement

April 2022



HM Treasury

Protecting UK wholesale cash infrastructure: Policy statement



© Crown copyright 2021

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at: www.gov.uk/official-documents.

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gov.uk

ISBN 978-1-911686-90-3 PU 3214

Contents

Chapter 1	Protecting UK wholesale cash infrastructure	5
Chapter 2	What is the government doing	8
Chapter 3	Next steps	11

Chapter 1

Protecting UK wholesale cash infrastructure

Background

- 1.1 Since 2017, the majority of payments in the UK have been cashless, reflecting a wider move toward digitalisation of the UK economy. Transactional cash usage in the UK fell from 56% of all payments in 2010 to 17% in 2020¹. Innovation in digital payments brings many opportunities, such as the potential to make payments faster and cheaper. Nonetheless, cash remains an essential form of payment for many, particularly elderly and vulnerable groups.
- 1.2 Respondents to the government's 2018 Call for Evidence *Cash and Digital Payments in the New Economy*² highlighted that, while they were keen for the government to continue supporting digital payments, they also stressed the importance of cash in many people's daily lives. Responses highlighted the importance of cash as a symbol of independence, as well as an important budgeting tool, and as a way that the elderly and vulnerable groups can access social opportunities.
- 1.3 In recognition of these trends, the government committed in Budget 2020 to bring forward legislation to protect access to cash and ensure that the UK's cash infrastructure is sustainable in the long-term.
- 1.4 In 2021, the government held the Access to Cash Consultation³ on proposals for new laws to make sure people only need to travel a reasonable distance to pay in or take out cash. The government's proposals will support the continued use of cash in people's daily lives and help to enable local businesses to continue accepting cash by ensuring they can access deposit facilities. The government has carefully considered responses to the consultation and will set out next steps in due course.
- 1.5 To support continued access to cash, we also need a sustainable and resilient wholesale cash system. This is the UK's infrastructure, including a system of cash centres, that is integral to the sorting, storing and distribution of coins and notes. There are multiple core wholesale cash networks operating across the UK. *See figure 1 and box 1 for background on how the wholesale industry works.*
- 1.6 These networks all have significant infrastructure and, as such, a high fixed cost base. As we have seen the transactional use of cash decline, this has put pressure on the business models for these networks. This has been confirmed by

¹ UK Finance UK Payment Markets Summary 2021:

<https://www.ukfinance.org.uk/sites/default/files/uploads/SUMMARY-UK-Payment-Markets-2021-FINAL.pdf>

² Cash and digital payments in the new economy: <https://www.gov.uk/government/consultations/cash-and-digital-payments-in-the-new-economy>

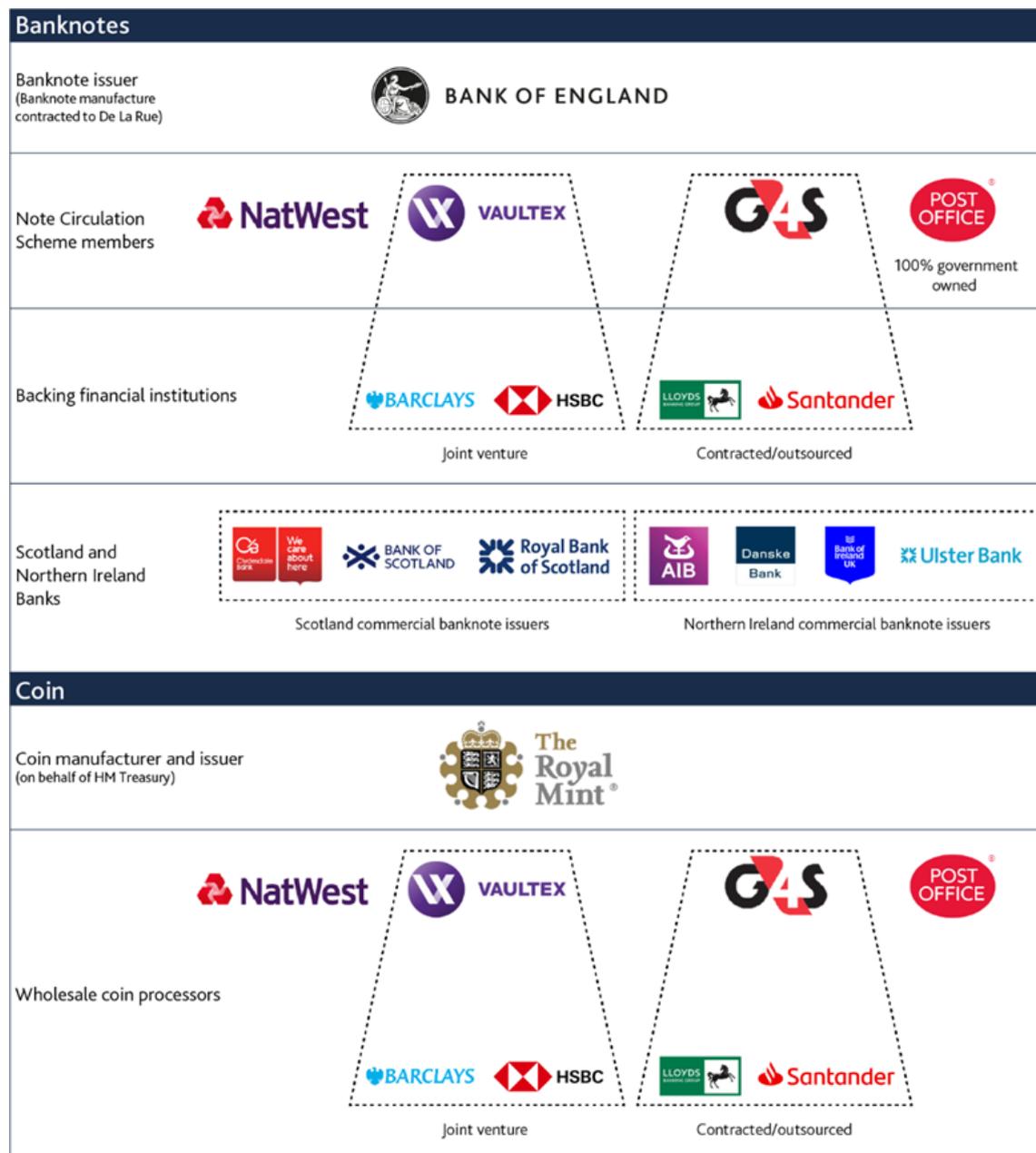
³ Access to Cash Consultation: <https://www.gov.uk/government/consultations/access-to-cash-consultation>

independent analysis commissioned by the industry⁴. Over time, the industry is expected to transition to a smaller overall network so it can continue to operate sustainably.

- 1.7 It was within this context that the Bank brought together the wholesale cash industry in May 2019 under the Wholesale Distribution Steering Group (WDSG). WDSG worked to design an effective, efficient, sustainable, and resilient new model for wholesale distribution of cash in the UK, including investigating the option of moving to a single 'utility' structure. Ultimately, industry did not reach consensus to move to a utility model. However, WDSG members have agreed on the challenges and risks to the industry and made industry-wide commitments to ensure its continued effectiveness and resilience, and to enable the wholesale cash infrastructure to continue to support the effective provision of cash.
- 1.8 The government expects the industry will still transition to a smaller overall network in the coming years. However, this will be without an agreed transition plan or an agreed end-state model. This transition could be through rationalisation of the existing networks, or consolidation of the number of networks and operators. If this restructuring happens in a disorderly way it could pose a potentially significant risk to the wholesale cash infrastructure's effectiveness and sustainability, and consequently its ability to supply cash as and when required to the retail network across the UK. These risks need to be managed and it is government's view that it is not possible to do that through voluntary arrangements alone.

⁴ Bank of England Consultation on the Future of the UK's Wholesale Cash Distribution Model: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/consultation-on-the-future-of-the-uks-wholesale-cash-distribution-model.pdf>

Figure 1: Wholesale cash system key participants⁵



⁶AIB Group (UK) plc ceased issuance on 30 June 2020, First Trust Bank banknotes will remain legal currency until midnight on 30 June 2022 and can be used as normal until then.

⁵ Bank of England December 2021 update on the future of wholesale cash distribution in the UK: <https://www.bankofengland.co.uk/paper/2021/update-on-the-future-of-wholesale-cash-distribution-in-the-uk#chapter-3>

⁶ Bank of England June 2021 – update on Scottish and Northern Ireland banknotes: <https://www.bankofengland.co.uk/banknotes/scottish-and-northern-ireland-banknotes>

Box 1: How the UK wholesale cash system works

1. **Production** – the cash lifecycle begins with banknote and coin production. De La Rue, a commercial banknote printer, is contracted to print Bank of England banknotes, which are then issued by the Bank. Commercial banks in Scotland and Northern Ireland (S&NI) are authorised to issue S&NI banknotes, which are also produced by a commercial printer. The Royal Mint (Mint) is responsible for the production and issuance of coins on behalf of HM Treasury (HMT).
2. **Issuance** – the wholesale cash industry purchases banknotes from the Bank and coins from the Mint at face value. The industry are members of the Bank's Notes Circulation Scheme (NCS), which governs the custody and circulation of Bank of England banknotes, operating through legal agreements and rules. While the NCS does not govern coin or S&NI banknotes, the NCS members and their financial backing institutions are also the key industry participants for wholesale cash operations over coin and S&NI banknotes.
3. **Transport** – wholesale Cash in Transit (CiT) providers move cash from where it has been printed or minted to cash centres for distribution. Wholesale CiT providers can also transport banknotes and coin between cash centres depending on regional supply and demand.
4. **Storage and dispense** – cash centres receive, store and prepare cash for circulation to the public.
5. **Processing** – cash that has been spent at retailers or deposited at financial institutions is typically returned to cash centres for processing. This involves counting, checking that it is genuine and fit for circulation and re-packaging for redistribution. Cash that is no longer fit to be recirculated is returned to the issuing authorities to be destroyed.
6. **Destruction** – the Bank and the Mint are responsible for disposing of cash that is no longer fit for purpose.

The wholesale cash supply industry comprises a number of different ownership and operating models. Some participants utilise an integrated model where they themselves own and operate their cash centres, whereas others have chosen to outsource cash processing. *See figure 1 above for an overview of the key stakeholders involved in the wholesale cash network.*

Chapter 2

What is the government doing?

- 1.9 Given the risks to the system, the government aims to ensure the wholesale cash distribution system remains resilient and sustainable and can continue to effectively support access to cash into the future. Cash remains a critical payment method that the public rely on in the event of wider disruption to the financial system. Any associated risks to wider financial stability need to be managed.
- 1.10 The government intends to provide the Bank of England with the powers to oversee the wholesale cash industry to achieve these objectives. We are creating an oversight regime, which has two core parts:
- a. **Giving the Bank oversight over, and the ability to regulate, the market activities of the wholesale cash industry to ensure the effectiveness, sustainability, and resilience of the system.** Many industry participants are already working closely with, and providing information to, the Bank on these areas. This regime is an extension of the existing practices and codifies this.
 - b. **Giving the Bank the ability to prudentially regulate a systemic entity in the market, should one form in the future, to manage risks to financial stability and maintain confidence in the UK financial system.**
- 1.11 The powers that the government intends to provide to the Bank are similar to existing regulatory regimes, such as the oversight of financial market infrastructures including systemic payment systems, tailored for the specific requirements of this market.

Who is in scope?

- 1.12 HM Treasury, after consultation with the Bank and the industry, would designate entities as within scope of either or both parts of the regime.
- a. For the market oversight regime, all entities which provide wholesale cash activities or provide financial support in relation to these activities, could be brought under the regime. HM Treasury will also have the power to designate a critical service provider to the industry under the regime, if required.
 - b. For the prudential regime, this would apply only where an entity was deemed to be systemic, in that their failure or disruption would threaten financial stability, and they are not already subject to sufficient alternative prudential regulation. Given the nature of governance and financial support for wholly owned state entities these would not be in scope of the prudential regime.

- 1.13 The government and the Bank do not currently assess that any current market participants meet the threshold to be designated under the prudential regime. It will consider on a case-by-case basis whether any future changes to the market or new participants entering the market might create such an entity. The market share of an entity would be an important factor but not necessarily the deciding factor. The structure of the entity and its interaction with the wider market would also be considered when making this assessment.
- 1.14 This regime does not seek to stop commercial solutions to the challenges faced by the network. The government has designed the regime so that it can accommodate such commercial solutions, as these emerge over time, whilst protecting the effectiveness, resilience, and sustainability of the wholesale cash distribution. The regime enables the Bank to avoid disorderly transitions and ensure that the infrastructure is sustainable in the absence of an agreed end-state model for the industry. This regime does not seek to bind firms into the wholesale market, but to enable the Bank to ensure that a participant's exit could be managed in an orderly way and does not jeopardise the stability of the wider wholesale cash infrastructure.

Detail of the regime

Market oversight	
Powers exercised to manage risks to the effectiveness, resilience, and sustainability of the wholesale cash network. The Bank's powers must only be exercised in pursuit of this objective.	
The Bank will publish a statement on its regulatory approach before exercising these powers, which sets out how it intends to use its powers. The Bank will consult with industry on the development of its regulatory approach and this statement.	
Setting objectives	
Power to set principles	Bank will have the power to issue high-level principles that designated entities must have regard to. The industry will be consulted on these principles, and HMT will approve them.
Power to set codes of practice	Bank will have the power to publish codes of practice for the operations of designated entities. These would relate to areas including operational resilience and business plans, and the Bank could create codes for contractual relationships. Industry will be consulted on the development of these codes.
Requiring information	
Information notices	Bank will have the power to require, by notice, the provision of information. This is important to enable the Bank to form an aggregate picture of the industry and identify risks. Designated entities would be required

	to inform Bank if there are any material changes to an entity that could impact on this regime's purpose.
Information sharing	The Bank will be enabled to share relevant information gathered through the regime with other UK authorities as appropriate.
Powers to direct industry	
Power of direction	Bank will have the power to give directions to designated entities requiring, or prohibiting, specific actions, or to set standards that the entity must meet. For example, the Bank may direct entities to put in place mitigants to facilitate orderly rationalisation by arranging the closures of cash centres in a way that will allow the wider wholesale cash distribution network to adjust.
Fees	Bank will have the power to require designated entities to pay fees to cover its costs for operating the regime. These must relate to a scale of fees approved by HMT and Parliament. Industry will be consulted on the development of this fee scale.
Prudential regulation	
Powers to manage risks to financial stability of the UK. The Bank would exercise the same powers used in the market oversight regime, but here towards the objective of managing risks to financial stability, and to maintain confidence in the UK financial system. The Bank would also exercise the below, additional power in the prudential regime.	
Powers to direct industry	
Special Administrative Regime (SAR)	In the event of a designated systemic entity becoming insolvent, the Bank would operate a SAR to ensure the continuation of wholesale cash activities. The Bank would have power to apply to court for an administrator to be appointed and to direct the administrator for the entity.
Enforcement	
The Bank will have the power to impose appropriate penalties and other enforcement action to ensure compliance with both the market oversight and prudential regulation elements of the regime.	

Chapter 3

Next steps

- 1.15 The government has engaged with the industry and wider stakeholders on the regime in recent months, including a roundtable with key market participants hosted by the Economic Secretary to the Treasury on 15 March. This has provided helpful feedback on our proposals and confirmed that stakeholders are broadly supportive of the overarching approach. We welcome the continuation of this constructive dialogue, as the Bank's regulatory approach is further developed.
- 1.16 The government intends to legislate for this regime when Parliamentary time allows.

HM Treasury contacts

This document can be downloaded from www.gov.uk

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gov.uk