



Convenience Report - the way we pay PT. 2



**co
op**
It's what we do

Foreword

Matt Hood, Co-Managing Director at Co-op Food

Co-op has been championing access to cash in the communities it serves for many years, from working with our valued partners to keep cash freely available to supporting national campaigns that protect cash payments in retail.

As a community retailer, we understand the importance of people having the option to pay for their shopping with cash and, additionally, how important it is to have easy access to their cash. With more than 2,500 stores across the UK - from locations in the remote highlands of Scotland to Baker Street tube station in London - we're uniquely placed to serve the needs of communities and we believe that Co-op has a vital role to play in supporting access to cash today and into the future.

We welcomed the news of the Financial Services and Markets Bill, announced in May 2022, and are hopeful that it will come into force from next year to combat the negative impact of high-street bank closures and the steep decline in free-to-use ATMs in our communities. The Bill will ensure people can continue to conveniently withdraw and deposit cash, and the cash provision will be regulated by the Financial Conduct Authority (FCA).

As the cost-of-living crisis impacts communities across the UK, the need for easy access to cash has never been more crucial. As research in our latest report suggests, it is disadvantaging groups that rely on cash the most. However, data suggests that the cash-dependant demographic is set to grow over the next year, with many people switching to cash to help budget and control their spending.

The clear north-south divide in cash use highlights inequality issues that are still apparent in society today, despite the Government's levelling-up agenda. By introducing our new access-to-cash charter and making these commitments, we can continue to protect and provide easy access to cash, particularly in those communities that rely on it most.

Co-op's access to cash charter

As part of Co-op's social inclusion campaign, the ethical retailer has unveiled a three-point charter which commits to safeguard easy access to cash, which is under threat from high-street bank closures and to protect the disadvantaged who rely on cash. It will:



Protect the use of cash in stores where customers are dependent on the payment method, to avoid disadvantaging or isolating communities by countering the growing threat of 'cash deserts.'



Offer cash machines which are free to use and retain free-to-use cash-back facilities at stores without ATMs.



Support community access to cash through banking services provided through its post office counter network and OneBanks in-store service.

The Way We Pay...Six Years On

Co-op's first report into the nation's payment behaviours was published six years ago and uncovered how cash was still king when it came to preferred payment methods in a convenience setting. In fact, in 2016, research showed that 65% of shoppers wouldn't use their mobile phones to pay, due to concerns around security and lack of understanding on that method's efficiency over card payments. Spending insight revealed that 65% of all transactions at Co-op were paid in cash and that chip and pin was the preferred card payment method. The average basket spend at Co-op in 2016 was £8.20, with the average contactless basket at £8.66 (with a £30 limit), £18.16 for chip and pin and £6.33 for cash.

Fast forward to 2022 and the landscape has changed dramatically, with cash making up only 28% of total transactions (a decrease of 57% from 2016) and contactless (card and mobile wallets) at a record level of 60% (the remaining 13% is completed with chip and pin). Average basket spend at Co-op today is £10.25 (a 21% increase from 2016), with the average contactless

basket at £9.77 (a 19% increase from 2016), chip and pin at £19.03 (a 23% increase) and cash at £7.86.

As the chart below shows, cash was the most popular method of payment between 2013 and 2020, with a step change in contactless habits from 2020 to the present day. There are several reasons for this behaviour change:

- Increased consumer confidence in contactless payments
- The pandemic and resulting hygiene issues linked to cash
- Aggressive banks and card schemes marketing contactless payments
- Mobile wallets

Payment method trends



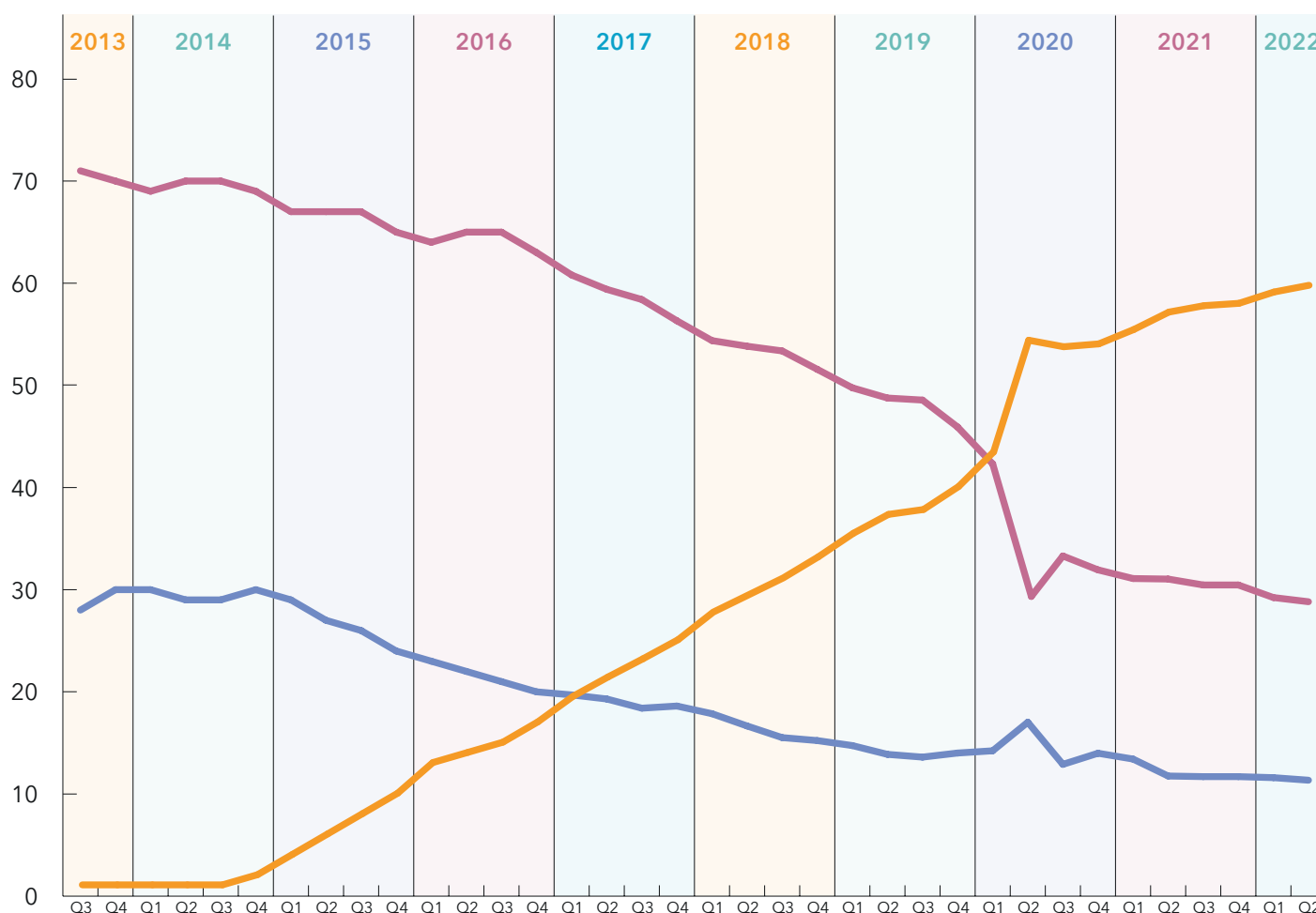
Average
Cash



Average
Card



Average
Contactless



Pandemic

Cash use was one of the earliest behavioural shifts of the coronavirus pandemic, with physical transactions moving online when most retailers were forced to shut their doors, and the essential services that remained open largely banned cash in favour of contactless payments. With so much uncertainty about how the virus was transmitted, there were serious concerns that handing over coins and notes might spread Covid-19.

As the pandemic evolved, so did the way in which consumers made financial transactions. At the beginning of the pandemic in March 2020, there was an initial spike in chip-and-pin payments as attempts to panic buy groceries and other essentials were thwarted by the contactless payment limit of £30.

However, this trend didn't last for long, with the introduction of £45 contactless payments in April/ May 2020 encouraging more people to opt for a quick tap of their card. Many have continued to work from home and shop online - with some now even leaving their cash at home altogether. There are now concerns that technology such as digital platforms, banking apps, mobile wallets, and contactless payment options has encouraged people to stop using cash entirely.

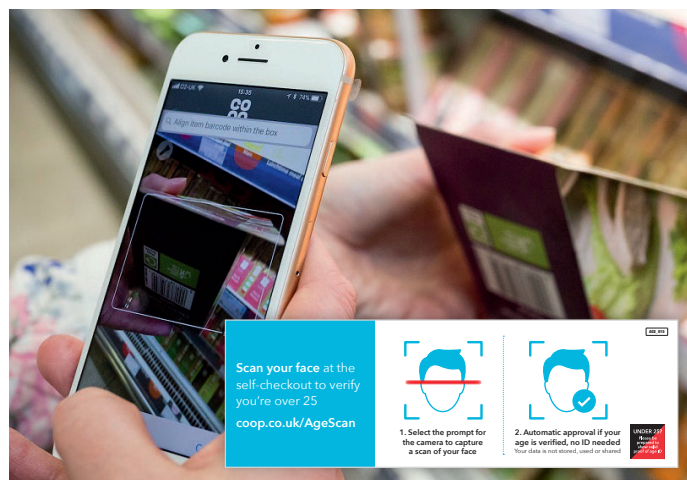
As customer demand has increased, the use of chip and pin has continued to slowly reduce, following the increase in contactless payment limits. As basket spend has continued to increase with transaction value, more people are now firmly opting for the contactless method. Post-pandemic, it is likely that chip-and-pin payments will be reserved only for large one-off transactions.

When it comes to cash, there was a small bounce back after the first lockdown. It has, however, reduced again to the lowest levels ever seen - 28% of all transactions. While we can be certain that the pandemic has influenced the way we pay, it's yet unclear how dramatically it's impacted our payment habits.

Co-op has an incredibly varied customer base in the communities it serves. We take the approach of offering choice to our members and customers when it comes to ways to pay, and currently have 14,000 tills that cover colleague-operated kiosks (7,300), belts (1,300) and self-checkouts (5,400). As a convenience retailer, we operate stores in a multitude of locations, from the highlands of Scotland to tube stations in the centre of the capital, all with their own specific needs. For instance, our city-centre stores over-index for self-serve tills that helps speed up transactions for shoppers in a hurry, while our more traditional stores have a focus on kiosks with a reduced self-service offering.



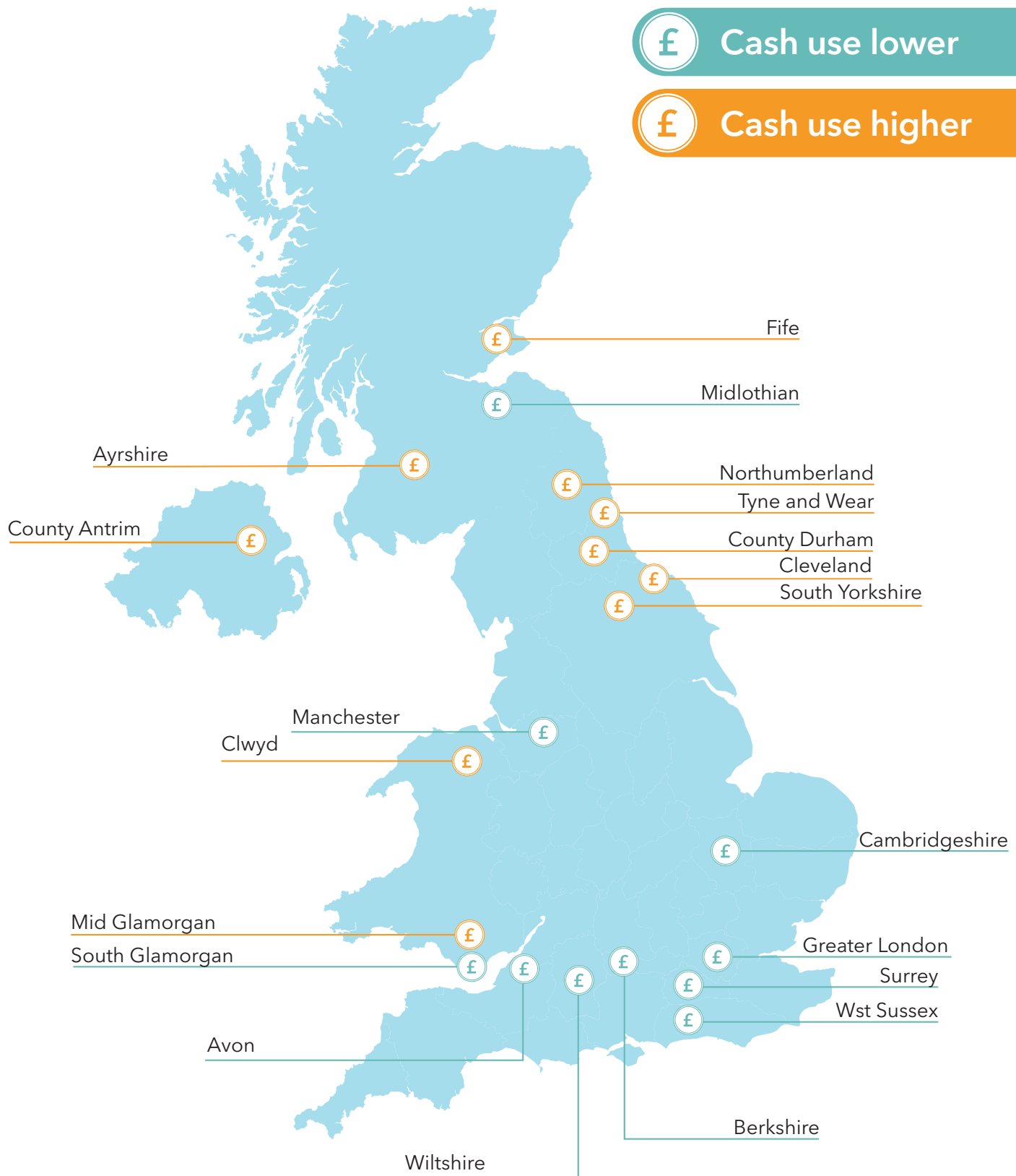
Over the past five years, Co-op has trialled several innovations to offer the ultimate in convenience to its customers when paying in stores, from a pay-aisle phone app to the more recent age-identification technology to reduce customers' time when using the self-service tills.



The changes over the past decade in consumer behaviour have had a significant impact on how we design our stores and we've continued to evolve the in-store customer experience for the modern shopper. Co-op is the fastest growing retailer in terms of card-only checkouts, with 1100% growth over seven years. Faster card transactions have resulted in Co-op needing to install fewer service points, and the increased use of card and digital payments has resulted in less reliance on space-hungry self-checkouts that accept cash. This additional space has allowed Co-op to design stores that allow for more ranges, improving the overall customer shopping experience. However, despite all these technological advances, and, more importantly, as a community retailer, Co-op will always adapt store design for communities that are reliant on cash.

Cash Hotspots

As the infographic shows, there's a noticeable north-south divide when it comes to communities that are more reliant on cash payments. County Antrim, in Northern Ireland, is the number one region for cash payments in the UK. However, cash-reliant counties in England make up 50% of the top ten list, with an over-index in the North-east. Two Welsh counties in the north and south of the region, with more than 180 miles distance between, are featured in the top 10 also. In terms of the areas least dependent on cash, English counties made up 80% of the list - with 50% of those in the South-east and 25% in the South-west. The only northern English county to appear in this table was Greater Manchester.



Top 10 counties for cash usage



| | | |
|----|---------------------------------------|-----|
| 1 | County Antrim (NI) | 44% |
| 2 | Tyne and Wear (England - NE) | 42% |
| 3 | Northumberland (England - NE) | 41% |
| 4 | Ayrshire (Scotland) | 41% |
| 5 | Fife (Scotland) | 38% |
| 6 | Clwyd (North Wales) | 38% |
| 7 | County Durham (England - NE) | 38% |
| 8 | Cleveland (England - NE) | 37% |
| 9 | South Yorkshire (England - N Central) | 36% |
| 10 | Mid Glamorgan (South Wales) | 36% |

Top 10 counties where cash usage is lowest



| | | |
|----|-----------------------------------|-----|
| 1 | Greater London (England - SE) | 21% |
| 2 | Berkshire (England - SE) | 22% |
| 3 | Cambridgeshire (England - E) | 23% |
| 4 | Avon (England - SW) | 24% |
| 5 | West Sussex (England - SE) | 25% |
| 6 | Surrey (England - SE) | 25% |
| 7 | Midlothian (Scotland) | 25% |
| 8 | Greater Manchester (England - NW) | 25% |
| 9 | Wiltshire (England - SW) | 26% |
| 10 | South Glamorgan (Wales) | 26% |

Despite the north-south divide, there are pockets of the south that are also reliant on cash payments, including parts of London. North-east London over-indexes in cash usage compared to the rest of Greater London.

Top 10 areas of London for cash usage

Where cash is used the least in London



Access To Cash In The Cost-Of-Living Crisis

The cost-of-living crisis has further exacerbated the need for cash in today's society, with households now using more cash to keep track of their spending. With inflation at a 30-year high of 9%, households are being hit by soaring bills, and recent research from consumer body Which?* has revealed that many people who don't regularly use notes and coins could turn to cash in 2022 to help manage finances as budgets are squeezed.

The Which? survey of 4,000 people suggests that more than half (54%) said they regularly use cash alongside other payment methods such as debit and credit cards. Of those, half (52%) - equivalent to 15 million people - said that cash helps them keep track of their spending. Meanwhile, one in five (20%) people who don't regularly use cash said they would start using it if the cost-of-living crisis gets worse. Those most likely to use cash were people in the lowest income households. A third (34%) of respondents whose annual income was lower than £20,000 found cash, on its own or alongside other payment methods, easiest to budget with, compared to a quarter (24%) of people earning between £40,001 and £60,000.

The access to cash review**, published in 2019, stated that, for many people in the UK, using cash is not a matter of choice, but of necessity. The report's data uncovers how cash is crucial to help many people with

their budgeting and states that 47% of the population believe it would be personally problematic if there was no cash in society, with 17% unsure of how they would cope, or would not cope at all. The review suggests that many debt charities advise people to cut up cards and only use cash.

Community Hubs For Access To Cash - In-store Services

The rise in online banking has impacted the number of brick-and-mortar banks across the UK. In fact, according to Which?***, almost half of the UK's bank branches have closed since 2015. During this period, 4,685 bank branches have shut their doors, with a further 226 already scheduled to close by the end of the year. Across 2021 and 2022, Barclays will have closed 325 branches, TSB 225, HSBC 155 and Lloyds 139. Additionally, M&S Bank closed all its in-store branches at the end of summer 2021 when it stopped offering current accounts, while Metro Bank announced three closures in 2022. Additionally, a total of 12,178 free-to-use ATMs have vanished since 2018 and this figure is set to rise.

Since 2015, the banking network in rural constituencies has been cut by half (50.7%). The effects of branch and ATM closures can be particularly severe in rural communities, where residents often have to travel for miles to reach their nearest alternative source of cash and where digital infrastructure can be poor, making it harder to embrace online banking and payments.

UK bank closures where cash use is highest (top five)

| County | Constituency | Branches left | Network lost since 2015 (%) |
|------------------------------|-----------------------------|---------------|-----------------------------|
| County Antrim | South Antrim | 4 | 63.6 |
| | East Antrim | 5 | 28.6 |
| | North Antrim | 9 | 30.8 |
| Tyne and Wear Northumberland | Newcastle upon Tyne East | 2 | 71.4 |
| | Newcastle upon Tyne North | 5 | 16.7 |
| | North Tyneside | 5 | 54.5 |
| | Tynemouth | 7 | 22.2 |
| | Newcastle upon Tyne Central | 14 | 46.2 |
| Ayrshire | Central Ayrshire | 7 | 53.3 |
| | North Ayrshire and Arran | 7 | 69.6 |
| | Ayr, Carrick and Cumnock | 9 | 47.1 |
| Fife | Dunfermline and West Fife | 9 | 30.8 |
| | North East Fife | 11 | 50.0 |
| Clwyd | Clwyd South | 1 | 80.0 |
| | Clwyd West | 6 | 64.7 |
| | Vale of Clwyd | 8 | 55.6 |

The impact of these bank-branch and ATM closures is also devastating to communities that depend on these services to manage their everyday lives and, more importantly, for those that use them as a tool to manage their budgets during the cost-of-living crisis. As a community retailer, with a store in every UK postal area, Co-op's network is well-equipped to support its members and customers with free access to cash through several in-store offerings, from counter service Post Office concessions to over 2,300 free-to-use cash ATMs.

Post Office

There are now 230 Post Offices in Co-op stores across the UK. Post Offices offer an essential service to customers and members, particularly in those communities where cash isn't easily accessible.

Post Office offers personal and business banking services, allowing customers to complete their everyday banking, even when their local branch has closed. It also allows customers to make both payments in and withdraw from their high street bank.

Not only do Post Offices offer communities a safe and secure way of sending money and making payments, without the need for a bank account, they also enable customers to pay bills and receive pensions, benefits and tax credits.

Offering these vital services has led to Post Offices becoming hubs in the communities that need them most. This highlights our commitment to supporting access to cash through banking services.

Across our 230 stores, Post Offices serve an average of 240,000 customers each week, indicating the significance of the Post Office's presence at Co-op.



OneBanks

In 2020, the Co-op partnered with OneBanks, a community banking service which offers banking services to people in communities where there are no longer any bank branches. OneBanks enables people within those communities to access banking services, including depositing and withdrawing notes and coins and managing payments for utilities and other bills - no matter who they bank with.

Currently, the Co-op has OneBanks in three of its stores, with services on offer at Co-op's Denny store in Falkirk, a new kiosk installed at the Co-op convenience store in Kilwinning, in the West of Scotland and an additional kiosk in the Fife town of Lochgelly.

The services have been a welcomed addition to these communities, with people benefiting in communities where it otherwise would be difficult to access this level of support when it comes to cash. The Co-op has plans to roll out OneBanks in more stores, to enhance convenience, community experience and access to cash.



Free-to-use ATMs

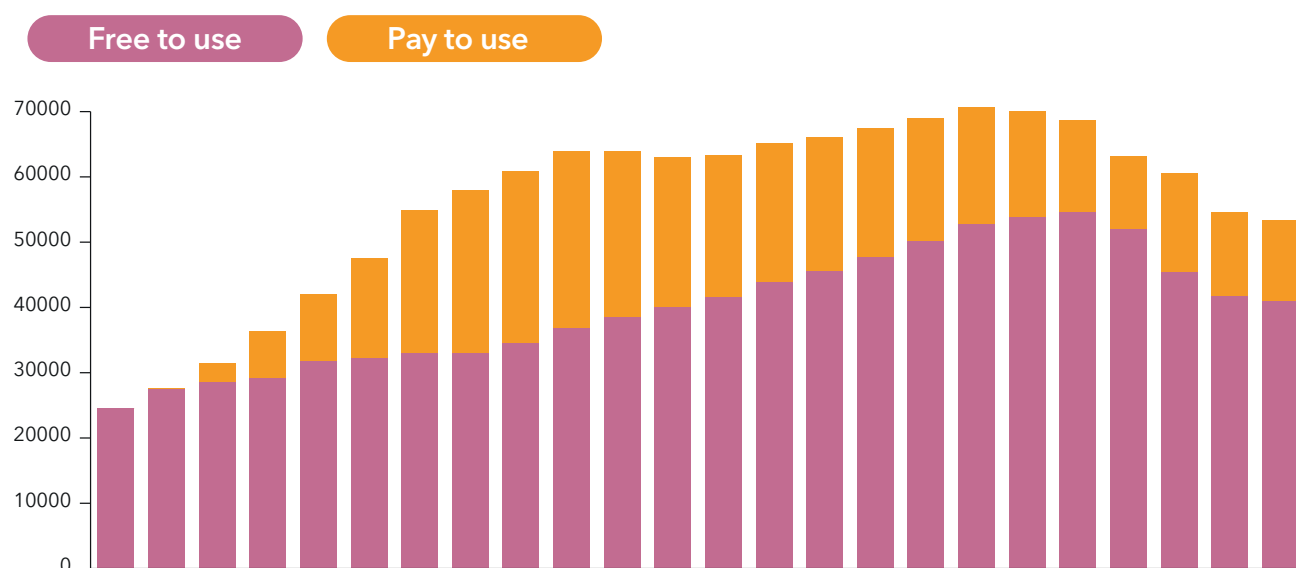
As part of Co-op's commitment to providing better access to cash, there are now over 2,300 free-to-use ATMs in Co-op stores across the UK. In 2014, Co-op announced a long-term agreement with Cardtronics to facilitate this.

The community retailer, in partnership with the ATM operator, has pledged to make arrangements to explore installing an ATM in towns that had recently experienced bank closures, to provide additional access to round-the-clock financial services.

The aim of installing ATMs across stores is to ease community concerns and contribute to the success of the local economy. However, data suggests free ATMs are declining across the UK. Since 2018, the number of free-to-use ATMs has dropped by more than 12,000 - a reduction of almost a quarter. As part of its charter, Co-op will continue to offer cash machines which are free to use and retain free cashback facilities at stores.



- Since 2018, the number of free-to-use ATMs has dropped by more than 12,000 - a reduction of almost a quarter.



| ATM Numbers - year end | | | | | | | | | | | | |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Year | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Free to use | 24,574 | 27,500 | 28,500 | 29,254 | 21,742 | 32,238 | 33,041 | 33,085 | 34,545 | 36,918 | 38,565 | 39,991 |
| Pay to use | 0 | 150 | 2,970 | 7,056 | 10,318 | 15,279 | 21,854 | 24,823 | 26,309 | 27,062 | 25,335 | 23,111 |
| Total | 24,574 | 27,650 | 31,470 | 36,310 | 42,060 | 47,517 | 54,895 | 57,908 | 60,854 | 63,980 | 63,900 | 63,102 |
| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Free to use | 41,581 | 43,889 | 45,634 | 47,715 | 50,154 | 52,763 | 53,923 | 54,599 | 52,040 | 45,255 | 41,727 | 40,942 |
| Pay to use | 21,687 | 21,179 | 20,395 | 19,782 | 18,844 | 17,835 | 16,097 | 14,011 | 11,120 | 15,307 | 12,847 | 12,456 |
| Total | 63,268 | 65,068 | 66,029 | 67,497 | 68,998 | 70,588 | 70,020 | 68,610 | 63,160 | 60,662 | 54,574 | 53,398 |



The Future Of Cash

It's clear from the data, plus the noticeable behavioural shifts in the way we pay, that the future for cash is uncertain. What we can be sure of is that the gap between cash and contactless payments will continue to grow, albeit at a slower rate compared to the past six years. Change in consumer behaviour will continue to take the lead with the reduction of cash usage. However, the fact that many smaller retailers, independent businesses and public transport enterprises will only take contactless payments will further eradicate cash as a preferred payment method. One of the main factors for businesses making this switch to contactless payment only is that the cost of handling cash is becoming disproportionately large, so more organisations will be making the decision not to accept cash in the future.

By 2030, within Co-ops, we are predicting that contactless payments will jump 15% from today's level to a rate of 75%, with cash dipping to 20%. However, as a community retailer, we will ensure the regions that are reliant on cash payments and those that depend on access to cash are safeguarded for the future. When it comes to the way in which people choose to pay, we will always lead with consumer choice.

Endorsements



Katie Secretan, Strategic Partnerships Director, Post Office

"We're proud to have had such a successful partnership with Co-op for so many years. Their stores, with our services, are rooted in the local communities they serve. For many people, physically having cash in their pockets is a lifeline and they use it to budget every day. Around 1.4 million people don't have a bank account and eight million adults have said they would struggle without cash.

"Furthermore, our partnership with Co-op means people can pay their bills or top up their electricity and gas metres whilst doing their shop at the same time. We look forward to continuing to work with Co-op and are proud that they run well over 200 Post Offices on our behalf."



Duncan Cockburn, Founder & CEO, OneBanks

"Since inception, Co-op has been a core partner to OneBanks Hub and has enabled the fintech start-up to pioneer a new concept in retail banking. OneBanks has developed a modern and innovative technology platform which enables customers of all banks to do their everyday banking in a single location, with members of the OneBanks team on hand for support if required.

Working with Co-op has allowed us to roll out the solution into the heart of communities, in a trusted location where SMEs and individuals already visit on a regular basis. As a result of the increasing number of bank branch closures over the past decade, many communities have lost their access to convenient banking services with people at risk of being left behind. OneBanks' mission is to create a sense of community by having opportunities for everyday human interaction and, together with Co-op, we have successfully piloted three locations and are now set to roll out the future of branch banking nationwide."

Co-op Press Office, contact:

Bryan Bell
Co-op Press Office
M: 07714061961
E: bryan.bell@coop.co.uk

Elliot Lancaster
Co-op Press Office
M: 07808609944
E: elliott.lancaster@coop.co.uk

Or, email: pressoffice@coop.co.uk

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It's what we do