

Payment Systems Regulator

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15 January 2018

The Rt Hon. Nicky Morgan MP
Chair of the Treasury Committee
House of Commons Committee Office
14 Tothill Street
London
SW1H 9NB

Dear Ms Morgan,

I am writing to you following your letter of 18 December, which set out your concerns for the future of the UK's free-to-use ATM network and your expectation of the PSR's role in ensuring that the interests of service users are not compromised by any changes to the LINK interchange rate.

In our letter to you of 30 November, I explained that our primary focus is to make sure that ATMs in the UK serve the needs of UK consumers. We appreciate that consumers value the ability to access cash through a widely spread geographic network of primarily free-to-use ATMs.

We have made it clear to LINK, the retail banks and the independent deployers of ATMs that we want to see that provision continue to be provided effectively and efficiently, meeting the evolving needs of consumers. We have also been clear with them that we are monitoring the situation closely and will intervene if our objectives are threatened.

We wrote to LINK in December to ask for more information on its interchange proposal, including on the potential impacts of its proposals on the provision and the geographical spread of free-to-use ATMs. We have also asked LINK to tell us how it intends to monitor and formally review the impacts of its final decision post implementation.

As you will be aware, LINK's consultation on interchange has now closed. In advance of making a decision later this month, LINK announced that regardless of any wider changes to interchange, it will protect the interchange for any free-to-use ATM that is currently one kilometre or more away from the next nearest free-to-use ATM. This is a welcome development as it provides a level of protection for ATM coverage and is consistent with the one kilometre distance guideline that has been used since the 2006 TSC review of ATMs. Nevertheless, we have asked LINK to do further work to provide assurance that consumers' needs will be met.

We continue to engage actively with LINK in the lead up to its decision and will update you at the upcoming TSC session. As previously stated, if we consider that any decision LINK makes is not in the interests of ATM service users, we will intervene.

Reflecting on the ATM sector more broadly, it has been and continues to be subject to significant change as a result of consumers choosing to make payments in different ways. This has led to some consumers using cash less to make payments while others continue to rely on it. To help understand how these changes may affect consumers, and to consider appropriate policy responses, we have been undertaking a programme of work to provide us with insights into the ATM sector.

As part of that programme of work, we commissioned two independent studies. Both are exploratory and forward looking in nature and so they provide useful insights rather than precise answers.

The first study, carried out by Europe Economics, considers the potential impact that any reduction in demand for ATM withdrawals and/or the interchange fee might have on the provision of free-to-use ATMs. The study highlights the difficulties in assessing the precise impact of any change in demand or interchange fees given the complex and dynamic nature of the market. However, it does provide useful insights into the broad magnitude of ATMs that could be affected and the extent to which the overall breadth of coverage might be at risk. The report also suggests that geographically remote ATMs may be more heavily affected than urban ones, making LINK's commitment to preserve the existing interchange fee for these machines important.

The study uses the most granular level of cost data available and therefore includes a high level of commercially sensitive information. While the full report is not disclosable, we will shortly publish a non-confidential summary on our website.

The second study explores the prospects for, and potential impacts of, competition between ATM schemes. At present, there is competition both in the provision of ATMs and in the retail banking market. However, competition between schemes is currently limited with most banks and ATM providers using the LINK scheme. The study concludes that, while greater competition between schemes is possible, there are a range of pros and cons associated with it. We are clear that whatever approach to scheme competition is taken, the market must be focused on delivering for the consumer. We are neutral on the prospects for greater scheme-based competition but would want to avoid seeing additional barriers created to competition emerging.

Again, we will shortly publish a summary of the study on our website.

We remain focused on ensuring that consumer needs are protected and I will update you on any further progress at our upcoming hearing. In the meantime, I hope you find this letter and the attached summary useful. Both this letter and the enclosed summary will also be published on our website.

Should you want any further information, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in cursive script that reads "Hannah Nixon". The signature is written in black ink and is positioned above the printed name and title.

Hannah Nixon
Managing Director
Payment Systems Regulator

