

Annual review of Specific Direction 8

Stakeholder submissions to Call for Views

March 2020

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Names of individuals and information that may indirectly identify individuals have been redacted.

Association of Convenience Stores

1st November 2019

[REDACTED]
Regulatory Policy & Strategy
Payment Systems Regulator
12 Endeavor Square
London
E20 1JN

Dear [REDACTED]

ACS Submission: Review of Specific Direction 8

ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the Payment Systems Regulator review into Specific Direction 8 on LINK. ACS represents over 33,500 local shops and petrol forecourt sites including Co-op, BP, McColls and thousands of independent retailers, many of which trade under brands such as Spar, Budgens and Nisa.

Convenience retailers continue to invest in payment services and increasingly offer contactless (in 88% of stores) and mobile payments (80%)¹. Convenience stores are also a valuable source of cash access; 46% host a free-to-use ATM and 21% a Post Office branch². We do not support one payment method over another; but believe access to payment methods and related infrastructure should reflect consumer demands. Cash, used in 76% of convenience store transactions, will remain important to consumers in the long-term and requires a truly national ATM network to provide widespread access³.

LINK's most recent ATM Footprint Report shows that 225 areas no longer have a transacting protected ATM, equivalent to 8% of the protected network⁴. 92 of these areas will not gain a replacement protected ATM due to access to cash at a local Post Office branch⁵. Barclays' decision, albeit now reversed, to withdraw from the Banking Framework allowing its customers to withdraw cash from the Post Office has highlighted the fragility of the access to cash network.

Specific Direction 8 requires LINK to assess when a Post Office can be deemed an adequate substitute for a lost ATM. LINK's current policy simply requires a branch to be open for five days or more per week. We believe the Regulator should actively consider requiring LINK to change its policy so that Post Offices are only adequate substitutes if a comprehensive Banking Framework remains in place. This amendment would provide long-term certainty that Post Offices only replace ATMs when a thorough withdrawal service is available. Cashback is also an unsuitable alternative to ATMs due to consumers usually

¹ ACS Local Shop Report 2019

² ACS Local Shop Report 2019

³ ACS Local Shop Report 2018

⁴ LINK. [LINK Scheme ATM Footprint Report](#) September 2019

⁵ LINK. [LINK Scheme ATM Footprint Report](#) September 2019

having to purchase items to access cashback, security risks for retailers and higher insurance premiums.

To reduce gaps in the protected ATM network, we believe the Regulator should require the ATM Replacement Procedure to be completed in a shorter timeframe than 6 months. For example, a 12-week timeframe would align with the definition of a lost ATM. This would prevent temporary gaps in ATM coverage in all cases except where a protected ATM is removed or becomes a PTU machine at short notice. To ensure proposed changes to LINK policies can be properly assessed, Paragraph 9 should explicitly reserve a right for the Regulator to both postpone pending review or reject any variations aimed at meeting this Specific Direction.

One further area for the Regulator to consider is the suitability of the 1km criterion in the Financial Inclusion Programme. 1km was arbitrarily adopted for the Programme following the House of Commons Treasury Select Committee inquiry in 2006. There are numerous other factors that LINK should have to consider when assessing the need for access to cash in the community. More comprehensive criteria could be developed in relation to the social and economic needs for cash in an area based on demographic profiles of consumer populations. This could be informed by the extensive consumer research commissioned by the Payment Systems Regulator.

Although we have welcomed LINK's Low Volume Premium and high street guarantee initiatives, the need for these interventions highlights the lack of a properly funded long-term strategy to secure a national ATM network. LINK's original assessment stated that there would be 'modest' reductions⁶ in FTU ATM numbers, but 250 are closing each month⁷. Its original assessment stated its changes would target urban clusters of ATMs, whereas FTU ATM coverage has declined significantly amongst independent convenience stores in rural and suburban areas.

Access to cash is an essential service that must be provided via ATMs for thousands of local shops and millions of their consumers. Strategic Direction 8 must be robust to ensure LINK delivers on its commitments to manage a truly national FTU ATM network. For more information on this submission, please contact [REDACTED]

Yours sincerely,

[REDACTED]

⁶ LINK. [LINK's Interchange Rate: Final Decision and Assessment](#) January 2018.

⁷ <https://www.link.co.uk/about/statistics-and-trends/>

Cardtronics

From: [REDACTED]
Sent: 28 October 2019 15:52
To: PSRcashaccess
Cc: [REDACTED]
Subject: Annual review of SD8

Hi there

Further to the recent request for feedback, Cardtronics would like to make the following observations:

1 – Cardtronics supports the objectives around SD8 and the Access to Cash review. We believe that access to cash (and banking solutions) should be protected for all in the UK, enabling cash to be a payment choice for as long as consumers want to use it, and NOT for as long as the Banks' want to keep paying for it. In the face of the significant, and continuing, bank branch closures, the agenda on cash is clear, and in fact 2 of the major high street banks told the PSR Interchange meeting that they do not hide the fact that they are pursuing digital over cash in terms of consumer proposition. Whilst cash usage is continuing to decline at POS, the value of cash in circulation remains static and we believe that the responsibility of the regulators is to protect consumer choice, and not the preferences of the Banks.

2 – The arbitrary cuts to interchange is still a problem. It has in no way solved any of the problems associated with the distribution of ATMs in urban vs rural, and has in fact made the situation worse, as ATM deployers have removed high cost to serve / low profitability devices, or moved them to pay to use (PTU) in an attempt to address the significant impact to the UK business model. The solution was arrived at to satisfy 2 of the banks before the analysis to define its impact was completed.

3 – The solutions which have been implemented to achieve SD8 are adding cost to an eco-system when the Ceeney report is trying to achieve reduced costs to ensure viability of cash until consumers no longer want to use it. The Low volume premiums and the Direct Commissioning (DC) process is driving huge cost into the interchange system for insignificant consumer value. Fundamentally non-effective ATMs are being supported via DC at vast cost to the interchange system – whilst the top ups are welcome, it is driving the wrong behaviour in that deployers are using these premiums / DC sites to counter act the reduction to the main interchange level.

4 – The Retail Centre initiative is a good idea, but is designed purely for PR purposes – the likely consumer benefit of this is negligible as it is likely to provide 5-10 ATMs across the UK.

5 – The initiative which allows special ATM provision for areas with (for example) high tourist traffic / high profile MP complaints is even more of a PR process, and goes against everything we are trying to achieve in terms of access to cash at the lowest possible cost

6 – The DC process is extremely inefficient – We have arrived at a place where we are creating individual ATM commercial arrangements, in a market with c 60,000 ATMs. This is driving costs up in ATM deployers, and the frustration is that the ATMs that we are trying to site, will not be efficient, and often the locations are so rural that there is not a location to site an ATM.

7 – The solution to SD8 is simple. The PSR should no longer allow interchange on multiple ATM locations, and should deploy an interchange methodology based around zones. The zones should be as below, with the lowest interchange in zone 1, and the highest in zone 4 – this can be defined using ONS stats to ensure transparency

- CBD / Urban Zone 1
- Sub Urban Zone 2
- Rural Zone 3
- FIP Zone 4

This would ensure that the banks close unnecessary ATMs in CBD / Urban areas and would encourage Cardtronics, and other ATM deployers, to focus on sub-urban and rural areas. This would be simple; transparent and in line with the cost objectives of the Ceeney report. Also, and being blunt, the only organisations looking to site ATMs through DC are the big ATM deployers – should the main programme not change, this will stop as more focus is placed upon Capital controls and managing reduced operational infrastructures

8 - Continuing with SD8 solutions as current will mean more ATMs moving to PTU in areas which need FTU devices and the Banks will continue to keep cost in the infrastructure by having too many ATMs in areas where the switch to digital payment preference has accelerated significantly.

9 – We must return to a cost study which is actually used to define interchange zones as above. If the UK continues as current, ATM deployers will choose to spend capital elsewhere, or not at all.

In summary; the SD8 solution around the DC process is inefficient; time consuming; is addressing the symptoms of an inefficient system, rather than the system itself; and whilst at heart it is trying to achieve a positive consumer impact, it is doing this in direct conflict to the Ceeney report conclusion of looking to reduce the overall cost of managing cash. Going back to the objective of the initial interchange consultation to achieve reduced ATM proliferation in urban areas, we believe that the current solution is not being successful in reducing the huge cost of CBD ATM deployment.

I would of course be happy to discuss any of these points with PSR; BoE; JACS. Please do not hesitate to contact me should you wish to discuss this e mail.

Kind regards

[Redacted]

[Redacted]
DDI: [Redacted] M: [Redacted] E: [Redacted]

[Redacted]

Cardtronics United Kingdom



[Redacted]

HSBC UK

HSBC UK Bank plc

PAYMENT SYSTEMS REGULATOR

**REVIEW OF SPECIFIC DIRECTION 8 (LINK)
REQUIRING THE ADOPTION OF APPROPRIATE POLICIES
AND MEASURES AND REPORTING OBLIGATIONS
REGARDING PROTECTED ATMS**

RESPONSE TO FEEDBACK REQUEST

24 OCTOBER 2019

Response to request for feedback

HSBC UK Bank plc (HSBC) is pleased to provide feedback for the purpose of the Payment System Regulator's (PSR) review of Specific Direction 8 (SD8) LINK regarding protected ATMs.

In our response to the draft SD8 (CP18/2) in October 2018, HSBC welcomed the PSR's proposals. We recognised the importance of ensuring that the operator of LINK maintained its commitment to monitor the impact of its decision of 31 January 2018 to introduce a phased reduction in the LINK scheme's interchange fees, including highlighting any areas where protected ATM availability is lost and ensuring that the operator of LINK responds appropriately so that all communities retain free access to cash.

We believe that LINK themselves are best placed to provide detailed feedback on the activities they have undertaken to maintain those commitments, and the success they have had in achieving those objectives. That said, HSBC are broadly supportive of the actions LINK are taking, including their recent commitment to work in conjunction with UK Finance to deliver the Community Access to Cash initiative with a delivery fund already in place.

HSBC, along with the majority of LINK members, voted in favour of funding the Community Access to Cash initiative through the existing member-financed SD8 budget, and for LINK to make further funding calls on Issuing Members each calendar year for the purpose of meeting those objectives.

As you know from our various interactions over the last 3 years, HSBC recognises fully the continued importance of free access to cash for consumers, particularly those who may be vulnerable and we continue to stand by our commitment to LINK to operate the ATMs in our network defined as 'Protected ATMs'. We are unable to comment on decisions made by other LINK members but take this opportunity to confirm our ongoing commitment to the Post Office counter services initiative.

Alongside these commitments HSBC has consistently stated that we believe a broader strategic and coordinated approach towards cash management is needed, including innovation in consumer access from sources that are not an ATM.

We fully appreciate the complexity and importance of the issues covered by this Specific Direction 8 and are interested to hear the views of other stakeholders.

LINK

LINK's Response to the PSR's Review of Specific Direction 8

Introduction

On 19th October 2018 the Payments Systems Regulator (PSR) gave a Specific Direction (SD8) to LINK aimed at ensuring that LINK could fulfil the public commitments it made at the beginning of 2018 regarding the ongoing access to free-to-use ATMs. It was primarily concerned with "protected ATMs", broadly speaking those free-to-use ATMs at least one kilometre away from the next nearest free-to-use ATM. The Direction provides for an annual review at the end of one year and, if still in place, after 24 months. On 11th October 2019 the PSR invited stakeholders to input into this review.

As the Specific Direction applies to LINK naturally LINK wishes to participate fully in this review.

Market Developments Relevant to the Review

SD8 was a direct consequence of the announcement by LINK in January 2018 that it would reduce the basic interchange rate by 20% in four 5% moves. This announcement followed a consultation which commenced 1st November 2017, that is two years ago. The Specific Direction reflected the public debate at that time, on the effect that this might have on the size and geographical spread of the ATM network. However, the market has changed significantly since that time such that attention is now on the wider issues of access to cash and removing barriers to the use of digital payments.

A significant catalyst for this change has been the independent Access to Cash Review, commissioned by LINK in early 2018 and which reported in March 2019. The Review was evidence based, authoritative and overseen by a panel comprising consumer representatives and industry experts. It has become accepted as the source of relevant analysis, and its conclusions have been broadly welcomed by all stakeholders and have been taken on board by policy makers and decision takers.

The report was commissioned by LINK in recognition of the fact that transactions through ATMs were declining as a result of increased use of electronic means of payment, particularly contactless cards the use of which has increased massively over the last few years. When LINK announced the reduction in the interchange it estimated the impact based on a decline in transactions through ATMs of 6% a year, the prevailing rate at that time. That percentage has in less than two years nearly doubled to 11% and that rate of reduction seems likely to continue for the foreseeable future. It is this reduction in transactions and the expectation that it will continue that is now the main driver of changes in the ATM network, rather than decisions taken by LINK on the interchange.

There have been a number of other market initiatives relevant to the use of cash and which have potential implications for access to cash:

- The high street banks continue to be under pressure as a result of having a cost base that is now excessive in relation to the services that customers are willing to pay for and are facing strong competition from new market entrants such as Revolut and Monzo, which operate without any physical infrastructure.
- Generally, the switch from high-street retailing to internet retailing continues, with a number of household names closing down in the high streets. Consumers need electronic means of payment to buy on the internet and are severely and increasingly

disadvantaged if they are unable to do so. This has further accelerated the move away from cash.

- A continuation of the successful Banking Framework agreement has been signed by the retail banks and building societies with the Post Office through which access to cash and deposit facilities will continue to be provided at all 11,500 post offices in the country.
- It is known that the major banks are considering their own initiatives on access to cash which may, or indeed possibly may not, involve being a Member of LINK in the longer term.
- Barclays has recently announced an initiative, which includes the installation of new ATMs, and cash withdrawals from a number of merchants.
- Mastercard has announced an initiative which will facilitate people taking out cash from retailers by reversing the current arrangement whereby the retailer pays the card operator to one in which the card operator pays the retailer. Should VISA take a similar step this could be transformational in retailers becoming a primary source of access to cash. LINK itself has also been working on such an initiative, but like VISA and Mastercard, it faces a regulatory obstacle in that cashback currently is unlawful unless a physical purchase is made.
- Some independent ATM deployers have changed their business models resulting in large numbers of ATMs, although not protected ATMs, being switched from free-to-use to charging. This is an understandable business decision given that their business is ATMs and they need to compensate for the reduced turnover as a result of reduced transactions and the 10% reduction in interchange.

In announcing its measures to protect access to cash in January 2018 it was never the intention of LINK this would be a one-off operation, to be reviewed at a specific date sometime in the future. Rather, it was always the plan continually to take account of current and likely future market developments, to liaise with all relevant stakeholders and to learn from the experience in handling protected ATMs, then using all of this information to design and implement additional measures or amend existing policies and practices to help continue to preserve access to cash. Among the learning points during 2018 and 2019 have been:

- The increasing understanding (primarily by others rather than LINK) of the role played by post offices in providing access to cash. They provide the same service as ATMs in respect of access to cash, and a better service in respect of accepting deposits, and do so in places where consumers want these services. Moreover, post offices are a vital part of local communities, particularly smaller and more remote communities, where typically they are sited inside a convenience store.
- Access to cash cannot be viewed as a subject in isolation but is part of two wider issues. That is giving people the widest possible choice of means of payment, and for smaller communities how access to cash fits in with other priorities. In respect of the first point the public policy priority must be to help remove barriers to people using digital means of payment as otherwise that group of people, often already disadvantaged, will be even more disadvantaged. Preserving access to cash is important for this group but should not be seen as an alternative. On the second point, access to cash is not the main priority for people living in remote areas. In general, this is broadband. In some places, other factors, including continuity of the electricity supply and transport links, are also important. In this context, LINK has taken the advice of, and commissioned a specific report from, Professor Russel Griggs, the recognised expert in this area. His report for LINK, *“Access to Cash in*

Rural Communities”, has become widely accepted as a significant contribution to the quality of public debate in this area.

- LINK has always known that there is a rapid turnover in the ATM estate, in response to other factors such as significant changes in the nature of shopping centres, the establishment of new transport links and new commercial developments. So, a net reduction of 2,000 in the number of ATMs in a year might reflect 2,000 opening and 4,000 closing. SD8 rather implies a more static position, and was almost based on the premise the ATMs would close as a result of the announced reduction in interchange. LINK carefully analysed as best it could the reasons why ATMs were closed, so as to understand better the business model of ATM deployers, which is not easy as these are not publicly disclosed. ATMs are not closed because they have become marginally unprofitable in relation to average running costs. If they are closed for economic reasons this is because they have become massively unprofitable. Broadly speaking, the average cost of running a remote ATM is £20,000 a year (note that the variations in practice are large). However, the marginal cost of running an older ATM could be as little as a tenth of this, say £2,000 a year. It follows that there might be no economic sense in closing an ATM that is generating £10,000 a year as it is more than covering marginal costs and making a significant contribution to overheads. However, operators may prefer to convert the ATM to charging if they believe it will increase overall income. However, it also follows from this that if an ATM is closed, whether for economic or more likely for other reasons, even a substantial increase in the interchange payment is unlikely to be sufficient to provide an economic justification for opening a new ATM. Accordingly, if it is wished to replace closed ATMs then often this has to be through direct commissioning by LINK.
- Many ATMs, including protected ATMs, are closed for reasons that have nothing to do with economic viability. Reasons include the retailer closing down or changing hands, the retailer simply deciding that the hassle involved in maintaining an ATM is not worth the cost and in some extreme cases security concerns. It follows that where an ATM is closed for these reasons it will generally not be possible for another ATM to be opened in the same place. So far, 75 locations which lost a protected ATM and which met the criteria for a replacement have been targeted with higher premiums. However, only five have been resolved in this way. There are now over 34 sites where premiums have not resulted in a replacement for a closed protected ATM and which are therefore in the Direct Commissioning Programme. In other locations, following comprehensive site visits, it has been concluded that ATMs cannot be installed because there are no suitable premises or no willing site owners in the area.
- The market mechanism still operates effectively. ATMs, like other goods and services, are supplied where there is a demand for them and where that demand can be met in a viable way. Of the 75 lost protected ATMs targeted with higher premiums, the normal market mechanism has resulted in several new ATMs being installed without any intervention by LINK. Therefore, whilst five closed Protected ATMs have been replaced as a result of Protected ATM Premiums, 10 ATMs have been replaced through free market forces during the two month window before the sites become eligible for Direct Commissioning. For this reason, LINK intends to maintain the current approach and continue to offer Protected ATM Premiums where Protected ATMs permanently close.
- People rapidly adapt to the opening or closing of ATMs as they do with other goods and services. When a bus timetable changes people adapt by going to the bus stop at the new time for example, or when a retailer changes opening hours people take account of this when deciding when to shop. When an ATM is closed people react in one or more of a number of different ways:

- Obtaining cash from an alternative source, which might be a nearby post office or an ATM that they pass when shopping or travelling.
- Taking out larger sums less frequently.
- Using electronic means of payment more frequently.

It follows that if an ATM closes and a new one opens on the same site say six months later, it is very unlikely that it will have anything like the same volume of business as the closed ATM had. People have moved on. Their concerns are the means of payment, not access to cash from an ATM in a specific location.

Link has responded to these factors by several initiatives introduced as quickly as possible when the necessary analysis and preparatory work had been done. These include:

- As a result of larger than forecast reduction in transactions through ATMs the third planned 5% reduction in interchange, scheduled for January 2020, was cancelled.
- A strong relationship with the Post Office. LINK's ATM locator App has been modified to include all post offices including details of their opening hours. LINK has also had a number of high-level meetings with the Post Office Chairman, invited the Post Office to join the LINK Consumer Council and has regular meetings at an operational level with relevant Post Office executives.
- Link has increased the maximum interchange rate for low volume ATMs from 30p to £2.75. 2,278 ATMs benefit from enhanced premiums, 54 obtaining the highest possible premium. This was intended to help keep open some ATMs that might otherwise have closed. Analysis shows that ATMs in receipt of low volume premiums are only half as likely to close or convert to charging than those that are not.
- LINK has made a commitment to ensure that all retail centres with at least five relevant shops have an ATM and has taken steps to install ATMs in the small number of such centres that do not currently have ATMs.
- Most recently, LINK has introduced a new Community Access to Cash Delivery Fund so that consumers and their representatives can request a free ATM from LINK when one is needed.
- LINK has raised funds from its Members to commission ATMs directly, either to replace protected ATMs that have closed or as part of the new initiatives. Recognising the lack of expertise among ATM deployers, it has also taken on a role of identifying potential sites and liaison with the site owners.

LINK's Compliance with SD8

SD8 is unusual in regulatory terms in that it imposed on LINK significant documentary and reporting requirements in respect of a commitment made by LINK to protect certain ATMs which might be at a risk of closing following the reduction in interchange. Had LINK not made the commitment there would have been no SD8. The Direction gave specific dates by which much of the initial documentation had to be published and specified the nature and frequency of reporting requirements to the PSR. LINK has fully complied with SD8, employing significant additional resources to be able to do so. LINK estimates that the total cost of complying with SD8 has been up to £150k per year. However, what LINK has actually done in respect of protected ATMs, for all practical purposes, has not been influenced by SD8. The new initiatives covered in the previous section are outside the scope of SD8.

Given the developments outlined in the previous section, the requirements specified in SD8 have had become significantly less relevant to the issue of protecting and enhancing access to cash. Most of the data supplied by the PSR is not used by LINK, which instead relies on its extensive access to market information from its participants and from relevant stakeholders such as MPs, local councils and consumer bodies, together with a limited amount of hard data on the number and location of ATMs and information about specific protected ATMs.

The Future

It was appropriate to build in a one-year review of SD8 given that it was clear at the time the Direction was made that the market was rapidly changing. Much of the Direction is now irrelevant as it specified dates by which policies and reporting mechanisms had to be put in place, all of which has duly occurred. More specifically:

- Section 1 comprises recitals.
- Section 2 sets out the powers exercised and purpose of the Direction.
- Section 3 comprises definitions.
- Section 4 required the identification of protected ATMs by 31st October 2018 and is now therefore redundant.
- Section 5 required certain policies to be developed and published. This has duly occurred so the section is redundant.
- Section 6 sets out minimum requirements in respect of commitment to protect certain ATMs and is still applicable.
- Section 7 sets out a timeline for policies to be in place. This was achieved so section 7.1 is redundant. Section 7.2 requires weekly reporting on progress in implementing the Direction and is still in place.
- Section 8.1 set out a timeline for policies and processes for the ATM replacement procedure. This was achieved so the section is redundant. Section 8.2 required reporting to the PSR on progress in replacing lost ATMs and is still in operation.
- Section 9 required LINK to give the PSR two weeks' notice of changes in policies and procedures in respect of its commitments.
- Sections 10.1 set out detailed monthly reporting requirements on any changes in protected ATMs and actions in respect of lost ATMs.
- Section 10.2 required LINK to give notice to the PSR of changes to its Financial Inclusion Programme and what has happened to the free-to-use estate compared with its expectations at the time of the commitment. This is still in operation, although for reasons already explained the free-to-use estate is now changing for reasons that have nothing to do with LINK's commitment. The remainder of section 10 has other reporting requirements.

However, SD8 has now fulfilled its original purpose. It has enabled LINK to demonstrate and the PSR to be satisfied that it has met the commitments in respect of protected ATMs in accordance with its announcement in January 2018. The Specific Direction could continue in place even though much of it is now not relevant because the time limits are in the past. This would give LINK no great problems.

The regulated reporting of protected ATMs can continue if the PSR desires. However, LINK expects that its use in practice will be superseded by voluntary reporting by LINK on its recent high street and community ATM initiatives outside of SD8. We do not recommend a separate Specific Direction to cover these new initiatives as the cost in both monetary terms and in the loss of ability to respond quickly to the rapidly changing competitive marketplace is high.

In addition, a more strategic mechanism for the PSR to review developments in access to cash could usefully be introduced that is based on regular (say monthly) reviews with LINK on the overall marketplace. Rather than focusing on detailed and extensive batches of data for ATMs, which we doubt are actually useful to the PSR, this could focus on the overall development of the marketplace. Attempting to define and manage this through a Specific Direction is unhelpful as the marketplace is changing too quickly. There are also a number of important and complex matters that need addressing to ensure the sustainability of the overall infrastructure. As Natalie Ceeney's Access to Cash Report points out, this infrastructure (including ATM distribution) is fragile and faces a number of immediate and severe threats. LINK would prefer to be working with the PSR on these pressing strategic systemic matters rather than focusing on detailed data relating to market circumstances from two years ago.

The Money Charity



The Money Charity Response to PSR review of Specific Direction 8 (LINK - access to cash) (October 2019)

The Money Charity is a financial capability charity whose vision is to empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives.¹

We welcome the opportunity to respond to the Payment Systems Authority's review of Specific Direction 8 on LINK's role in maintaining universal access to cash in the UK.

In this response, we set out our Key Points then make our comments on the review.

¹ See box on back page.

Key Points

1. The emerging crisis in access to cash requires a coherent UK-wide response, which Government has the responsibility to lead.
2. PSR and LINK should not simply amend SD8 and the LINK Policy on Protected ATMs to adapt to Barclays decision to exclude its customers from access to cash at Post Offices but should ensure that ATM access is maintained for all communities around the UK.
3. Recent research reports by Britain Thinks and gohenry show an ongoing demand from the public of all ages for access to cash.
4. Banks and other firms involved in payments should be required by Government to co-operate to provide essential banking services and access to cash in areas at risk of losing these services as a result of decisions taken by firms acting individually.

Comments on review

The decision by Barclays Bank not to provide facilities for its clients to access cash via Post Offices illustrates the challenge that arises from having an essential service provided by competing companies, none of which has a universal service obligation.

The result is both under-provision and over-provision. City centres tend to be over-provided while, without intervention, large tracts of suburbia, small towns and rural areas would be left without any bank branches or ATMs at all.

The Head Office of The Money Charity is located near Clapham High Street in South London. In the short distance between our office and Clapham Common underground station, there are nine free-to-use cash machines, four bank branches and a main Post Office. On the other hand, PSR and LINK will be aware of cases such as Lossiemouth in Scotland, which lost all its bank branches then ran out of cash on the first weekend after the last branch closed.² Some form of the Lossiemouth experience is being repeated in numerous small towns, villages and suburbs around the country.

As we interpret it, Barclays' decision creates a significant challenge for LINK and PSR in implementing SD8,³ in that the 'protected ATM' formula allows suitable post offices to be used to provide an alternative means of accessing cash when a nearby ATM is slated for closure. Barclays has, in effect, removed the post office network from the LINK formula

² House of Commons Scottish Affairs Committee, Access to Cash in Scotland, Tenth Report of Session 2017-19, 23 July 2019, page 16.

³ In particular, paragraph 4.1 of LINK Policy on Protected ATMs.

as far as Barclays customers are concerned, requiring LINK to maintain a larger network than it would otherwise have to maintain. This is good for ATM coverage, but presumably will not be welcomed by LINK and other banks because of the unexpected costs.

We urge PSR and LINK not simply to amend the Protected ATM policy to exclude Barclays customers, but to press Government, via the Joint Authorities Cash Strategy Group (JACS) to urgently set a national policy for cash access, requiring banks, ATM operators, the Post Office and other payments infrastructure companies to co-operate to achieve universal access to banking and payments services.

We agree with the House of Commons Scottish Affairs Committee that:

“There is a need for an overarching strategy to guarantee consumers access to cash.”⁴

In reviewing SD8 and the LINK Policy on Protected ATMs, PSR and LINK should take full account of the finding in Britain Thinks’ recent research for the PSR that UK consumers prefer ATMs as a means of accessing cash. In our response to this research,⁵ we suggested a number of possible reasons for this, including convenience, the specialised nature of ATMs, the fact that they are part of a comprehensive network, are available after-hours and have become culturally normalised in the UK to the extent that there is a large seam of online ATM humour. ATMs provide a high street focus and play an important role in maintaining the viability of local businesses.

In our response, we also drew attention to the cash needs of the thirteen million children and young people under 18 years of age, who were not represented in the Britain Thinks survey. Recently the young people’s bank card provider gohenry published research on the spending habits of its customers, many of whom are Generation Z, the most digital generation yet to live.⁶ As to be expected of the gohenry customer group, they are strongly oriented toward card and online payments. But what is interesting is that even this group has a significant cash demand: gohenry found that children with gohenry cards withdraw 14% of their money from ATMs. Furthermore, “ATM usage increases steadily with age, suggesting that older teenagers see more value in carrying cash.”⁷

Declining ATM numbers are associated with bank branch closures. When the public respond to this, they frequently suggest that banks should combine to create “hub branches” (“shared” or “vanilla” branches). These are community banking locations that, like ATMs, serve customers of all banks. The hub branch appears to most consumers as the logical alternative to losing all branches in a town. The House of Commons Scottish

⁴ Ibid, page 6.

⁵ <https://themoneycharity.org.uk/work/policy/consultation-responses/>. See: September 2019.

⁶ gohenry 2019, The Youth Economy Report – How Gen-Z earn, spend and save.

⁷ Ibid, page 27.

Affairs Committee drew attention to this call in its 2019 report on Access to Cash in Scotland, saying that it had been suggested by, among others, Citizens Advice Scotland and Highlands and Islands Enterprise.⁸

Establishing hub branches requires co-operation by all the main banks, something that so far they have been reluctant to do – but this underlines our point that when an essential service is provided by competing private sector companies, none of which has a universal service obligation, there will be communities left without coverage. This is the market failure that the PSR, other regulators and government need to address.

The critical need at this juncture is for Government, via JACS, to set out and implement an effective UK policy for maintaining cash provision. Individual banks, payments companies and infrastructure firms should be required by law to participate in the solution. It should be remembered that UK banks benefit hugely from the “lender of last resort” function that Government (ie the taxpayer) provides via the Bank of England. Without Government backing, banks would have to maintain much larger liquid reserves than they currently do, reducing their opportunity for profitable lending.⁹ Being prepared to maintain essential banking and cash access services is part of the quid pro quo.

We therefore encourage PSR not simply to amend SD8 to adapt to Barclays’ decision, but to take steps with other regulators and Government to arrive at a UK-wide solution that continues to ensure cash access for the customers of all banks in all parts of the country.

⁸ House of Commons Scottish Affairs Committee, Access to Cash in Scotland, Tenth Report of Session 2017-19, 23 July 2019, page 18.

⁹ Research and experience suggest that even this would be insufficient to avoid insolvency in circumstances of financial crisis and that central bank backing is essential for the stability of the financial system. See for example: <https://www.aier.org/article/when-did-the-bank-of-england-become-a-lender-of-last-resort/>

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National Federation of Retail Newsagents



NFRN
Federation of Independent Retailers

NFRN Response to the Payment Systems Regulator's consultation on the review of the Specific Direction (SD8)

The NFRN welcomes the opportunity to submit its views to the Payment Systems Regulator on the review of its Specific Direction 8 (SD8).

The NFRN is one of Europe's largest employer's associations, representing over 15,000 independent retailers across the United Kingdom and the Republic of Ireland. The NFRN exists to help the independent retailer compete more effectively in today's highly competitive market. Membership of the NFRN consists of a variety of independent retailers, including newsagents, convenience stores, confectioners, florists, petrol forecourts, news deliverers, off-licences, post offices, coffee shops, and card and stationery shops.

Access to cash and the value of free-to-use ATMs in the retail sector

While cash usage has substantially declined over the years, independent retailers and their customers continue to value cash as payment method. Cash is extremely valuable to the business of thousands of retailers. It makes up 46% of turnover of high street retailers. In particular, 60 percent of small independent retailers with a turnover under £200,000 per year rely heavily on cash payments.¹ 76% of convenience store customers indicate they pay by cash for their transactions and are still heavily dependent on ATMs to withdraw their money.² Our members provide customers with cash withdrawal services in their shops, including through free-to-use (FTU) ATMs, or free of charge over the counter in their Post Office. Recent figures reveal that over a quarter of people (28 percent) have withdrawn cash at their local Post Office in 2018³ and almost half (47 percent) of high street shoppers would not visit the high street at all if there were no cash machine available in their local high street, instead preferring to visit an alternative location where they can withdraw cash and shop at the same time.⁴

LINK's commitment to maintain free access to cash

In November 2017, LINK announced it would cut its interchange rate fees by 20% over four years, from 25p to 20p per transaction, to respond to the decrease in the number of ATM cash withdrawals.⁵ Following this announcement, in its Final Decision and Impact Assessment of 31 January 2018, LINK committed to defend the free ATM network and the consumers who rely on it and announced that it would have taken all the necessary actions to not compromise the spread of free-to-use ATMs in the country.⁶ However, following the first 5% reduction in ATM interchange fees—from 25p to 23.75p—introduced on 1 July 2018 and a second 5% reduction on 1 January 2019, many free-to-use ATMs have been either removed or converted to pay-to-use ones because they have become financially unviable, thus placing a significant strain on consumers and local independent retailers.

In October 2018, the NFRN welcomed the PSR's decision to introduce the Specific Direction (SD8) to ensure LINK maintained its commitment to protect free access to cash. We believe the SD8 has

¹ <https://www.localis.org.uk/wp-content/uploads/2016/05/Is-cash-king-Examining-the-importance-of-cash-for-local-communities.pdf>

² https://www.acs.org.uk/sites/default/files/local_shop_report_2018.pdf

³ <https://www.citizensadvice.org.uk/Global/CitizensAdvice/campaigns/Post/Consumer%20Use%20of%20Post%20Offices%20Summary%20Report.pdf>

⁴ (see 1)

⁵ <https://www.link.co.uk/about/news/link-update-to-interchange-rate-implementation/>

⁶ <https://www.psr.org.uk/sites/default/files/media/PDF/PSR-Specific-Direction-8-ATMs-October-2018.pdf>

contributed to partially mitigate the impact of LINK's reductions in ATM interchange fees which has been devastating for local shops and other cash-led businesses on surrounding parades and high streets. We recognise that, following the implementation of the PSR's SD8 at the end of last year, the national cash machine network further committed to introduce policies, measures and procedures to:

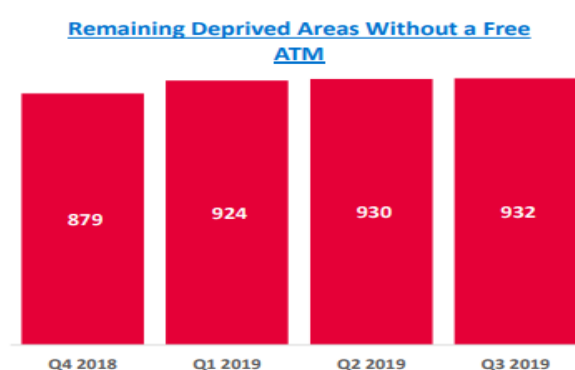
- prevent existing free-to-use ATMs that are used least and do not have another free-to-use ATM within a kilometre from closing or being converted to pay-to-use cash machines due the economic nonviability;
- reopen or replace protected ATMs that became lost ATMs.⁷

However, these encouraging developments have not been able to offset the closure of ATMs and the switch of FTU machines to PTU ones as it will be explained below.

LINK's Low Volume Premiums

In order to address the requirements set out in the SD8, LINK decided to strengthen its financial inclusion programme, initially launched in 2006, by offering Low Volume Premiums to ATM operators to encourage them to maintain free-to-use ATMs. From the 1st April 2019 ATM operators have become eligible for an increase in their subsidy by up to £2.75 per cash withdrawal through LINK's funding formula on the condition their ATMs are located more than 1km from the nearest free-to-use ATM and complete an average of less than 4,500 cash withdrawals per month.⁸ While the NFRN supported the introduction of these premiums as a measure to safeguard free access to cash, we believe these subsidies have not been sufficient to incentivise ATM operators to maintain the geographic spread of FTU cash machines around the country.

Research published by Which? in September 2019 has revealed that one in 10 free to use ATMs has either disappeared or has been converted into pay-to-use over the past 17 months,⁹ with over 1,200 ATMs being converted from free-to-use into pay-to-use just in March 2019.¹⁰ In particular, the loss of ATMs has disproportionately affected deprived areas in the UK. LINK's recent figures suggest that, despite the introduction of Low Volume Premiums, there are still 932 deprived areas in the UK with no access to free-to-use ATMs.¹¹



⁷ https://www.link.co.uk/media/1437/v-ops-management-method4-method4-change-2019-l083_19-protected-atm-policy-effective-17th-july-2019.pdf

⁸ <https://www.link.co.uk/initiatives/financial-inclusion/>

⁹ <https://www.which.co.uk/news/2019/09/poorer-areas-hit-hardest-by-the-loss-of-free-cash-machines/>

¹⁰ <https://www.link.co.uk/media/1185/link-10-financial-inclusion-programme-website-flyer.pdf>

¹¹ <https://www.link.co.uk/media/1418/atm-financial-inclusion-dashboard.pdf>

Also, in September 2019 ATM operator NoteMachine announced their plan to convert thousands of FTU ATMs into PTU due to the changes in LINK's funding formula, thus implying that around 15% of FTU ATMs could disappear in deprived areas in the UK.¹²

In addition, despite LINK's commitment to protect FTU ATMs that do not have any FTU cash machine within 1 km 'as the crow flies', over 150 FTU cash machines in rural areas of the UK are still currently located more than 1 km from the nearest FTU ATM. As a result of ATM closures in the last 18 months, consumers living in rural areas are forced to travel more than 1 km to find a FTU ATM and three times more than they would if they lived in urban areas, meaning that in most cases they are left without access to cash.¹³

Local shops have been the ones suffering the most from this move towards a cashless society. Many retailers who only accepted cash as a payment method for low-value transactions have now been pushed to accept only digital payments. Since the majority of transactions in convenience stores are low-value – the average consumer spend in shops is £6.50 –, with retailers now forced to bear the high costs of processing card payments for smaller financial amounts.¹⁴

Many retailers have also seen their sales reduced by almost 25% because ATMs have been removed in their local area or converted into pay-to-use ones.¹⁵ This is because people tend to walk away from transactions in their local shop if they have to walk more than 30 minutes to find the closest ATM and tend to be shut out of their local shops if they have to incur fees when withdrawing cash.

Despite the enhancements made to the Financial Inclusion Programme from December 2018, LINK has proved ineffective in protecting free-to-use cash machines also because it relies on communities and operators reporting vulnerable ATMs to LINK and nominating them for extra funding. However, machine operators who run 60% of the UK's ATMs are under no obligation to inform the LINK network before closing a machine if they believe ATM volumes are in decline. Because of this, most of the times ATMs disappear, leaving consumers without access to cash.¹⁶

LINK's replacement of closed protected ATMs

Where LINK's measures to preserve existing protected ATMs do not succeed in preventing cash machine closures, the cash machine network is committed to replace the lost ATMs as provided for by the SD8.¹⁷ Currently LINK offers financial incentives to all its members interested in substituting protected ATMs that have already closed.¹⁸ However, after a member expresses interest to install a new FTU ATM, it takes on average six months for a cash machine to become fully operational, meaning that communities are denied access to cash for at least almost half a year. This puts at risk the lives of millions of consumers and threatens the viability of retailers' businesses that still rely on cash as payment method, especially those living in rural areas which have been particularly affected by ATM closures. We believe that LINK's current process to replace closed protected ATMs is

¹² (see 9)

¹³ <https://www.which.co.uk/news/2019/10/taking-a-ferry-to-the-atm-which-areas-face-the-longest-treks-to-a-free-cash-machine/>

¹⁴ <https://campaigns.which.co.uk/freedom-to-pay/wp-content/uploads/sites/20/2019/06/Campaigns-booklet-June-2019-WEB-1.pdf>

¹⁵ https://www.atmia.com/files/Position%20Papers/White_Paper_on_the_Socio-Economic_Benefits_of_ATMs_-_Updated_September_2010.pdf

¹⁶ <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

¹⁷ <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

¹⁸ (see 7)

extremely lengthy and recommend that the PSR revises its SD8 in relation to LINK's ATM replacement procedure to ensure LINK commits to shorten the process.

LINK's policy towards Post Offices

Due to the increase in the number of ATMs closing and switching to charging for cash withdrawals, local post offices currently represent the nearest (and sometimes the only) outlet for people to access basic banking services, particularly over the counter cash withdrawal services (that are offered free of charge over the counter). LINK acknowledges the value of post offices and the financial services they provide for their local communities. This is reflected in its current policy towards the post office network which considers post offices reasonable substitutes for cash machines when FTU ATMs close or are converted into PTU if they are within 1 km of the Protected ATM.¹⁹

In October 2019 Barclays Bank initially announced that their customers would no longer be able to withdraw cash from Post Office counters from January 2020. However, following condemnation from retailers, shoppers and members of parliament, the bank has recently reversed their decision to withdraw access to cash agreement with local post offices. Barclays has recognised that their decision would have undermined the Post Office network and damaged vulnerable customers. While we welcome Barclays' recent announcement, we are of the view that in the future other banks could take similar decisions, meaning that customers could be either left without access to cash or forced to travel miles to withdraw their money free of charge in the absence of locally available FTU ATMs. We therefore recommend that the PSR closely monitors external developments that might affect LINK's policy towards post offices and intervenes where appropriate to hold LINK accountable to ensure no one is denied access to cash.

¹⁹ (see 7)

Nationwide

From: [REDACTED]
To: [PSRcashaccess](#)
Subject: Review of Specific Direction 8
Date: 01 November 2019 19:52:31

Good afternoon,

Thank you for the opportunity to provide an input in the annual review of Specific Direction 8. Please find below our response in full.

Nationwide welcomes the opportunity to respond to the annual review of Specific Direction 8 (SD8). Nationwide broadly support what LINK, together with the PSR and UK Finance, are trying to achieve. LINK faces an unenviable task of reconciling the conflicting business models of Banks and Building Societies as ATM customers and IADs as ATM providers, in order to ensure a sustainable cash ecosystem. Nationwide agree with LINK's position that cash is an essential service for consumers within the UK.

Through all of this, we must always keep clear in mind what we are trying to achieve. Our aim here is to ensure a pragmatic geographical spread of ATMs across the country that are commercially viable and meet the needs of the vast majority of consumers within the UK.

With regards to the review, we believe that it might have been of more value having the review once recent developments have had time to establish. We appreciate that the PSR would not like to deviate from the original timeline outlined to keep momentum, however, we feel that it would be more appropriate to understand the impact of recent initiatives before doing a full review of SD8.

The current proposal is still in its early stages and should be given time to prove itself. In particular, the overall process must be given time and scope to consider alternative means of providing access to cash – such as via cashback and the Post Office – rather than only considering a narrow focus on ATMs, which is a real risk from SD8, which can lead to the conclusion that we should only concentrate on ATMs because that is what the PSR has specifically directed. However, we were grateful to see the inclusion of UK Finance within the escalation process and will await how this process matures from January.

We believe that LINK's current proposal is an improvement on the direct commissioning approach which had previously been put forward. LINK's current approach has two main benefits over direct commissioning, which LINK had previously proposed in direct response to SD8;

1 – It does not presume that an ATM is required on every street. Rather, it allows the level of response to follow the level of demand as it is specifically expressed by communities. It provides a basis by which resources can be targeted at those communities who express a relevant demand

2 – It provides some element of accountability, if not full transparency, of investments funded by participants

However, we feel that there could be still more transparency in order for LINK's commissioning process to have maximum benefit. For example, LINK are still reluctant to disclose how much

they are prepared to pay bidders to operate an ATM.



In summary, in its relatively early stages it is too early to determine whether SD8 is effective.

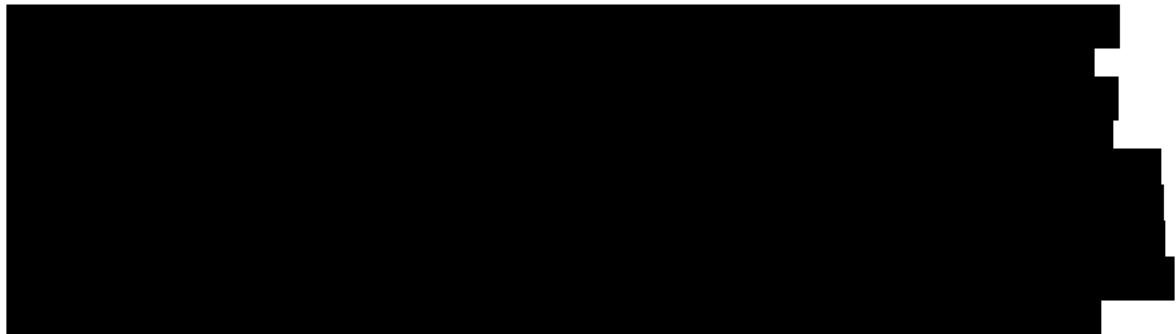
LINK's initial response (direct commissioning) does not appear to have had significant impact.

However, LINK and UK Finance have only recently launched their community initiative, which we believe might look to better support SD8. We firmly believe that this new approach provides a better structure for the directing of resources allocated.

We do acknowledge that SD8 is a good tool to hold LINK to account and has already stimulated positive activity, however, we feel that LINK require further support to respond effectively to challenges arising from the Ceeney report and the wider policy debate that it stimulated. We believe that recent developments such as the Community Support Scheme and Protected ATM policy do show intent in the right direction for consumers, but further work is needed. In line with this we need to ensure that any developments and future investments are sustainable and closely monitored.

Many thanks,

 | Payments | Resilience & Agility
M: 
nationwide.co.uk



Notemachine

From: [REDACTED]
To: [PSRcashaccess](#)
Cc: [REDACTED]
Subject: Review of Specific Direction 8
Date: 25 October 2019 17:25:51
Attachments:

In response to the PSR's request for feedback on LINK's response to this Direction, I make the following comments on behalf of NoteMachine.

For ease of reference the paragraph numbers are those used in the SD8 document.

1.3 point 6.

The LINK Board concluded that there would be "modest reductions" in free ATMs as a result of the interchange reductions. We note that between January 19 and September 19 the total LINK ATM population fell from 62,967 to 61,253 – a reduction of 1,714 ATMs. Of these the number of free ATMs in the network fell from 51,877 to 47,457, equating to a loss of 4,420 free ATMs. We submit that this is a significant reduction, rather than the "modest" one predicted by the LINK Board.

1.4 point 1.

LINK's press release of 31 January 2018 stated that "a strengthened financial inclusion programme will ensure that all communities retain free access to cash". LINK's own statistics show that the percentage of charged transactions has increased from 2.3% to 4.3% during 2019 YTD. This is likely to increase, and unfortunately, the implication is that many communities will not retain free access to cash due to the adverse economics of providing a free service, brought about by LINK's interchange reductions.

5.1 point 3b

We challenge LINK's implication that Post Office branches can (or will ever) provide an adequate substitute for any ATM (particularly 24 hr through-the-wall installations) on the grounds of reduced access times and poorer customer service. In our view, reliance on Post Office branches to fill the void illustrates well the "sticking plaster" nature of LINK's response.

8.1

The ATM Replacement Procedure must include a "clearly developed mitigation plan as an alternative to offering interchange premiums". We are not aware of any obvious mitigation plan from LINK.

10.3

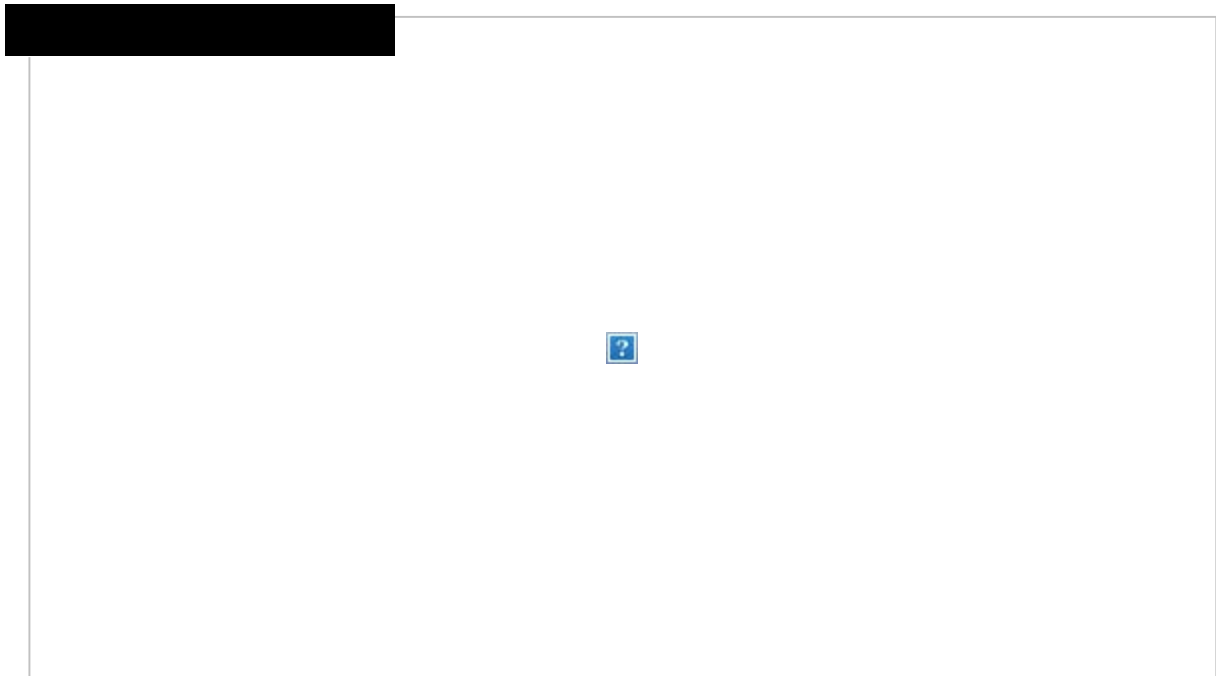
LINK is required by the PSR to provide its assessment of the impact of any reductions in interchange on the FTU ATM estate as a whole. If these assessments are made, we are not aware of them.

12

Noting the stipulations regarding review and duration, we would comment that, as we have stated in numerous forums, that we regard the LINK approach of providing interchange enhancements as being of very limited value in protecting free access to cash. The mechanism is unwieldy, and its structure makes it very difficult to offer long term commercial deals to site owners due to annual

reviews and the tiering driven by transaction volumes. Moreover, the fundamental issue remains, in that interchange is set below the marginal cost rate determined by KPMG in their Annual Cost Study carried out on behalf of the LINK Scheme. This makes previously viable ATMs uneconomic to operate, and this – as LINK’s own published statistics illustrate clearly – has resulted in the following effects:

- a. General reduction in the UK ATM population
- b. Marked reduction in the number of free ATMs in the network
- c. Doubling of the proportion of charged transactions in less than 9 months



Scottish Grocers' Federation

PSR Access to Cash project team
Payment Systems Regulator
12 Endeavour Square
London
E20 1JN

Sent by e-mail

28 October 2019

Dear sir/ madam

PSR – REVIEW OF SPECIFIC DIRECTION 8 (LINK)

The Scottish Grocers' Federation (SGF) is a trade association for the Scottish Convenience store sector. There are 4,973 convenience stores in Scotland, which includes all the major symbol groups, co-ops and convenience multiples in Scotland. SGF promotes responsible community retailing and works with key stakeholders to encourage a greater understanding of the contribution convenience retailers make to Scotland's communities. In total, convenience stores provide over 44,000 jobs in Scotland.¹

Convenience stores trade across all locations in Scotland, providing a core grocery offer and expanding range of services in response to changing consumer demands close to where people live. The valued services provided by local shops include mobile phone top-up (82%), bill payment services (65%), cashback (61%), and branches of the Post Office network (23%)².

Over the last year, the UK convenience sector contributed over £8.8bn in GVA and over £7.7bn in taxes. The sector is more relevant than ever to every type of customer and has key social benefits and is of key economic value to the economy.

SGF welcomes the opportunity to submit general comments to this review of Specific Direction 8. SGF recognises the importance of the Direction for ensuring the broad geographic spread of free-to-use- (FTU) ATMs.

General comments

Scottish Convenience sector

Our newly published Scottish Local Shop Report (SLSR) 2019 highlights that **65% of local shops provide ATMs for local people, with 50% hosting a FTU ATM and 15% having a charging ATM**. Our SLSR from 2018 also indicated that 76% of convenience customers pay by cash as the total value of cash spending has remained relatively stable.

¹ Scottish Local Shop Report 2019

² Scottish Local Shop Report 2019

PSR cash access, use & acceptance

SGF believe that ATMs should be viewed as 'high street enablers' by providing consumers access to their cash and facilitating economic spend on local high streets and shopping parades. They are a valued and essential part of the cash architecture and are offered as part of a range of financial services provided by Scottish convenience stores.

Consumers have an **expectation** that they will be able access their cash **free of charge** apart from in very isolated or inconvenience locations.

Modern convenience stores are community assets and indeed **community owned shops in Scotland are providing essential services to over 1,278 remote, rural communities**³. SGF would emphasise that being able to provide access to FTU ATMs for customers is a key part of this essential service provision.

Loss of ATMs (and banks)

In August 2019, the Scottish Affairs Committee published their Access to Cash in Scotland report⁴. In commenting on the report the Chair of the Committee stated that Scottish communities are becoming cash free against their will. SGF noted with concern that the report also pointed out **that in 2018, 355 ATMs in Scotland were shut down of which 225 were free-to-use and flagged up the impact of bank closures (particularly in remote areas) and people being forced to travel outside of their community to access cash and having to pay, directly or indirectly, to access their money**. SGF would add that bank closures have implications for convenience retailers who in addition to having to pay charges from banks to deposit money with them also have to travel further and so have to also incur other costs such as petrol, parking, arranging staff cover etc. The report also outlines that sub-postmasters have also indicated that the level of remuneration offered to them for providing there services is insufficient and unsustainable. This point is also of relevance to our members given that 23% of convenience stores have a Post office.

Link commits to new FTU ATMs on UK high streets

SGF welcomes the commitment made by LINK on 29th August 2019 that *'.....should a high street be threatened with the loss of an ATM or Post Office, Link will step in to ensure that an ATM is made available and paid for with funding from all the UK's main banks and building societies'*.

Many challenges still remain however for convenience retailers as previous LINK interchange fees reductions have seen ATM providers seek to renegotiate their ATM contracts which often leaves the retailer with three options. That being 1) Have an ATM with no commission 2) Remove the ATM or 3) Keep the ATM but with a surcharge to the customer. This has implications not just for the retailer but the customers and communities which they serve. We note that LINK are reviewing further cuts planned for the interchange fee for 2021. Account needs to be taken of the potential impact of cuts particularly on the remote and rural communities of Scotland and the businesses in these areas which are reliant on using cash.

³ Scottish Local Shop Report 2019

⁴ [Access to Cash in Scotland](#) – Scottish Affairs Committee

PSR cash access, use & acceptance

SGF

Scottish Grocers' Federation

Promoting Responsible Community Retailing Since 1918
to ensure a sustainable and prosperous convenience industry in Scotland



www.scottishshop.org.uk

We trust that you will find our comments helpful and are happy to engage further with you on this important matter.

Yours sincerely



Recently Awarded:

Best Trade Association 2018, Global Business Insight Awards
Special Recognition, SLR Rewards 2018
Best Trade Association , Food & Drink

Which?



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London NW1 4DF
t 020 7770 7000
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which.co.uk

ATM team
Payment Systems Regulator
12 Endeavour Square
London
E20 1JN
PSRcashaccess@psr.org.uk

1 November 2019

To whomever it may concern,

Annual Review of Specific Direction 8 (LINK)

Which? welcomes the opportunity to respond to the Payment Systems Regulator's (PSR) Review of Specific Direction 8 (SD8). It is vital that free, easy access to cash is protected for millions of consumers who rely on it in their daily lives and it is clear that the ATM network has an important role to play in the cash landscape.

Our 'Freedom to Pay' campaign highlights the importance of cash for consumers, communities and small businesses. We welcomed the findings of the Access to Cash Review and the PSR's own research into cash access, use and acceptance. These findings further reinforce the need for rapid intervention to ensure people can continue to make vital payments and prevent the UK from sleepwalking into a cashless society before we are ready. However, we continue to raise significant questions about the long-term effectiveness and sustainability of LINK's protective measures for ATMs.

We have called on the PSR to review both the Financial Inclusion Programme (FIP) and LINK's protected scheme to ensure that they remain fit-for-purpose and are able to adapt to ongoing changes in the market. In particular, we urged the PSR to ensure that any initiatives from LINK are truly dynamic, fully transparent and have minimal impact on consumers and communities.

Unfortunately however, Which? continues to have concerns about the effectiveness of LINK's programmes for ensuring that community access is maintained in the areas that need it most. LINK's own figures show that these measures have not been successful in preventing the loss of free-to-use (FTU) ATMs as more than 200 that had been designated 'protected' have either closed or converted to pay-to-use since February 2018. In addition, 9% of ATMs designated as protected have stopped transacting, compared with 12% of the overall network. While LINK has identified 48 machines to be replaced, 19 of those machines have still not been replaced within 2 months, despite LINK introducing new premiums. LINK has also been unable to reach resolution on a further 15 sites.



This failure to guarantee protected machines remain open shows that LINK's policies are not a solution to the long-term issue of access to cash.

Of particular concern is the growing number of machines that have fallen under the protected scheme over the past year. Since the introduction of SD8 and the design of a dynamic programme, the number of protected machines has continued to increase. Between August 2018 and August 2019, 384 new machines were designated as protected. This worrying trend raises significant questions about the sustainability of the LINK policy. It is important that the long-term viability of LINK's protected ATM policy is assessed to ensure it can deliver against the commitment to maintain a geographical spread of FTU ATMs.

Ultimately, the failure of these programmes to stop protected ATMs from closing, as more and more machines fall under the scheme, highlights both the shortcomings of current measures as a long-term solution and the need to find a sustainable solution to the wider question of access to cash.

We note that as a result of SD8, LINK has added more detail to its monthly reporting; however, we believe that more information about the ATM landscape should be included in these regular updates. Specifically, while LINK's monthly 'ATM Footprint' report contains valuable information about overall changes to the network, we believe LINK should publish more information on the replacement process such as:

- **Timeframes for replacement** - LINK states that should premiums not deal with the loss of an ATM within 2 months, it has the ability to directly commission ATMs to provide free access in identified areas. What is not clear under current reporting is how quickly machines targeted for replacement are re-introduced to local communities. It is also unclear how long individual protected machines have remained closed before a decision regarding replacement is made. It is important to understand how long communities are left without free access to cash while waiting for a machine to be re-introduced to help address any flaws in the process.
- **Role of the Post Office** - LINK currently cites two reasons for an individual machine not being replaced: proximity to a Post Office and security concerns. Barclays' recent decision to stop cash withdrawal services at Post Offices undermines industry's claims that the network is a long-term back up for consumers. While Barclays' reversal has addressed immediate concerns, LINK should not by default consider the proximity of a Post Office as adequate provision to warrant not replacing a protected ATM. This is particularly pertinent given that recent PSR research found that just 5% of consumers prefer to use the Post Office to access cash.



- **Replacement criteria** - It would be good to better understand at a machine level the reason used to determine whether a machine is targeted for replacement or not.

This increased transparency would allow the PSR to more effectively measure the impact of LINK's work and assess what more needs to be done to minimise the impact of ATM closures on local communities and consumers.

While Which? welcomed this direction and the work of the PSR, it is clear that robust action must be taken to ensure that the deprived and remote communities that should be protected continue to have access to the cash that they need. As a first step, to prevent the continued acceleration of FTU ATM losses, the PSR must regulate interchange fees to support its stated aim of protecting cash access for UK consumers who need or want to use it as a payment method.

Which? continues to believe that the government should introduce legislation to protect access to cash and think the PSR should work constructively with the Treasury to this end.

Yours sincerely,

[Redacted signature block]

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