Payment Systems Regulator

Policy statement

Decision to revoke Specific Direction 4 (and SD4a)

August 2025

PS25/6

Contents

1	Executive Summary	3
2	Introduction	5
3	Consultation feedback and our analysis	8
4	Conclusions and next steps	13

Note: The places in this document where confidential material has been redacted are marked with a [✂].

1 Executive Summary

1.1 As the interbank payment system that enables individuals to take cash out of their bank accounts, LINK connects the network of ATMs in the UK. Specific Direction 4 (SD4)[1] mandates that any future central infrastructure services for LINK in place on or after 2 October 2031 must be provided under competitively procured contracts.

1.2 We introduced SD4 in June 2017, as one of the remedies imposed following our market review of payment infrastructure provision. In compliance with SD4a,[2] LINK completed its competitive tender in time to meet the revised deadline, and Vocalink was awarded the contract in October 2021.

1.3 LINK wrote to us in June 2024 requesting revocation of SD4. We exchanged letters with LINK to understand its rationale for its request. In June 2025, we engaged with interested parties ahead of formally consulting on the proposed revocation of SD4. In our public consultation, we explained that due to changes in market conditions, we considered that a competitive tender obligation, as required by SD4, may no longer be an effective way to address the competition issues we found when we introduced it.

1.4 Our conclusions and responses to stakeholders' feedback, based on these considerations, are:

1. **The costs and benefits considerations**
    a. We confirm the assessment we made in our consultation: that market trends have shifted the balance of costs and benefits of our original intervention, and the costs of retaining SD4 would likely exceed the benefits.
    b. Our decision helps to reduce the burden for the industry and delivers cost savings, which can be used elsewhere. Overall cost savings are likely best estimated by the saving of the incremental cost of running a tender, which LINK estimates to be in the region of £4.4m. In addition to that, LINK estimates there are potential cost savings to members – including switching costs net of the Switching Fund.[3] However, we do not think these net costs should be included in the estimates for cost savings caused by the revocation of SD4.[4]
    c. Our assessment reflects current market conditions (related to declining cash volumes and the low likelihood of alternative viable providers), and we will continue to monitor for changes that may alter the balance of costs and benefits.

1 As explained, this direction was amended by SD4a. For the remainder of this document, unless otherwise indicated, reference to SD4 covers both the original direction and the amending direction.

2 SD4a changed the deadline in Specific Direction 4 for a competitively procured contract to be in place from 2 April 2021 to 2 October 2021.

3 The potential net cost savings to members are estimated after taking account LINK's estimates of the direct cost of tender and its switching costs net of the Switching Fund.

4 In our CBA considerations we have accepted that the switching costs would likely not exist given the lack of alternative providers, and hence a switch, in the counterfactual scenario in which we maintain SD4.

2. **The knock-on effects and risks of SD4 removal**
    a. Revoking SD4 puts the current central infrastructure service provider, Vocalink, in a strong monopolistic position. However, our remit covers Vocalink as well as LINK.
    b. Our framework provides us with the right spectrum of tools to monitor and evaluate changes to market trends – such as in relation to pricing transparency and governance.
3. **The supervision of LINK and Vocalink**
    a. We will continue to engage with LINK and Vocalink and will adapt our supervisory approach as appropriate.

1.5 Our approach aims to ensure that LINK and its members have the regulatory clarity they need to focus on their longer-term sustainability and the delivery of an efficient network. Our outcome-based approach will allow them to focus on investment and innovation in a resilient ATM network and efficient ATM estate, underpinned by a value for money payment infrastructure.

1.6 Our decision to remove SD4 is one of the steps we are taking to shape a more flexible regulatory environment that supports competition and economic growth. We will continue working closely with the Payments Vision Delivery Committee (PVDC) to foster a coherent regulatory approach.

1.7 Our regulatory oversight of LINK and Vocalink is core to delivering competition, innovation and positive outcomes for end users. Our oversight already includes close monitoring and evaluation of potential risks to the UK’s retail payment infrastructure, and we will continue to work closely with the Bank of England, the Financial Conduct Authority (FCA) and Competition and Markets Authority (CMA), where relevant, to deliver an effective and proportionate framework.

Our decision

1.8 The UK's payments ecosystem is at a pivotal moment. After carefully reviewing and analysing stakeholders’ responses to our consultation we have decided to revoke SD4.

1.9 We have assessed that mandating a competitive procurement process is no longer the best way to deal with the risks presented by a lack of effective competition for the provision of critical payment infrastructure for LINK. It would significantly increase cost, and an alternative viable bidder likely does not exist.

Next steps

1.10 We will continue monitoring and evaluating changes to market conditions and their impact on the UK’s retail payment infrastructure. This work requires engagement with LINK and Vocalink and we may adapt our supervisory approach as appropriate. In addition, there could be a need for new regulatory remedies or market interventions.

1.11 In preparation, we will work closely with the Bank of England, the FCA, the CMA and other stakeholders to take prompt actions to mitigate any risk to our statutory objectives. With the PVDC expected to publish its strategy in Autum 2025, we expect to engage even more closely with the industry to deliver our priorities for supervising LINK and Vocalink.

2 Introduction

This policy statement summarises the responses we received, our views on points raised by respondents, how we weighed the evidence and information in reaching our decision, and our next steps.

Background

Specific Direction 4

2.1 LINK is the interbank payment system that enables individuals to take cash out of their bank accounts via the LINK UK ATM network using a debit, credit or pre-paid card. LINK Scheme Holdings Ltd is the operator of LINK, and the infrastructure provider that enables LINK is outsourced. This infrastructure provider is currently Vocalink.

2.2 Vocalink provides the transaction switching, clearing and settlement for LINK. Vocalink also supports Bacs and Faster Payments (FPS).[5]

2.3 LINK is a regulated payment system under Part 5 of the Financial Services (Banking Reform) Act 2013 (FSBRA 2013). Our FSBRA powers includes powers over LINK's operator and Vocalink as LINK's outsourced service provider.

2.4 SD4 mandates that any future central infrastructure services for LINK must be provided under competitively procured contracts, at least every ten years. We introduced SD4 in 2017 following our infrastructure market review in 2016, with the aim of reducing problems we found in establishing competition and to address potential negative effects on price, quality and innovation for end users.[6]

2.5 In introducing SD4, our aim was that competitive pressure from a competitive tender would help ensure services would be provided efficiently and at a low price. At the time, the benefit associated with this increased competition was likely to outweigh any administrative cost burden on LINK and its participants.

5 Mastercard acquired Vocalink in May 2017, after the UK's Competition and Markets Authority (CMA) cleared the acquisition in April 2017. MasterCard / Vocalink merger inquiry - GOV.UK

6 MR15/2.3 Market review into the ownership and competitiveness of infrastructure provision – Final Report (July 2016) and MR15/2.5 Market review into the ownership and competitiveness of infrastructure provision: remedies decision (June 2017).

2.6 We extended the original deadline for the competitive procurement from 2 April 2021 to 2 October 2021 under SD4a, to allow for time to resolve outstanding contract negotiation issues, implement revised governance processes with key stakeholders and to build in some contingency. LINK completed its competitive tender in time to meet the revised deadline (October 2021) and Vocalink was awarded the contract, which expires at the end of September 2031.[7] The current contract agreement (i.e., the Switching and Settlement Agreement (SSA)) with Vocalink terminates at the end of September 2031. In accordance with SD4, the agreement does not include the right for LINK to extend its terms beyond this date.

Market description and rationale for intervention

2.7 LINK is a not-for-profit organisation and is funded by its members. Funding of any contractual arrangements between LINK and Vocalink for 2031 onwards would require approval by the Members of the LINK Scheme. Funding of any CIS contractual arrangements for 2031 onwards would require LINK's Members' approval.

2.8 LINK wrote to us in June 2024 seeking our agreement to revoke SD4. We exchanged letters with LINK to understand its rationale for intervention. LINK was of the view that, since the introduction of SD4, cash usage as a payment method has declined significantly, leading to a corresponding decrease in ATM transaction volumes and values. Although the downward trend has slowed in recent years, transaction volumes have still more than halved since the introduction of SD4 in 2017, while transaction values have declined by over a third.[8] This decline, which is forecast to continue according to LINK's evidence and other industry sources, has resulted in current volumes being significantly lower than those projected when the existing contract between LINK and the central infrastructure services provider, Vocalink, was agreed. Industry expectations are that declining cash usage has reduced contract profitability. Reduced revenue and profitability affect the business case for potential alternative providers of critical infrastructure (CIS providers) and make bidding for the contract less appealing.

2.9 Based on its experience from the previous tender, LINK told us that its members were reluctant to support the costs of competitive retendering, and to incur the associated costs of transition, should an appropriate alternative provider of critical infrastructure be identified and selected. LINK was also mindful of the stability risks should members leave the scheme and consequently place in doubt the scheme's financial viability – with LINK's members potentially choosing alternative ATM networks, such as via Visa and Mastercard.

2.10 In June 2025, we engaged with interested parties including card issuers and ATM operators, building societies and trade associations. They provided us with a reasonable spread of views about LINK's request that we revoke SD4. During this initial engagement some of LINK's participants told us that they did not think a mandatory procurement exercise was likely to provide a benefit proportionate to cost. Stakeholders also agreed that forecasted declines in transaction volumes weaken the case for a sustainable business model of CIS providers and there is a risk that the scheme would become unsustainable for the members to fund. Stakeholders emphasised the importance to them and their customers of access to cash as a means of payment. They fully supported LINK's role as both an advocate of and facilitator of the industry's approach to access to cash.

7 https://www.vocalink.com/newsroom/2019/vocalink-and-link-extend-partnership-until-2031
8 Source: LINK Annual Report 2024

Our consultation

2.11 In June 2025, we consulted and published CP25/2[9] on the proposed revocation of SD4.

2.12 Our consultation ensured that all interested parties had the opportunity to provide feedback before a final decision was made. We invited views about our proposal to revoke SD4, including on our cost and benefit considerations and sought feedback on the oversight of LINK and Vocalink.

2.13 The consultation closed on 17 July 2025.

9 https://www.psr.org.uk/publications/consultations/cp25-2-consultation-revocation-of-specific-direction-4/

3 Consultation feedback and our analysis

To gain a better understanding of the changes to market conditions and relevant factors, we analysed a wide range of information. This included the responses to our consultation and other engagement we had with interested parties beforehand.

In addition to LINK's representations received prior to the public consultation, we received five responses to our consultation.[10]

Two responses were from card issuers and ATM providers (i.e. banks); another two came from large trade associations of banks and building societies; one was from the provider of the critical payment infrastructure that the LINK Scheme depends on.

Ahead of their submissions, one of the trade associations had held a workshop on the topic of revoking SD4 with over 400 individuals attending. They represented a broad range of member organisations, covering larger banks as well as smaller financial institutions (some domestic and some with a global or international footprint).

This section is an overview of the feedback we received, and our analysis of responses.

Key considerations that informed our decision

3.1 On 26 June 2025, we published CP25/2. We asked whether stakeholders agreed with our assessment in respect to:

1. Costs and benefits considerations
2. The knock-on effects and risks of SD4 removal
3. How the supervision of LINK and Vocalink could mitigate against these risks

Cost and benefits considerations

What we proposed

3.2 The CP25/2 consultation contained our considerations of costs and benefits of SD4, and using available evidence our assessment that the procurement process is unlikely to be effectively competitive – an essential condition for delivering any material benefit.

3.3 Given the changes in market trends, we considered that the costs of retaining SD4 would likely exceed any benefits.

10 The consultation responses are published on our website here.

Stakeholders' feedback

3.4 Most stakeholders agreed that declines in cash volumes weakened the case for a sustainable business model for any prospective bidder to supply critical infrastructure.

3.5 Stakeholders agreed with our views that market conditions have significantly shifted the historic rationale for intervention underpinning SD4. They broadly supported the revocation of SD4 and agreed the balance of costs and benefits of intervention.

3.6 LINK's funding members were also keen to reduce the administrative costs and resources[11] related to direct costs of tender and migration. They highlighted that the potential switching costs of migrating to a new processor provider could be significant.[12] LINK also presented evidence from the previous tender process that the costs of transitions that may qualify for the Switching Fund,[13] available from the CMA were well above the current estimated fund value.

3.7 In 2017, we estimated the incremental cost of running a competitive procurement exercise to be between £1.5m and £2.5m.[14] LINK estimated the direct costs of running the previous competitive tender at £3.3m (approximately £4.4 million in 2024 values). It assumed that a new competitive tender would cost at least this. Based on bids it received in the previous tender, LINK also estimated that switching CIS provider would come at a significant transition cost. The proposed transition fees from those bidders which sustained bids until removal from the tender process by LINK varied from over £[✂] to nearly £[✂].[15] LINK also noted that these figures, particularly at the lower end, were likely to have underestimated the complexities of the technical integration and the change in forecast volumes.

3.8 Although other stakeholders did not quantify the potential costs savings in their submissions, the feedback we received recognised the potential significant costs savings in light of market circumstances.[16] One stakeholder, Vocalink, also suggested that future cost savings should be considered as significant at a time when the industry is already subject to other costs of recent regulatory initiatives (such as the implementation of the National Payments Vision).

Our response

3.9 Based on stakeholders' considerations and evidence gathered, we do not consider it likely that the revocation of SD4 will result in substantial incremental costs. We will engage with LINK and Vocalink and adapt our supervisory approach as appropriate.

---

11 Including time of management and related governance by members related to transition.

12 Assuming there was a credible alternative who was successful in a competitive procurement process.

13 In compliance with Section 6 of the Undertakings, Mastercard committed up to £5 million (inflation-linked) to support LINK Members with network connectivity costs that may arise from transitioning to a new processor. The fund enables LINK Members to seek reimbursement for reasonable and substantiated costs incurred during the migration process. The fund has not been accessed since it was first established in 2017.

14 https://www.psr.org.uk/media/n1plgps2/psr-mr15-2-5-imr-remedies-decision-june-2017.pdf. See summary box findings to section 3.

15 The figures presented by LINK have not been adjusted for inflation.

16 One LINK member did not recognise the values put forward by LINK.

3.10 Overall cost savings are likely best estimated by the saving of the incremental cost of running a tender, which LINK now estimates to be in the region of £4.4m. We have not verified these costs, but in our early engagement stakeholders had no significant comment on this estimate. In addition, LINK estimates include potential cost savings to members including switching costs net of the Switching Fund.[17] However, we do not consider that these net costs should be included in the estimates for cost savings caused by the revocation of SD4.[18]

3.11 We consider the revocation of SD4 may improve the future viability of LINK, which could add to the benefits of lifting SD4. We consider this impact to be more marginal, given that Members' confidence could be impacted by other, unexpected, and potentially significant costs or changes, such as changes with the costs of their interchange fees arrangement.

3.12 Overall, we confirm our assessment made in consultation that market conditions have shifted the balance of costs and benefits underpinning our original intervention and the costs of retaining SD4 would likely exceed the benefits.

3.13 Should a viable alternative infrastructure provider subsequently be identified, we may reconsider our assessment.

Risks associated with the reduced competitive pressure and market conditions

What we proposed

3.14 Our considerations on the costs and benefits of revoking SD4 relied on what the alternative (counterfactual) is and on what regulation, supervision or oversight of LINK and Vocalink is put in place – instead of SD4 – to reduce the incumbency effects of Vocalink's monopolistic position in the central infrastructure.

3.15 CP25/2 therefore sought further feedback on the risks associated with the removal of a requirement to competitively procure and the strengthened position that creates for a supplier of a critical payment central infrastructure.

Stakeholders' feedback

3.16 Four stakeholders agreed with our concerns that removing competitive procurement without mitigation could lead to poorer outcomes on prices, quality, value for money as well as reduced incentives for innovation. Stakeholders recognised the risk that revoking SD4 would put Vocalink in a heightened monopolistic position.

3.17 Others were sceptical on the impact of the competitive procurement process, which they considered to be long and unnecessarily bureaucratic. They stressed that the previous tender did not lead to the reduction in fees they expected to see.

17 The potential net cost savings to members are estimated after taking account of LINK's estimates of the direct cost of tender and its switching costs net of the Switching Fund.

18 In our CBA considerations we have accepted that the switching costs would likely not exist given the lack of alternative providers, and hence a switch, in the counterfactual scenario in which we maintain SD4.

3.18 Some respondents said that retaining SD4 would create unintended consequences for LINK's financial stability that could lead to the demise of the LINK Scheme, with implications for end users and financial stability. Stakeholders also commented that declining transaction volumes and member revenues also affected the LINK funding model, reducing members' appetite to fund LINK.

3.19 While not all stakeholders recognised this potential 'spiral effect' on LINK membership, there was a broad recognition of the important role that LINK plays in financial inclusion and access to cash as an argument to support lifting the requirement of SD4 given the potential pressure on costs that SD4 creates.

3.20 In addition, in recognition of falling volumes, some stakeholders said there was little appetite for further investment in the underlying infrastructure, and that revoking SD4 would help maintain the viability of the LINK Scheme.

3.21 One stakeholder considered there was evidence of other mechanisms being used to incentivise good outcomes for competition and innovation beyond a competitive re-procurement. Specifically, they referred to how the LINK Scheme is continuing to invest and innovate in access to cash requirements for depositing cash and contactless withdrawal, which shows demand for certain consumers' needs.[19] This stakeholder also noted the relevance of competition in the market for access to cash by the card schemes, and how the LINK Scheme closely monitors adherence to the Switch & Settlement Agreement between LINK Scheme, Vocalink and LINK members.

3.22 One stakeholder objected to 'active regulatory oversight' and suggested a separate CBA.

Our response

3.23 Revoking the need for a competitive tender does undoubtedly put the current CIS provider in a stronger monopolistic position. However, retaining SD4 could create disproportionate costs and harm investments into the scheme, particularly if the most severe consequences of requiring a new procurement exercise materialised and the scheme was wound down. This could cause widespread disruption to ATM withdrawals and deposit facilities with impact on access to cash and other financial stability concerns.

3.24 We will engage with LINK and Vocalink and may adapt our supervisory approach as appropriate.

3.25 Indeed, competition remains vital and an essential condition for delivering any material benefits. We noted stakeholders' comments on the importance of other incentives to sustain effective and proportionate outcomes for competition and innovation. We have the powers to actively monitor those risks.

LINK and Vocalink supervision

What we proposed

3.26 We asked stakeholders to comment on how the supervision and active oversight of LINK and Vocalink could mitigate against the potential knock-on effects of removing SD4.

19 For example, use of banking hubs and the role of the Post Office.

Stakeholders' feedback

3.27 We received broad support for LINK and Vocalink supervision and a range of pragmatic suggestions for monitoring and supervision. As mentioned above, most stakeholders agreed that given the wider regulatory changes and current reliance on a single provider, it is important that there are clear and proportionate supervisory responsibilities for managing the risks associated with having a monopoly supplier of critical payments central infrastructure.

3.28 According to one stakeholder, overseeing infrastructure changes needs mechanisms to intervene or help manage pricing conditions. Where proportionate to do so, this would help ensure fair outcomes for end users. One stakeholder in early engagement suggested driving more efficiencies with the scheme by ensuring there are no increase in unit costs, and potentially exploring interventions on pricing or remedies with the existing infrastructure provider to influence their margins. The benefit of transparency and open books to incentivise efficiencies in the system was also one of the recommendations.

3.29 Another stakeholder also recognised the critical role of monitoring market outcomes such as requiring transparency of LINK changes, regular reviews of LINK, and the potential imposition of service and performance metrics. According to this stakeholder, such approaches could provide strong incentives for performance, innovation and good customer outcomes, without the disruption and inefficiency of a mandated re-procurement process, or the risk to the UK's provision of access to cash for consumers.

3.30 Another stakeholder also suggested that the PSR and FCA commit to publishing periodic reviews (e.g. every three years) of LINK's market position, infrastructure performance and governance model, to ensure oversight remains effective and proportionate over time.

3.31 One other stakeholder agreed with the PSR's expectations that pricing and innovation remained a key objective of regulatory supervision for Vocalink. This stakeholder also recognised that lack of competition could lead to Vocalink increasing its prices or reducing investment in the technology, putting at risk opportunities for innovation in the UK.

Our response

3.32 Our consultation confirmed stakeholders' support of a clear and proportionate supervisory framework to incentivise competition and innovation and align with the NPV. Stakeholders suggested monitoring LINK and Vocalink, and provided some constructive feedback for exploring new options for: monitoring pricing and profitability margins, publishing periodic reviews of the status of the market, improving transparency, considering new governance models, and doing more to create incentives for innovation. These suggestions are under our consideration.

3.33 As the PSR consolidates into the FCA, we will continue to provide risk and evidence-led regulatory oversight of all PSOs. We have a broad range of regulatory levers available to us in support of our statutory objectives.[20]

[20] The PSR's consolidation into the FCA is subject to government consultation on the transfer of powers and responsibilities.

4 Conclusions and next steps

4.1 After carefully reviewing and analysing stakeholders' responses to our consultation we have decided to revoke SD4. We consider that mandating a competitive procurement process is no longer the most appropriate or effective way to deal with the risks associated with the lack of effective competition for the provision of critical payment infrastructure for LINK. It would significantly increase costs, and an alternative viable bidder would likely not exist.

4.2 Our oversight already includes close monitoring and evaluation of potential risks to the UK's retail payment infrastructure. We will engage with LINK and Vocalink and adapt our supervisory approach as appropriate. We will also continue to assess outcomes and take action, particularly in light of changes such as:

a. Changes to market conditions, such as monitoring whether there are any changes that could shift the balance of these costs and benefits.

b. Competition in the market, and the market for central infrastructure services, and the importance of sustaining a proportionate and effective approach to supervision.

c. Monitoring innovation and new developments with the modernisation of central infrastructure programmes.

4.3 We will work closely with the Bank of England, the FCA, the CMA and other stakeholders, where relevant, to take prompt steps that impact our statutory objectives.

PUB REF: PS25/6

12 Endeavour Square
London E20 1JN
Telephone: 0300 456 3677
Website: www.psr.org.uk